



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 12-Oct-2021 | Report No: PIDC32776

**BASIC INFORMATION****A. Basic Project Data**

Country Maldives	Project ID P177240	Parent Project ID (if any)	Project Name Sustainable and Integrated Labor Services (SAILS) (P177240)
Region SOUTH ASIA	Estimated Appraisal Date Jan 31, 2022	Estimated Board Date Apr 29, 2022	Practice Area (Lead) Social Protection & Jobs
Financing Instrument Investment Project Financing	Borrower(s) Republic of Maldives	Implementing Agency Ministry of Economic Development	

Proposed Development Objective(s)

To enhance the resilience and employability of Maldivians by establishing a sustainably financed unemployment insurance scheme and integrated labor market services.

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	15.00
Total Financing	15.00
of which IBRD/IDA	15.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Development Association (IDA)	15.00
IDA Grant	15.00

Environmental and Social Risk Classification

Concept Review Decision



Moderate

Track II-The review did authorize the preparation to continue

B. Introduction and Context

Country Context

Maldives is an island state comprising nearly 1,200 coral islands grouped into 26 atolls, spread across roughly 90,000 square kilometers of the Indian Ocean. The population, estimated at 557,426 in 2020, is dispersed widely, with many of the inhabited islands remote and unserved by regular public transportation. The country's exposure to natural hazards and climate change poses a threat to lives and the economy: nearly 80 percent of its land area lies less than one meter above mean sea level and the country is at medium risk of inundation from rising sea levels, coastal storms and flooding. Maldives is expected to suffer a total loss of GDP due to climate change of 2.3 percent by 2050, and 12.6 percent by 2100, the highest impact in South Asia.

Maldives is classified as an upper-middle-income country with gross domestic product (GDP) per capita of US\$10,331 in 2018.^{1F} Real GDP grew by 5.3 percent in 2019 but is estimated to have contracted sharply in 2020 during the COVID-19 pandemic. From being among the poorest countries in the world with a GDP per capita of US\$268 in 1980, Maldives is on track to reach high-income status in the next decade. This sustained economic growth has resulted in significant poverty reduction, and Maldives performs well on poverty outcomes compared to its regional, income grouping, and small island peers. Maldives has attained a High level in the Human Development Index, ranking 95th out of 189 countries in 2020, the second-highest ranked country in South Asia.^{0F}

Few Maldivians are classified as poor according to the national and international poverty lines. About 8.2 percent of Maldivians live below the national poverty line, and 6.6 percent live below the international poverty line for upper-middle-income countries (US\$5.50 per person per day). Maldives performs well on poverty outcomes compared to its regional, income, and small island peers. However, poverty rates according to the national poverty line vary substantially between Male' (1.7 percent) and the atolls (12.8 percent). Over 90 percent of the poor—over 28,000 people—live in the atolls, even though the population share of the atolls is only 58 percent.

Maldives' development success was achieved through growth in the high-end tourism sector, which has brought high foreign exchange earnings but makes the economy susceptible to international shocks. Including indirect effects, tourism contributes to two-thirds of Maldivian GDP, 80 percent of exports, and more than 40 percent of state revenue. Despite limited backward linkages to local island economies, the 'one island, one resort' model has been successful in attracting a large amount of foreign direct investment and foreign exchange earnings. Tourism's high share in the economy has boosted economic standards and living conditions, but also makes the Maldivian economy highly vulnerable to international demand and climate-related shocks. This vulnerability is exacerbated by the country's dependence on a narrow range of exports and strategic imports such as food and fuel, and for a large proportion of the population on the climate-sensitive fishery sector.

The COVID-19 pandemic highlights the risks and opportunities from the Maldives' development model. The Government responded quickly, restricting travel from affected areas, closing borders and imposing social distancing measures, while enhancing the preparedness of health systems to respond to the outbreak. Emergency income support was provided rapidly by the Ministry of Economic Development (MoED) under the Maldives COVID-19 Emergency Income Support Project (CEISP). Other economic measures contained the impact of the demand shock on households,



while vaccinations have been conducted swiftly, allowing the country to begin reopening in late 2021. However, the pandemic has highlighted the risk of future climate and economic shocks to the welfare of Maldivians, especially lower-income workers who are predominantly informal.

Sectoral and Institutional Context

Despite its track record of strong economic growth, Maldives has struggled to create enough jobs to keep pace with its young workforce. According to the Household Income and Expenditure Survey, the unemployment rate was 5.3 percent in 2019 (about 10,000 Maldivians), but half of this was made up by the young unemployed, with around 10 percent of those aged 15-24 reporting being unemployed. It was estimated that in addition to the unemployed, a further 4,600 workers are 'discouraged', defined as not in employment, available and willing to work, but not actively looking for work.

Employers in growth sectors, such as construction and tourism, struggle to fill jobs with local workers. Many jobs either require a high skill level that cannot be met by Maldivian jobseekers, or are unattractive or underpaid relative to expectations. As a result, employers routinely hire migrant workers: high-skilled labor in tourism (particularly in resorts), education, and health care; and low-skilled labor in construction. The demand for skilled labor in the broader services sector has also been met by migrant workers, who recently accounted for one-third of the resident population. Skills mismatches have resulted in a growing gap between aspirations and opportunities for socioeconomic inclusion, contributing to disenfranchisement among Maldivian youth.

The female labor force participation (LFP) rate is relatively low, at 45.6 percent. In comparison, the male LFP rate is 77.1 percent. About 50 percent of young women are not in education, employment or training (NEET), often due to household chores and childcare responsibilities that limit their employment options. The share of women in the 15-24 age group who are NEET is 24.4 per cent, versus 20.6 per cent for men. The gender pay gap also disincentivizes women from working. Average monthly earnings in 2019 were MVR 12,169 for men, compared to MVR 7,995 for women. After controlling for observable factors, the gender pay gap was 49 percent in the private sector and 24.4 percent in the public sector. Finally, women face gender norms that prevent them from working in certain industries, or in jobs requiring travel away from the family and onsite accommodation (which is common in the tourism sector).

The public sector has been a key absorber of skilled Maldivian jobseekers, accounting for 14 percent of total employment in 2019. Public sector employment is seen as relatively more attractive due to its flexibility, benefits and job security. Queueing for public sector jobs increases the unemployment rate and deprives private firms of the more capable workers.

More than a third of workers lack formal job protections or access to social insurance. Out of the total workforce of 181,144 in 2019, 68,000 (37.6 percent) were informal. This figure may not fully account for the many own-account workers operating micro-enterprises and unpaid family workers. Women workers are more likely to be in informal employment, and informal employment rates are higher for older workers and workers with low education. Informality is a concern not only because of precarity of employment and income, but also because informal workers tend to earn less. A recent study found that the formal sector wage premium was 34.9 percent in the private sector and 15.4 percent in the public sector.

Adding to the labour market challenges is the scarcity of information available to employers and jobseekers. There is no national labor force survey, as in other countries, with only limited periodic surveys done to assess changes and trends in labour market. This lack of information and integration between government information systems limits the capacity



of the government to respond to private sector labor needs, make jobseekers and school-leavers aware of job and career opportunities, and plan for future developments in skills, welfare and labor market programs.

Maldives has a well-developed but narrowly-focused social protection system. The present model relies on universal subsidies, a generous universal health insurance program, welfare benefits for a few categorical groups, widespread public and SOE employment, strong protections for formal sector workers, and a relatively generous non-contributory retirement scheme (most generous for civil servants). This policy configuration is fiscally burdensome and unsustainable, as well as leaving a large share of the population uncovered against shocks to income and assets (and therefore against climate-induced shocks). Presently less than half of workers (17 percent of private sector workers) are covered by formal and civil service pension schemes. Labor legislation on dismissal and severance pay only protects 63 percent of workers, leaving informal workers exposed to pay cuts or dismissal without government support.

Further savings are needed to contain the government's fiscal obligations. The present retirement income relies on contributory and non-contributory pillars. The Maldives Retirement Pension Scheme (MRPS), introduced in 2009 with World Bank support, established a defined contribution scheme for civil servants and formal private sector employees. This is supplemented by an Old-Age Basic Pension (OABP) Scheme that presently guarantees all citizens over 65 a minimum monthly income of MVR 5,000 (which is close to the minimum wage). This guarantee is believed to be creating a significant disincentive for workers to save for their own retirement, even with a well-functioning contributory pension scheme that has been run successfully by the Maldives Pension Administration Office (MPO) for more than a decade. Expanding this system to informal sector workers, and improving incentives to contribute, will help to reduce the future fiscal burden of the social pension and boost the country's overall savings rate.

The pandemic experience illustrates the consequences of limited social insurance coverage in the Maldives. The pandemic impacted many workers, disproportionately the self-employed, freelancers and contractors. Women were disproportionately more impacted than men. The government responded rapidly with an emergency Income Support Allowance (ISA) program, which benefited almost 23,000 workers, but the program was financed by donor resources and cannot be relied upon as a sustainable bulwark against future shocks. While the ISA program has showcased the effectiveness of the country's registration and payment systems in rapidly delivering assistance, establishing a contributory unemployment insurance scheme for workers would lessen the fiscal burden of future macroeconomic and climate-related shocks and serve a vital role in improving the country's resilience to climate change.

The government intends to start a new unemployment benefit scheme (UBS) that will extend contributory social insurance to all Maldivian workers. The UBS would offer temporary financial support to workers with a contribution history who are laid off from their jobs, alongside retraining and labor market reinsertion initiatives. It would likely be financed by (i) worker contributions, either deducted from salary payments or made voluntarily; (ii) employer contributions; and (iii) government subsidy, possibly through a matching contribution scheme. This broadening of social insurance coverage will serve a critical strategic role, helping the government to phase out energy and food subsidies and contain the fiscal burden of existing non-contributory pensions as the population ages. The UBS will be designed to mitigate the current incentive problems relating to the MRPS, and ideally form part of a reform package to close existing duplications and loopholes in the MRPS and OABP programs. It will also serve as a platform for developing active labor market programs (ALMPs), which are currently lacking in Maldives. This will help the government fill strategic gaps in the labor market, such as green and blue economy jobs, and replace migrant workers with locals.

The details of the UBS are being developed by an international expert with support from the World Bank through the CEISP. The expert's initial review found that existing agencies – in particular, the Pension office, the nascent network of Job Centers, and a variety of technical and vocational education and training providers – that could be used for



implementing the UBS, including for the provision of employment services. Activities are underway to further expand the scope of ALMPs in Maldives. The CEISP is concurrently being restructured to pilot ALMPs including vocational training, apprenticeships, and small business start-up support, which will be offered to around 2,800 unemployed Maldivians on a pilot basis. This pilot will be evaluated rigorously, so that the initiatives being tested can be further refined and expanded under the UBS.

Relationship to CPF

The proposed project seeks to address all three of the main challenges identified in the recent SCD. It will address the challenge of social sustainability, by focusing on improving economic opportunities and job security for all workers; environmental sustainability, by establishing a program to help mitigate the welfare impacts of shocks to income, including those caused by climate change; and fiscal sustainability, by establishing a broad-based safety net for workers that is financed primarily through worker and employer contributions.

The project will play a vital role in advancing the Green, Resilient, and Inclusive Development (GRID) agenda in Maldives. Given the country's vulnerability to climate change, as the country recovers from the COVID-19 pandemic it will be essential to find a sustainable means of protecting Maldivians against future shocks to incomes and livelihoods. The UBS developed under this project will form a core element of this adaptive social safety net, being designed to scale up automatically in response to shocks. Broad-based social insurance coverage can help Maldivians adapt to impacts of disasters (e.g., food insecurity) and avoid negative coping mechanisms, thereby increasing resilience to climate change.

In addition, the project is aligned with the Bank's cross-cutting focus on youth jobs and inclusion, and gender, with a focus on extending social insurance and ALMPs to women, the self-employed, and informal sector workers who are currently undercovered by existing formal sector schemes. It will complement the initiatives being undertaken in the MEERY project to deepen and broaden the available vocational training options in the country, by creating a platform through which jobseekers can access training opportunities.

C. Proposed Development Objective(s)

To enhance the resilience and employability of Maldivians by establishing a sustainably financed unemployment insurance scheme and integrated labor market services.

Key Results (From PCN)

The project will measure progress toward the PDO via the following proposed indicators:

- (a) Coverage of the unemployment insurance scheme (gender-disaggregated)
- (b) Employment rate of jobseekers registered in the JobCenter (gender-disaggregated)
- (c) Number of jobseekers trained through the project (gender-disaggregated)
- (d) Beneficiary satisfaction with the unemployment insurance scheme

D. Concept Description

The proposed project will establish and develop a sustainable, integrated unemployment insurance and labor market program for the Maldives. It will provide the initial financing to set up the UBS's administrative structure, systems and processes, and create public awareness. It will help the new scheme to register workers, establish the processes for collection of contributions, and optimize financial management of funds under its control. It will then support the commencement of the scheme's services, including application, enrollment, payment of benefits, reskilling and job search



assistance. Finally, it will build the capacity of the UBS to become financially and technically self-sufficient within the five-year project period.

While the exact design of the UBS is yet to be confirmed, initial discussions indicate that the project will likely need to finance the following activities:

- (1) *Establishment and capacity building of the UBS institutional entities.* The UBS will comprise two key institutional entities: (i) a Program Manager, responsible for outreach, enrollment, eligibility determination, benefit payment and case management of jobseekers, and operation of the LMIS; and (ii) a Fund Manager, responsible for collection of contributions, maintenance of individual accounts (including complementary accounts such as solidarity or provident fund), and payout of benefits. It is likely that the Program Manager would come under the MoED, and initially the Project Management Unit (PMU) would serve this role de facto until legislation is passed to establish a statutory authority. The Fund Manager may be the same institution as the Program Manager, or the MPAO may play this role (as it already performs the same functions for the MRPS).
- (2) *Initial financing of UBS fund.* Financing is likely to be required during the first few years of operation, when contribution inflows have not yet reached a level sufficient to cover payouts and operating costs. During project preparation a detailed financial modeling exercise will be undertaken to estimate the required financing to cover this gap, and the use of this financing. Certain measures may be needed to contain the obligations of the program, such as a minimum vesting period and time limits on benefits. It may however be worthwhile for the government to initiate some benefits at least on a pilot basis, to establish payment systems and refine case management processes and the ALMPs.
- (3) *Development of programs for job-seeker case management, training, apprenticeship and job placement.* A critical role of the UBS will be to establish a central and results-oriented platform for the government to deliver ALMPs. Such interventions are already being tested and evaluated under the CEISP, and the results of the evaluation will guide the design of the UBS's services.
- (4) *The JobCenter will be further developed as an integrated Labor Market Information System (LMIS).* This is illustrated in Figure 1, which shows how the existing JobCenter can facilitate the matching of beneficiaries to training (including online training) and job opportunities. The LMIS will provide the government with real-time data on availability of jobs by industry, number of active jobseekers, and other indicators such as the number of discouraged workers. It will also track outcomes of training provided under the program, through a network of accredited training providers (public and private), and publish these data in order to improve the quality and competitiveness of the Maldives vocational training sector.



Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

The environment and social risks can be considered as 'Moderate' given the associated risks around: (i) exclusion of eligible beneficiaries, particularly vulnerable groups and women, due to lack of equitable selection criteria and processes including challenges in accessing information and services; (ii) specific challenges faced by women to participate fully & benefit from training and employment opportunities due to household & childcare duties and cultural & social norms (e.g. certain courses or jobs such in ICT and tourism sectors may be viewed as being more suitable for males); (iii) occupational health and safety risks when physically accessing services and trainings including risks of gender-based violence especially during residential programs; and (iv) inadequate consultations and citizen engagement and lack of transparency in the application and decision-making processes which could lead to social tensions. These risks are expected to be avoided or mitigated by ensuring the project design and program eligibility criteria and processes are inclusive and equitable, vulnerable workers in underserved areas (including women) are able to access information and services, meaningful consultations are conducted, and avenues of grievance redressal are in place. The project will also comply with COVID-19 Health and Safety guidelines and adopt a SEA/SH Code of Conduct for all project workers including training providers.

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APPROVAL

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