



Report and Recommendation of the President to the Board of Directors

Project Number: 41149
May 2008

Proposed Technical Assistance Loan Republic of the Maldives: Private Sector Development Project

CURRENCY EQUIVALENTS

(as of 22 May 2008)

Currency Unit	–	Rufiyaa (Rf)
Rf1.00	=	\$0.078
\$1.00	=	Rf12.80

Although the exchange rate of the rufiyaa is determined under the system of a managed float, it has been fixed at Rf12.80 per dollar since 25 July 2001 under a de facto fixed exchange rate policy.

ABBREVIATIONS

ADB	–	Asian Development Bank
BDS	–	business development services
BDSC	–	business development services centers
BML	–	Bank of Maldives
CIB	–	credit information bureau
CMAR	–	central moveable assets registry
CPS	–	country partnership strategy
CSF	–	cost-sharing facility
EDU	–	Enterprise Development Unit
GDP	–	gross domestic product
IA	–	implementing agency
LCF	–	line of credit facility
MEDT	–	Ministry of Economic Development and Trade
MMA	–	Maldives Monetary Authority
MNCCI	–	Maldives National Chamber of Commerce and Industry
MSME	–	micro, small-, and medium-sized enterprise
MOFT	–	Ministry of Finance and Treasury
NDP	–	national development plan
PMU	–	project management unit
PPP	–	public–private partnership
PSD	–	private sector development
PSC	–	project steering committee
SOE	–	state-owned enterprise
TA	–	technical assistance
UNDP	–	United Nation Development Programme
WEC	–	Women Entrepreneurs Council

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2008 ends on 31 December 2008.
- (ii) In this report, "\$" refers to US dollars.

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TECHNICAL ASSISTANCE LOAN SUMMARY

Borrower	Republic of the Maldives
Proposal	Support to the Government of the Maldives (the Government) for the Private Sector Development Project comprising a technical assistance (TA) loan of \$7.5 million equivalent for (i) developing an enabling environment for micro-, small-, and medium-sized enterprises (MSMEs) and (ii) building capacity to enable and promote public-private partnerships (PPPs) for the development of infrastructure.
Classification	Targeting classification: General intervention Sector: Industry and trade Subsector: Small- and medium-scale enterprises Themes: Sustainable economic growth, private sector development, capacity development Subthemes: Promoting economic efficiency and enabling markets, private sector investment, and institutional development
Environment Assessment	Category C
Social Sector Assessment	Involuntary resettlement: category C Impact on indigenous people: category C No involuntary resettlement or impact on indigenous people is expected from project implementation.
Rationale	<p>Private sector development (PSD) is one of the key pillars of the 7th National Development Plan (NDP) for 2006–2010. The plan encourages strategies that are market-based and actively promote competition, innovation, and the development of PPPs. To foster greater private sector participation, the plan envisages the government and the private sector working as partners to (i) provide opportunities for MSMEs to participate in a more competitive environment; and (ii) to maximize the potential of PPP, with a view to increasing private investment.</p> <p>In alignment with the NDP, the Asian Development Bank (ADB) country partnership strategy (CPS) for the Maldives prioritizes support for PSD. It follows the ADB Operations Evaluation Department's validation report of the country strategy and program completion report as well as Special Evaluation Study on Private Sector Development and Operations. ADB will thus primarily focus on developing an enabling environment for MSMEs and help build capacity for the introduction of PPPs in line with the PSD strategy and in coordination with ADB's Private Sector Operations Department.</p> <p>The ADB technical assistance (TA) on MSME development conducted a survey to identify factors impeding private sector activity. Major obstacles include (i) high cost and limited access to finance, (ii)</p>

asymmetries of market information and business-related expertise among MSMEs, (iii) lack of infrastructure including poorly developed inter-island transportation and high cost of power generation, and (iv) lack of skilled labor. These factors are to be addressed under the PSDP.

Moreover, even though the Maldives is one of the fastest growing economies in South Asia, the benefits of growth have not been equitably distributed among the people. Income disparities between households in Malé and those in remote atolls are large. Economic activity is constrained by the dispersed population residing in various atolls, leading to inefficiencies and diseconomies of scale. In addition, weak institutional capacity and human resource deficiencies are constraints across the entire spectrum of the development process in the Maldives.

To ameliorate domestic regional inequalities, the Government identified regional economic growth and diversification as key objectives of economic development in both the 6th NDP for 2001–2005 and the current 7th NDP for the northern, north central, central, south central, and southern regions of the Maldives. As part of its plan, the Government is attempting to develop infrastructure in outlying atolls by developing domestic regional centers designed to have airports, ports, and other infrastructure facilities. This is expected to foster employment and income generation opportunities in the MSME subsector.

However, due to its limited financial capacity and the need to ensure efficient services, the Government is pursuing PPPs for infrastructure development.

Impact and Outcome	The intended impact of the Project is a developed and expanded MSME subsector leading to broad-based, private sector-led, and sustainable inclusive growth. The intended outcomes are (i) enhanced access to finance by MSMEs by providing Bank of Maldives (BML) with a line of credit facility (LCF) to pilot credit assistance to MSMEs in designated regions, (ii) enhanced access to markets, technology and information and strengthened capacity of MSMEs through the establishment of business development services centers (BDSC) and a cost-sharing facility (CSF) designed to meet their special needs, and (iii) improved support infrastructure through PPPs.
Cost Estimate and Financing Plan	The total project cost is estimated at \$7.8 million, including contingencies. ADB will finance \$7.5 million equivalent to cover 96.2% of the cost, and the Government will finance \$0.3 million (3.8%). The cost breakdown is (i) component A: BDSC and CSF operations and related capacity development (\$1.9 million); (ii) component B: LCF and related capacity development, credit information bureau (CIB), and central moveable assets registry (\$3.9 million); and (iii) component C: PPPs (\$1.4 million), plus contingency and interest charges (\$0.6 million).

Loan Amount and Terms	A loan in special drawing rights, equivalent to \$7.5million, will be provided from ADB's Special Funds resources. The loan will have a fixed term of 32 years, including a grace period of 8 years. The interest rate charge will be 1.0% per annum during the grace period and 1.5% per annum thereafter.
Period of Utilization	31 August 2011
Estimated Project Completion Date	28 February 2011
Executing and Implementing Agencies	The Ministry of Finance and Treasury (MOFT) will be the Executing Agency. The implementing agencies (IAs) will be (i) the Ministry of Economic Development and Trade (MEDT) for component A (MSME promotion); (ii) BML for component B, subcomponent 1 (LCF and capacity development); (iii) Maldives Monetary Authority (MMA) for component B, subcomponent 2 (CIB and central moveable assets registry); and the PPP cell in MEDT's Enterprise Development Unit (EDU) for component C (PPP).
Procurement and Consulting Services	Procurement of goods and services will follow ADB's <i>Procurement Guidelines</i> (2007, as amended from time to time). Consultants will be recruited in accordance with ADB's <i>Guidelines on the Use of Consultants</i> (2007, as amended from time to time). Selection of consulting firms for consulting services will use the quality- and cost-based selection method. The Government will be responsible for implementing the procurement plan and ADB will review the Government's procedures, documents, bid evaluations, award recommendations, and contract in accordance with the agreed procedures.
Counterpart Funds	Counterpart funds will be used for the BDSC operations, office space, counterpart staff, communications, administrative support, and contingencies.
Benefits and Beneficiaries	Around 200–300 enterprises in the northern and southern regions are expected to receive training and technical support on a cost-sharing basis to increase their business competitiveness during project implementation. Under a pilot project, a credit line will be provided to enterprises in these regions, while the development of a CIB, a legal/regulatory framework for secured transactions and the subsequent establishment of a moveable asset registry, and the formation of BDSCs and a CSF, are expected to improve market access for MSMEs in the country and increase the engagement of local financial institutions in supporting the MSME subsector over the long run. The PPP component will assist in developing infrastructure and services through private investment, thereby reducing the Government's financial burden and expanding the scope of private sector participation in such activities in the future. PPP-based infrastructure projects will facilitate the operation of MSMEs, and enhance the quality of life of residents of the targeted regions. The

PPP component will assist the Government in enlarging the scope of PPP by creating an enabling environment for future PPP projects across sectors and building capacity within the Government to conceptualize PPP projects. The expansion of MSME operations and the development of PPP-based infrastructure are expected to generate employment opportunities in the Maldives, especially among the youth based in the atolls.

Risks and Safeguards

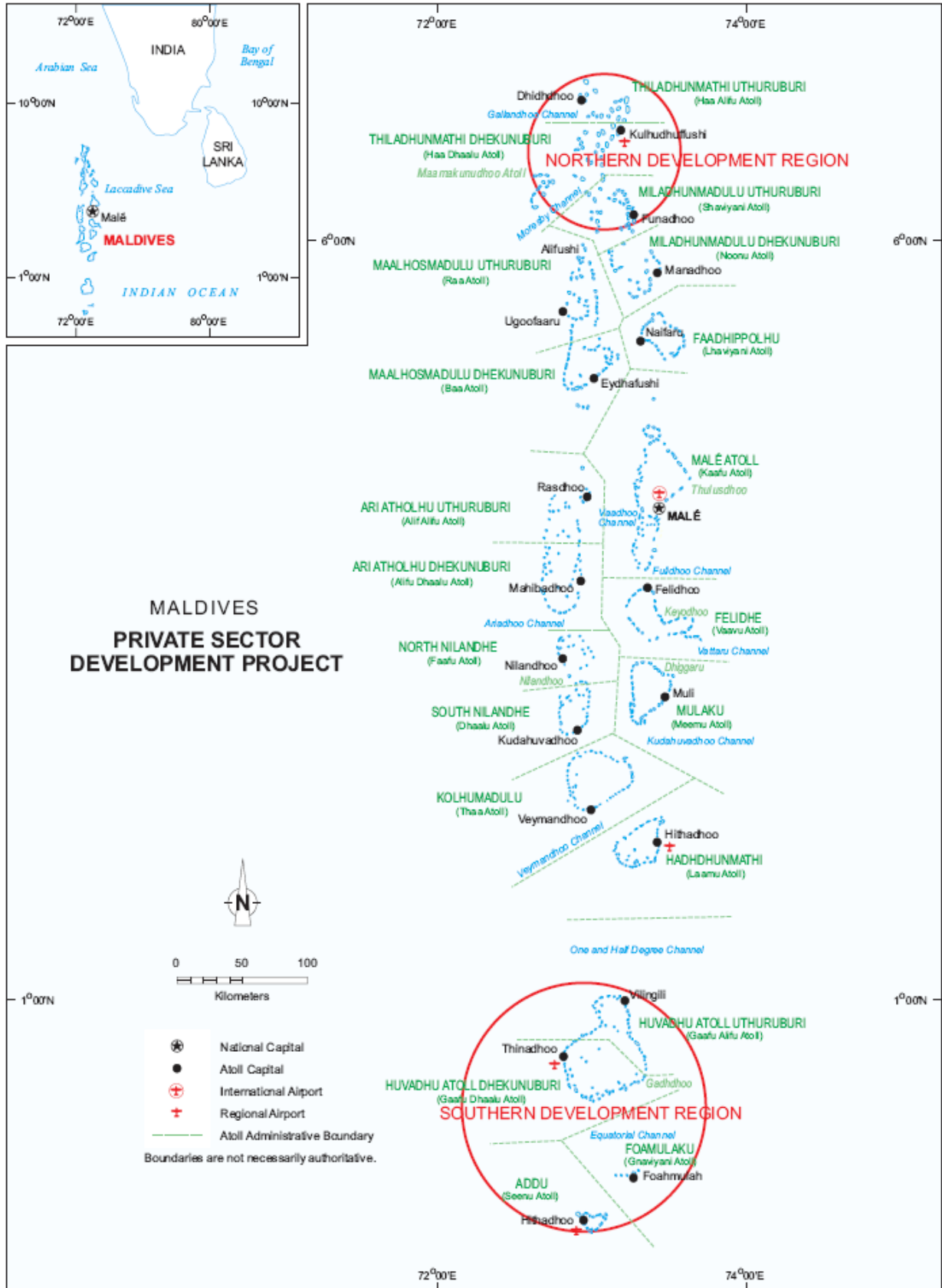
Risks are linked to political factors, interministerial coordination, capacity constraints, and factors related to PPPs.

Political risks suggest that despite technical merits of the reform initiatives supported by the Project, the implementation of some initiatives will require strong political resolve. However, the national development focus on PSD and promotion of MSMEs, particularly in the remote atolls and islands, is embedded and prioritized in the Government's policy and strategy documents, including the 7th NDP and Vision 2020. In addition, the Government is strongly committed to play an important role in the Project including MSME development in remote atolls.

The project activities involve a cross-section of the MSME subsector and various ministries. Therefore, close coordination is required among relevant government agencies and with the private sector to support and oversee project implementation. To mitigate coordination risks, the Project will ensure smooth implementation through the use of an interministerial project steering committee and a dedicated project management unit working closely with private sector representatives.

Various departments and agencies have capacity constraints. Unless capacity is enhanced, effective implementation of the Project will be at risk. To mitigate this, the Project emphasizes developing the capacity of financial institutions, business associations, and government IAs to support successful project implementation.

Finally, the preparation and development of projects on a PPP basis is a complex process requiring strong government commitment and support as well as public acceptance. The selected projects will need to be financially viable. Project selection for development on a PPP basis will be based on the Government's plans and strategies and be appropriately packaged so that they provide strong value for money. The Project is intended to help guide this process.



I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed technical assistance (TA) loan to the Republic of the Maldives for the Private Sector Development Project. The design and monitoring framework is in Appendix 1.

II. RATIONALE: SECTOR PERFORMANCE, PROBLEMS, AND OPPORTUNITIES

A. Sector Description and Government Strategy

2. The Maldives, a small island economy, comprises 20 atolls¹ with a total land of less than 300 square kilometers (km²) spread over 900 km². The country's population of approximately 321,000 live on 202 of the 1,190 islands. Only 28 islands have a land area greater than 1 km². Only 5 islands have a population greater than 5,000 and 70% of the inhabited islands have a population of less than 1,000. With a total land area of 2 km², the capital island of Malé is home to one third of the population. It is the seat of the Government and the center of commerce and business. Concentration of the population in the capital is growing, especially after the December 2004 tsunami that destroyed the means of livelihood in many islands. The small domestic market, high degree of openness to trade and investment flows, and heavy dependence on tourism and fisheries make the Maldives highly sensitive to external developments and tourist arrivals.

1. The Macroeconomic Context

3. The Maldives has made impressive progress in its socioeconomic development. Sound macroeconomic management combined with favorable external conditions, and strong development assistance support led to an average annual gross domestic product (GDP) growth of 7.9% over the past 15 years. The tourism sector is the engine of growth, accounting for 33% of GDP, 28% of domestic revenue, and over 90% of balance of payments service receipts. Sustained growth in tourism has driven economic expansion across other complementary sectors in the economy including construction, transport and communications, and wholesale and retail trade. Notwithstanding, prudent fiscal and monetary management, fiscal situation has significantly deteriorated since tsunami. The economy remains characterized by (i) limited scope for sector diversification and overall dependency on tourism, (ii) limited resource base (fisheries), and (iii) institutional capacity constraints. A summary of the sector and subsector analysis is in Appendix 2.

4. Despite sound macroeconomic management, income disparities between Malé and the atolls are large and increasing. The gini coefficient² for the Maldives for 1997 was 0.42 which compares favorably in the rest of the region. During 1997–2004, inequality within Malé, within the atolls, and within all domestic regions declined marginally. However, inequality between Malé and the atolls increased. In 2005, according to all reasonable poverty lines, poverty incidence was the highest in the northern and north central regions.³

¹ A group of coral reef islands that surround a lagoon and are surrounded by open sea.

² The gini coefficient is a measure of statistical dispersion most prominently used to measure inequality of income distribution or inequality of wealth distribution. No other decomposition indexes exist for tracking aspects of inequality.

³ ADB. 2007. *Maldives Country Partnership Strategy 2007–2011*. Manila.

5. The Government, in an effort to ameliorate regional inequalities and reverse migration to the capital, has placed regional economic growth and diversification as a key objective of economic development in both the 6th National Development Plan (NDP) for 2001–2005 and the current 7th NDP for 2006–2010. As part of the 7th NDP, the Government is developing regional centers designed to have airports, ports, and other social and infrastructure facilities,⁴ such as health and education for the resident population. They will be complemented by focus islands acting as atoll service hubs and growth centers. The success of the growth centers also depends on the connectivity that will make these growth centers accessible to the local population. Unless a strong network of connectivity is provided between these growth centers and population density areas within these atolls, these services will remain unutilized and will not meet the objectives for which they have been planned and developed owing to diseconomies of scale.⁵ These efforts will reduce regional differentials and promote inclusive growth and employment opportunities.

2. Need to Promote Private Sector Development

6. The Maldives has one of the most liberal trade, labor, and investment regimes in South Asia. However, the Government plays a large role in the economy, indirectly limiting the scope for private sector participation. Government ownership, whether full or partial, is widespread in every sector of the economy except tourism. In 2005, the country's 21 state-owned enterprises (SOEs) accounted for 36% of GDP, compared to 8% in member nations of the Organization for Economic Cooperation and Development. SOEs employ one third of the workforce, making them the largest group of employers. In addition, civil service employment increased fivefold in 20 years. The development of the private sector has thus been limited given the lack of a supportive policy environment.

7. Changing the Government's role from a direct provider of services to a facilitator of private initiatives in the economy is one of the key requirements for improving efficiency and effecting good governance. Recognizing this, the Government has made private sector development (PSD) as one of the key pillars of the 7th National Development Plan (NDP) for 2006–2010. The plan encourages strategies that are market-based and actively promote competition, innovation, and the development of public–private partnerships (PPPs). To foster greater private sector participation, the plan envisages the government and the private sector working as partners to (i) provide opportunities for MSMEs to participate in a more competitive environment; (ii) to maximize the potential of PPPs, with a view to increasing private investment; (iii) improve corporate governance and transparency; and (iv) develop linkages with domestic and international private sectors to share expertise, resources, and technology.

8. Apart from traditional areas such as manufacturing and trading, the private sector is becoming increasingly important in areas and sectors traditionally considered to be under the public sector domain. This will include the development of infrastructure as in the planned regional centers to be complemented by focus islands acting as atoll growth centers. Given the fiscal pressures and its own capacity, the Government would have difficulty in developing the required infrastructure facilities and providing services in an effective and efficient manner. The Government is also developing another 44 tourist resorts in addition to about 90 existing ones.

⁴ Republic of the Maldives. 2007. *The 7th National Development Plan*. Malé.

⁵ Islands that are of importance to the population consolidation program are likely to have the following characteristics: (i) sufficient land area to support a larger population; (ii) proximity to atoll capital; (iii) substantial existing infrastructure; and (iv) potential for growth because of land area, and agricultural, fishery, or other commercial activity.

The new resorts will require additional transport linkages, distribution networks, power, water, and a host of other commodities and goods.

9. In this context, the private sector can play an important role by financing critical infrastructure needs and undertaking the basic services. The greater demand for these services from the increased number of resorts could lead to economies of scale for the supplier of those services. This in turn would lead to a decrease in the cost of services for the resorts. In combination with greater supply of resort rooms, this could lead to some rationalization of tariffs for tourists within the resorts, thereby increasing the country's competitiveness in the international tourism market. The greater flow of tourists will feed into the higher demand for services and help foster the growth of private sector enterprises. Fortunately, the Maldives has groups that can initiate and sustain private sector investments, help in broad-based private investment and initiatives under a PPP format with other regions, services and activities. Within the private sector, micro-, small-, and medium-sized enterprises (MSMEs) can prosper by providing needed services, and supplying goods in the growth centers and hubs.

3. Enabling Environment for Private Sector Participation

10. **Weak Enabling Environment.** Limited private sector participation in the Maldives has been primarily due to the lack of a conducive environment for private sector participation and inadequate public sector goods to support private investments. The key enabling factors for greater private sector participation include (i) clear government policy to promote PPP, shifting the Government's role from a provider of services to a facilitator, consequently undertaking the privatization and restructuring of SOEs; (ii) an effective legal and regulatory environment; (iii) good governance and transparency; (iv) capacity development [with business development services (BDS)]; (v) easy access to finance; (vi) introduction of PPP; and (vii) availability of project finance for private sector projects or PPPs. All these enabling factors have been either missing or are weak in the context of the Maldives.⁶

11. The recent update of the World Bank's Doing Business Report (2007)⁷ using the indicators of starting a business and dealing with licenses, ranks the Maldives 31st and 8th respectively out of the 178 countries. The indicator on enforcing contracts (court efficiency) ranks the Maldives 41st, with shorter duration of enforcing contracts of 665 days and less cost (percentage of the claim, including court costs, enforcement costs, and attorney fees) 16.5%, while neighboring countries such as India and Sri Lanka are 1,420 days and 1,318 days for the duration, and 39.6% and 22.8% for the cost ratio. With respect to legal enforcement of banks' required collateral, fixed mortgage enforcement is very effective. Unlike other countries in South Asia, enforcement of bank mortgages (houses and registered vessels) happens within one year. This is mainly due to the Government's parallel efforts to improve the overall legal framework and enabling environment. The indicator for protecting investors and corporate governance ranks the Maldives 62nd out of 178, similar to India and Sri Lanka. However, the indicator for getting credit ranks the country 132nd, mainly because of strict collateral requirements, difficulty in obtaining credit information, and lack of secured financing legal/regulatory and institutional framework covering moveables.

⁶ Land reform is another factor that will support private sector development (PSD) in the Maldives. However, the issues involved at this stage are beyond the scope of the proposed Project (first phase). The World Bank study (Sustaining Growth and Improving the Investment Climate) and ADB TA 4745 on SME Development provide an assessment of the scope of reforms for private sector development.

⁷ World Bank and International Finance Corporation. 2007. *Doing Business in 2007*. Washington, DC.

12. **Mitigating these Weak Factors.** The first three enabling factors of paragraph 10 are being currently addressed by TA interventions of several development agencies including the United Nations Development Programme (UNDP) and the World Bank (Appendix 3). The Government is taking a broad range of actions to improve the legal and regulatory framework. Moreover, UNDP and other United Nations agencies continue to help the Government harmonize the legal framework with international standards and increase the capacity of the justice system. With respect to the legal and regulatory environment, the enforcement of court judgments in the judicial system is improving due to the passage of regulations in 2006 enabling the courts to seize bank accounts and hold the passports of those who fail to honor outstanding claims. Regarding governance and transparency, UNDP and other United Nations' agencies propose to provide assistance to the anticorruption board, public complaints bureau, and audit office. The World Bank continues to manage a European Union-funded activity to develop and implement a public accounting system, as well as Institutional Development Fund grants for strengthening procurement capacity. As for SOE reform, ADB has an ongoing project to restructure and privatize SOEs.⁸ In terms of business regulation, the Maldives has strong tax administration and few barriers for entry of new businesses.⁹ Moreover, ADB's proposed TA loan for strengthening the economic and financial management program covers governance and transparency issues.¹⁰

13. Consequently, based on the survey findings under the ADB TA (footnote 6) and in coordination with other donors, the Project, as a first phase of support, intends to address the enabling factors for greater private sector participation identified under the remaining items (iv), (v), and (vi) of paragraph 10: capacity development (including the provision of BDS), easier access to finance, and development of PPPs. The progress made and lessons identified during project implementation under phase I of the country partnership strategy (CPS) (footnote 3) will determine the nature of support to address enabling factors available for project finance for the private sector as well as improvement of the enabling environment for greater private sector participation during phase II.

4. Micro-, Small-, and Medium-Sized Enterprises

14. **Classification.** Current data maintained by the Government and the Maldives National Chamber of Commerce and Industry (MNCCI) provide limited information on ownership, employment, turnover, and capital investment of businesses. About 2,500 businesses are registered with the Ministry of Economic Development and Trade (MEDT) and about 20% of these reportedly submitted information on their annual turnover. Lack of data has prevented businesses from being classified, but the 7th NDP calls for the introduction of online business

⁸ ADB. 2006. *Technical Assistance to the Republic of the Maldives for Restructuring and Privatization of State-Owned Enterprises*. Manila (TA 4879). The TA is assisting the Government in areas of (i) privatizing and restructuring four SOEs, such as Maldives Industrial Fisheries Company Limited, Maldives National Shipping Company Limited, Public Work Services, and State Electric Company Limited; (ii) designing a social safety net program for employees displaced as a result of implementing SOE reforms; and (iii) developing capacity of the existing Public Enterprises Commission and Public Enterprises Monitoring and Evaluation Board as the nodal agencies for implementing SOE reform measures.

⁹ The Maldivian judicial system is based on a combination of Islamic Shariah law and common law in the commercial sector. Registering a business is simple, efficient, and not costly; and foreign investments are not restricted according to the 2007 Doing Business Indicators (DBI-2006) of the World Bank.

¹⁰ ADB. 2007. *Maldives Country Partnership Strategy 2007–2011*. Manila. This proposed ADB TA loan on Strengthening the Economic and Financial Management Program (SEFMP) is to enhance the capacity of government agencies, which can lead to better portfolio performance across aid-funded projects and throughout various sectors. Also, SEFMP covers governance and transparency issues.

registration procedures in 2008 to facilitate the procedure, broaden the coverage, and help classify businesses.

15. **Definitions.** The Maldives currently classifies MSMEs on the basis of a combination of employees and turnover or sales. This system has the potential to lead to some confusion. To overcome conflicting definitions and unreliable data on assets, the Maldives could simplify the definition by following international practice of using only the number of employees to classify enterprises. Recent work on MSMEs that include some small island economies provide a standard for classification,¹¹ i.e., microenterprises have up to 4 employees, small enterprises, 5–19 employees, and medium-sized enterprises, 20–50 employees.

16. **MSME Sectoral Analysis in the Atolls.** In the atolls, fisheries and agriculture are the most important activities of MSMEs in the primary sector. Fisheries sector has traditionally dominated activity with the processing of fish that take the form of dried, salted, and smoked tuna fish products for local consumption and for export to Sri Lanka. Agriculture is the second most important activity and has a large potential for commercialization in Malé and resort markets. In the secondary and tertiary sector, wholesale and retail trade, maintenance of coastal vessels (mainly for fishing), construction, and transportation are traditional island activities of MSMEs. In contrast, handicrafts and tourism-related services have been given limited attention, despite their potential. The main business activities in the atolls of the northern and southern regions are (i) wholesale and retail trade and other services (60%), (ii) fisheries (14%), (iii) manufacturing including fisheries processing (10%), (iv) agriculture (9%), and (v) construction and others (7%).

17. In the northern and southern regions, 39% started their businesses during the last 5 years and 57% of the businesses started during the last 10 years. Only 14% of existing businesses are said to be older than 20 years. Many of the businesses were owner-operated with the help of family members. More than 90% of all business employed less than 5 employees and the average number of workers employed is less than 2 employees. The businesses interviewed were asked to state the value of their business assets. In the atolls, most of the businesses do not maintain records of their assets. The estimated asset value of 25% of these businesses are less than Rf50,000 (around \$3,900), assets of another 25% were between Rf50,000 and Rf100,000 (around \$7,800), and 40% estimated their assets at more than Rf100,000. Only 5% indicated that their assets were more than Rf1 million (around \$78,000). For more details, please see Supplementary Appendix B.

B. Analysis of Key Problems and Opportunities

1. Issues and Opportunities

18. The Government is aware of the significance of strengthening the MSME subsector as a step towards promoting overall inclusive growth. However, despite Government efforts, the MSME subsector continues to be weak, it has not generated much-needed employment opportunities to serve as the engine of growth as planned. Based on the findings of ADB TA on MSME development,¹² the issues and opportunities for the sector are as follows.

¹¹ Small and Medium Size Enterprises in Countries in Transition. 2006. *Entrepreneurship and SMEs Series*. Geneva. For a survey of MSME definitions used in transition economies, see United National Economic Commission for Europe.

¹² ADB. 2007. *Technical Assistance to the Republic of the Maldives for Small and Medium Enterprise Development*. Manila (TA 4745-MLD). The TA includes an MSME market survey.

19. The ADB TA on Small and Medium Enterprises development (footnote 6) conducted a survey of 228 businesses in the northern, southern, and south central regions. Major constraints identified include limited access and high cost of financing, limited market access, lack of technically skilled labor, and high cost of transportation and power. The relative significance and severity of other constraints affecting enterprise performance are highly diversified across sectors. Access to and cost of finance nevertheless emerged as the major obstacle to doing businesses in major sectors.

a. Limited Access to Financial Services

20. **Limited Access to Finance.** Only one third of MSMEs use bank loans for their activities. Instead, firms rely on internal funds for working capital. Bank of Maldives (BML), the largest and a national commercial bank, contributes 11% to existing working capital needs of MSMEs while 3% come from other international commercial bank branches.¹³ Nearly 60% of the credit extended is for tourism, followed by export–import related services covering commerce and fisheries. Together, these three sectors absorb more than 85% of existing loans.

21. **Lack of Credit Information on MSMEs and Secured Financing.** As mentioned earlier, the Maldives ranks 132nd worldwide on the comparative ease of getting credit, below most other South Asian countries. The poor ranking is largely due to the difficulty of obtaining reliable credit information on credit borrowers especially MSMEs due to the absence of a public or private credit information database and a central information agency to facilitate the exchange of credit information among lenders. Consequently, the provision of financial services is restricted to low-risk clients or based on excessive collateral requirements instead of a credit analysis relying on financial statements and business plans. Therefore, development of a credit information system to improve the accuracy and cost-effectiveness of credit risk decisions by financial institutions would result in improved access to finance. Moreover, in the current lending environment, there is no scope to borrow against moveables (e.g., receivables, inventories, chattels on machineries, motor vehicles, etc.) due to the lack of an enabling law and regulatory framework to allow such lendings and a central registry for verifying the existence and status of such collaterals. Given that MSMEs usually have significant moveable assets, enabling borrowers to use these moveable assets and rights to secure their indebtedness open up new possibilities for MSMEs to access finance and make more efficient use of their assets.

22. **Collateral-based Lending.** General banking practices limit loan amounts for businesses in the atolls to 50% of the assessed value of houses and registered vessels. This provides a good opportunity to introduce a new financing culture that can overcome existing lending restrictions to enhance working capital and term finance and encourage investment without unduly increasing commercial lending risks. The plan to set up a pilot line of credit facility (LCF) is expected to engender more loans being sanctioned for MSME risks. The LCF is expected to enable BML to familiarize itself with MSMEs and to be able to offer loans with less restrictive collateral requirements than conventional arrangements. The improved understanding of dealing with MSME risks, based on cash flow and financial and operating performance and the integrity of the borrower, should lead to improved recovery rates of loans granted under the planned LCF, which is in turn expected to lead to a reduction in the risk averseness of the financial institutions toward noncollateral cash-based lending.

¹³ BML is jointly owned by the Government (51%), island communities (25%), and other government agencies (24%). BML has 19 branches, including 5 mobile branches.

23. **Underdeveloped Banking Subsector.** The financial sector is limited in size with one locally owned bank (BML), branches of three South Asian commercial banks, and a Hongkong and Shanghai Banking Corporation (HSBC) international bank branch. All these banks follow international banking practices. Banking is regulated by the Maldives Monetary Authority (MMA), which acts as the central bank. Banks seldom extend loans with maturities of more than 3–5 years and the spreads remain high. Under the Project, the suggested subloans are to have longer maturity periods, more than 3 years, and a spread based on prevailing market rates of 4%–5%.¹⁴ These will be reviewed by ADB TA consultants during the initial stage of project implementation to determine if the spreads are commensurate to the risk in a setting where there is limited market competition.

b. Business Support Infrastructure

24. **Lack of Market Information and Technical Expertise.** Other key impediments to MSME growth are the lack of market information and limited technical expertise. Most MSMEs are still in their early stage of development, selling their products locally or, at best, to the market in Malé. MSMEs have difficulty obtaining relevant business information on markets and technologies, and employing external services to enhance their business performance.

25. **Limited Role of Business Member Organizations and Need for Capacity Building within the Government.** Business member organizations, such as the Maldives National Chamber of Commerce and Industry (MNCCI) and Women Entrepreneurs Council (WEC), are present in Malé. However, their range of activities and services are limited. On the other hand, the Enterprise Development Unit (EDU) under MEDT, one of the main pillars of the Government's efforts to create a competitive private sector, currently operates with seven newly recruited staff who need training in facilitating market development and promoting MSMEs.

c. Private Sector Participation through Public–Private Partnerships

26. **Infrastructure Deficiency.** High utility prices in remote atolls reflect lack of infrastructure for transportation and power. Cargo transportation relies on traditional cargo and passenger vessels operating on an unscheduled basis. Passenger transport relies on the same vessels and the use of air transport services. This has led to the high cost of doing business in the atolls. The real issue is fragmentation of demand and consequent higher costs to the economy as a whole as the services were created individually leading to higher per unit costs and lower capacity utilization. Therefore, the Government has an opportunity to undertake the role of regulating some of these sectors to meet conventional objectives and to structure projects to allow the private sector to consolidate demand and achieve its financial and commercial targets.

27. **Enabling Environment for PPP.** Consequently, the Government intends to promote the development of infrastructure, particularly for remedying the current regional imbalance and low level of competitiveness of domestic MSMEs. The development, execution, and management of PPP projects, however, is a complex process, requiring detailed upfront planning throughout the life of a project and anticipating risks and issues that are likely to impact project success. Therefore, the existing legal, institutional, and regulatory environment needs to be reviewed to identify areas that could be improved to create an enabling environment for private sector participation before the selected PPP projects are offered under the pilot. The enabling environment may differ from sector to sector and would provide policy stability and credibility

¹⁴ According to BML, spread on the LCF could be reduced due to the partial government guarantee.

that would go a long way to attracting private investments in infrastructure sectors in the long term.

28. **Capacity Development.** Along with streamlining and creating an enabling environment for private investors, appropriate capacity development must be carried out within the key government ministries that would be developing and handling such projects. The capacity development would involve (i) institutionalization, within the government, of PPP procurement process and skills development, and development of an effective sector strategy and project identification and prioritization process; (ii) improved preparation of projects to meet more demanding requirements of investors; and (iii) widespread understanding, through education and application, of the different private sector participation options that could be effective.¹⁵

2. Strategy and Lessons

29. **The Government's Development Strategy and ADB's Country Partnership Strategy.** PSD is a key pillar of the 7th NDP (2006–2010). As earlier stated, the plan encourages market-based strategies and actively promotes competition, innovation, and resilient PPPs (Appendix 4). ADB's CPS 2007–2011 for the Maldives is fully aligned with the goals and objectives of the 7th NDP and those of the development partners to promote PSD for broad-based economic growth. ADB assistance is to be provided following a sequential approach to enhance a holistic set of capacity building for PSD that includes (i) improving the enabling environment for MSMEs, (ii) enhancing access to finance and easing financial constraints, and (iii) introducing PPP in identified areas such as transport and power. The CPS identifies key indicators including business model development linked to the markets, with enhanced access to financing and improved PPP development. Once readiness is secured, ADB's targeted second phase of assistance would include support for investment projects to leverage institutional strengthening measures already in place.

30. **Findings of the Operations Evaluation Department.** The project design uses important recommendations in the validation report of the country strategy and program completion report¹⁶ prepared by ADB's Operations Evaluation Department. The dearth of a critical mass of suitably trained staff has undermined institutional development and business development activities in the Maldives. Under its analysis, the report identifies the following weaknesses (i) lack of adequate human resources, (ii) institutional deficit, and (iii) low absorptive capacity for external assistance. Moreover, the recent evaluation study of the Operations Evaluation Department on PSD operations emphasizes the importance of PPPs in developing the private sector. ADB will help build the Government's capacity to facilitate MSME development and PPPs under phase I of the CPS, which is to fill the skills gap between the private sector in the Maldives and other comparable middle-income developing countries.

31. **Lessons from PSD Operations.** The project design considers lessons from ADB and other development partners' projects in the Maldives. Key lessons are (i) implementation capacity constraints hamper funding agencies' ability to contribute to development results in a timely manner and could be used far more effectively if institutional capacity constraints were holistically addressed and enhanced; (ii) PSD operations must be closely coordinated with other external funding agencies especially where effective partnerships and synergies can be

¹⁵ For more details, please refer to paragraphs 54–58.

¹⁶ ADB. 2007. Validation of the Country Strategy and Program Completion Report for the Republic of the Maldives. Manila.

forged;¹⁷ (iii) the Government needs to play a key role as facilitator for PSD, while direct service provision should be left to the private sector;¹⁸ and (iv) the Government needs to ensure that remote islands are able to participate in the growth process and thus more emphasis needs to be given to improving connectivity and ensuring reliable sources of electricity are provided on a sustainable basis in the atolls.

32. With respect to business development and access to financing issues, an assessment of the projects¹⁹ implemented by the International Fund for Agricultural Development and UNDP reveal the following lessons (i) keeping the credit and noncredit activities under the same umbrella of the development banking cell of BML led to neglect of noncredit activities, therefore the strategy under the Project is to keep noncredit activities under the separate umbrella of business development services centers (BDSC) operations; (ii) about one third of the borrowers utilized the loan for consumption expenditure and immediate liquidity needs instead of investing it in income-generating activities because of the sole focus of BML credit officers on loan recovery and not on monitoring the activities of borrowers; the Project strategy is therefore to keep the monitoring and guidance provision under the purview of BDSC operations; (iii) BML did not adequately focus on implementing training and advisory assistance for the target groups and did not use the risk fund established for such activities. Instead, the development banking cell reserved the fund to cover any non-repayment of loans by beneficiaries; the Project strategy is therefore to provide for a CSF to support training and advisory activities under the BDSC operations with stricter approval mechanisms; (iv) the loan recovery rate was very high at 98% owing to incentives built into the lending mechanism, i.e., a facility providing higher loan approvals for borrowers who repaid the loan on schedule; the Project strategy is to have a credit information bureau (CIB) providing credit ratings for borrowers in the medium term for easy access to finance; and (v) poor households were not effectively targeted under previous projects and have not been able to access finance due to lack of effective training; the Project strategy is therefore to use the BDSC operations to undertake such training and mobilization.

3. External Assistance

33. Several externally assisted activities relate to the creation of an improved environment for business development. The Government has embarked on a new strategy of engaging with its development partners to focus on providing assistance in certain sectors or thematic areas to reduce duplication and overlap, and to minimize aid transaction costs. ADB will focus on capacity building in public sector management as well as support for transport, power, and MSMEs. The World Bank will remain engaged in governance, tertiary education, fisheries, and environmental management. The United Nations will remain involved in governance and disaster management. ADB's total lending assistance to the Maldives between 1995 and 2006, on an approval basis, totaled \$57.6 million for nine projects.²⁰

¹⁷ A project needs to develop close linkages with other projects to avoid costly overlapping and to be sustainable.

¹⁸ Successful transition to middle income country status requires changing the role of government from a provider of basic services to a regulatory setting role, establishing equal opportunities for the private sector, and establishing a framework for formulating and implementing policies including attracting more foreign investments.

¹⁹ The Atolls Credit and Development Banking Project and Southern Atolls Development Project funded by the International Fund for Agricultural Development, as well as the Atoll Development Project for Sustainable Livelihoods project funded by UNDP.

²⁰ Two loans for a total of \$15.0 million were provided to the energy sector, two loans for \$12.3 million to the education sector, one loan for \$9.5 million to the communications sector, and two loans for \$14.0 million for regional outer islands development. Besides the planned assistance, ADB provided a grant of \$20.0 million and a loan of \$1.8 million for emergency post-tsunami assistance in early 2005.

34. Five United Nations organizations maintain offices in the Maldives.²¹ World Bank involvement has been somewhat limited. Since 1979, it has financed and completed eight projects with total loans amounting to approximately \$66.2 million.²² Currently, it is funding a project on mobile phone banking aiming to provide an automated banking and payment system through mobile phones, leading to reduced transaction cost. Details of external assistance to the sector are given in Appendix 3.

III. THE PROPOSED PROJECT

A. Impact and Outcome

35. The intended impact of the Project is a developed and expanded private MSME subsector leading to accelerated inclusive growth for broadbased and sustainable local economic development in the northern and southern domestic regions and targeted sectors in the Maldives. It is also aimed at providing the necessary support infrastructure to improve the competitiveness of domestic MSMEs and redress the current regional imbalance through the promotion of PPPs.

36. The outcomes of the Project will include (i) enhanced access to finance by providing an LCF to pilot credit assistance to MSMEs in designated regions, capacity development of BML, establishment of a CIB, and introduction of a legal/regulatory framework and a central moveable assets registry for secured financing; (ii) improved access to markets, technology and information, and strengthened capacity development by creating BDSC operations and a CSF to ensure provision of the necessary TA and knowledge transfer for growth-oriented MSME businesses; and (iii) institutionalization of PPP as a means for promoting private sector participation in the development of critical infrastructure necessary for MSME and overall PSD.

B. Components and Outputs

1. Component A: MSME Promotion

37. The component will focus on establishing BDSC operations and a CSF to facilitate demand-oriented private sector BDS and assist the MSMEs, both existing and start-ups, and develop the capacity of related stakeholders. To effectively support development of the MSME sector, the Government needs to pursue a well-coordinated approach in consultation with private sector stakeholders. Since the availability of capacity development training institutes is constrained, the Government will need to expand the responsibilities of EDU to bring together different types of PSD including MSME development under a strengthened institutional framework.

a. BDSC Operation

38. The BDSC operations will be the principal vehicle for the delivery of BDS products to MSMEs for facilitating cluster development in targeted regions. There is currently no BDS

²¹ Namely, United Nations Children's Fund, UNDP, United Nations Population Fund, United Nations Volunteers, and World Health Organization. Their activities are coordinated under the United Nations development framework. UNDP's work concentrates on governance, poverty reduction, and environment as well as MSME support. Currently, a project is under way on public service reforms aiming at capacity development in the public sector.

²² Four educational projects contributed to human resource development; upgrading of the airport in Malé supported the growth of tourism. Three projects helped modernize the fishing fleet and strengthen public sector capacity in collecting, processing, and exporting fish.

provider in the Maldives. Owing to the easier availability of resources in Malé as well as the fact that most MSME entrepreneurs do visit Malé for various reasons, a central BDSC will be set up in Malé within EDU. The project management unit (PMU) within the EDU will be the overall coordinating body for the BDSCs. The project coordinator of the PMU will be recruited on an international contract (for 24 person-months). The project coordinator will be supported by one national MSME portal and communication specialist, and one national monitoring and evaluation specialist.

39. The central BDSC will provide services in the targeted regions through two operation desks to be housed in the existing regional development management office premises at Hithadhoo (southern region) and Kulhudhuffushi (northern region). The operation desks will be staffed by general administrative staff drawn from existing staff of the regional development management office. The specialized staff and resources will travel to the local BDSCs on a needs basis to provide specialized services and training. This will help avoid idle resources and optimize utilization of BDSC resources. One national consultant will be based in each of the BDSC operation desks. Initially, the TA will be provided to the BDSC operations to support development of a business plan indicating core activities and required investment, identification of revenue streams, and recruitment of staff and their capacity building.

b. Cost-Sharing Facility Operation

40. **Coverage.** A \$1.0 million CSF is proposed to conduct capacity development in a wide range of services to about 200–300 MSMEs for local economic development in the targeted regions and sectors.²³ The range of services will include (i) consulting services for business planning and business counseling, identification and provision of information, and coaching; (ii) training services on costing and pricing, marketing and sales, accounting and entrepreneurship; (iii) facilitation services for market access, access to finance, and formation of business cooperatives; and (iv) government-related services covering support for business registration and licensing, linking to the government database and extension services. The Project will support development of service products that could be marketed to provide a revenue stream to make the unit self-sustaining in the future beyond the CSF time frame. The ratios for cost-sharing among the CSF and beneficiaries as well as detailed administrative procedures will be finalized by the project management unit and CSF management unit.²⁴ ADB reserves the right to perform random audit of the CSF management unit to ensure adequate and efficient use of funds.

41. **CSF Management.** The BDSC will act as the CSF management unit with the provision of a subcommittee for initial screening and provision of recommendations to the project steering committee (PSC) for its final approval of the cost-sharing mechanism. The BDSC will be accountable to the PSC. The project coordinator, an international consultant, will chair the subcommittee, which will comprise one representative to be nominated from each of EDU, MNCCI, and WEC. The decisions of the subcommittee will be by a majority vote.

42. **Monitoring and Supervision.** Each BDSC operation desk will submit an annual progress report to the project coordinator on the supported enterprises. The cost of monitoring and evaluation field visits will be covered by fees charged by the central BDSC with any deficits

²³ This coverage was calculated from population figures in the vicinity (over 30,000 inhabitants) and the estimated number of microenterprises in the target atolls.

²⁴ ADB. 2005. *Technical Assistance to the Republic of the Maldives for Preparing the Small and Medium-Sized Enterprise Development Project*, Manila (TA 4745-MLD). These administrative procedures, etc. will be finalized based on the recommendations of this TA.

covered by the CSF upon prior approval of the CSF management unit. An overall evaluation of the CSF will take place at the middle and end of project implementation. Details of the CSF are given in Appendix 5.

c. Capacity Development of EDU, MNCCI, and WEC

43. EDU is one of the main pillars of the Government's efforts to create effective and competitive PSD. Established in 2004, EDU currently operates with newly recruited staff in need of experience relating to MSME promotion. Capacity development support will be provided to EDU through the project coordinator, a communications specialist, and a monitoring and evaluation specialist for the duration of the project. Training programs will be conducted for regular EDU staff in project coordination, marketing, financing, and communication skills. The Project will support EDU in the design and implementation of a media campaign, development and registry of a web portal for EDU, policy development through competitive studies of various products and services to prioritize specific industries and sectors, and strategic support for relevant cluster and supply chain analyses in targeted regions.

44. MNCCI and WEC will be involved in supporting BDSC operation by providing linkages with available markets and providing consulting services. MNCCI and WEC will be represented on the CSF subcommittee so that they are involved in the decision-making process for supporting entrepreneurship. MNCCI has about 460 members, of which 60%–80% are MSMEs. It provides a range of services in advocacy, lobbying, government liaison, and organization of trade fairs. Its effectiveness is undermined by the lack of regional chapters in the atolls, a lack of strategy and plan of activities, and the absence of any BDS products for its members. MNCCI recently attempted a business link project through MEDT to provide BDS to the MSMEs. The efforts of MNCCI are constrained by lack of clear-cut strategy, lack of professional staff, and lack of funding for staff training. To address these constraints, the Project will support MNCCI in developing its strategic planning process including elaboration of plans for operations, human resource development, and training for recruited professional staff.

45. WEC currently does not have a secretariat and shares MNCCI facilities. It has been involved in the 'WEC for Women Empowerment Program' supported by the United Nations Population Fund and the gender ministry. This program entails training women to produce handicrafts. WEC sources the produce from the women, undertakes quality control, and certifies and markets the products. WEC has been undertaking a program in association with UNDP whereby UNDP is providing handicraft training and WEC is providing training to those women in entrepreneurial skills. WEC needs a secretariat with suitably qualified staff to undertake quality control, inventory management, marketing, and website maintenance. The Project will support WEC's capacity development to undertake such activities efficiently and provide extension services to the BDSC operations.

2. Component B: Enhancing Access to Finance

46. Banking practice in the Maldives limits loan amounts for businesses in the atolls to 50% of the assessed value of houses and registered vessels. Commercial banks do not accept other moveable assets due to monitoring difficulties. A facility is needed to enhance access to finance for MSMEs without unduly increasing commercial lending risks. To help overcome the financing constraints, the Project will provide a credit line for providing finance to the MSMEs and develop

supporting credit infrastructure to facilitate credit decision-making and making collateral requirements less restrictive.²⁵ These are essential to improve market-based finance to MSMEs.

a. **Subcomponent 1: LCF Operation and Capacity Development**

47. BML is the main financial institution in the Maldives lending to MSMEs, and this lending has been limited and has very high collateral requirements. The Government is keenly interested in promoting the MSME subsector but access to finance, especially for medium- to long-term funds, has emerged as the greatest bottleneck for MSME development. Consequently, the Government through MEDT and the Ministry of Finance and Treasury (MOFT) decided to embark on this initiative involving BML as the implementing agency (IA) for the LCF to pilot expanded credit assistance to MSMEs under a partial government guarantee to provide BML an avenue to better understand MSME risks, strengthen its ability to mitigate risks, and appreciate the revenues and benefits of engaging in the development of the MSME subsector. The aim is to have BML subsequently pioneer support for the subsector owing to an improved understanding and familiarity from this pilot operation. Credit enhancement operations for the MSME subsector have proven effective in a number of schemes and countries. Other components revolve around this component as the CSF and CIB will be useful only if MSMEs have enhanced access to finance.

48. **Credit Line for MSME Lending.** An LCF is envisaged under the Project to pilot initiative²⁶ in promoting a culture of lending to MSMEs with less restrictive collateral requirements and cash-flow-based financing. The aim of the LCF will be to build the capacity of BML in undertaking development-oriented financing. The Republic of the Maldives will borrow from ADB and bear the foreign exchange risk of the loan. MOFT will enter into a subsidiary loan agreement with BML, and the LCF will be provided to BML. BML has experience with development banking and an adequate number of professional staff to administer the LCF. The proposed LCF fund size will be \$3.0 million during the pilot phase. Applications for subloans will be prepared at the BDSCs based on the business plans submitted by the MSMEs and forwarded by the BDSC to BML for credit risk assessment. The BDSC will provide credit risk information related to the applicant for BML's consideration. BML will undertake an independent credit risk assessment of the proposals to determine whether they meet lending criteria agreed to by BML, the Government, and ADB. Upon completion of scrutiny, BML will decide whether to approve the subloan. Onlending agreements will be signed between BML and the subborrower. The terms of such agreements will be on a commercial basis at the prevailing market rates of interest and tenor. BML will execute an onlending agreement with the subborrower, and submit a report on approved subloans and a copy of onlending agreements to MOFT. The maximum subloan size for applicants will be \$80,000 (or Rf1,024,000) and the anticipated average subloan size is \$40,000. It is expected that BML will provide around 70 MSMEs with subloans under LCF.²⁷ Any deviation will be subject to ADB's prior approval.

49. EDU, in cooperation with MNCCI, WEC, the BDSCs and BML, will act as the facilitator for marketing and popularizing the facility. This is necessary, in the context of the Maldives, as capacity must be developed within an institution to introduce credit guarantee products. The

²⁵ According to the conventional arrangements in Maldives, the borrowers are requested to provide collaterals up to 200% of the assessed value of houses and registered vessels. Under the LCF, the collateral requirement will be less restrictive and the collateral ratio will be reduced down to 100% (or less) of the assessed value.

²⁶ Upon successful implementation of pilot initiatives, building on this component, a separate non-sovereign loan to BML could be considered for enhancing the access to finance for MSME throughout the country.

²⁷ Based on the survey under ADB TA 4745 on Small and Medium Enterprise Development (2007), ADB identified adequate size for subloans. Please see Supplementary B (MSME Survey of Summary of three Regions) for details.

BDSCs' involvement in appraising the loan assistance proposals under the LCF is expected to act as counter-check for any moral hazard. To provide BML with an incentive for onlending to MSMEs in designated atolls with less restrictive collateral arrangement, which is the core purpose in line with the purpose of loan under the LCF, the Government will provide BML with an 80% guarantee for defaulting subloans. BML will bear the remaining risk to ensure BML continues to be diligent in its lending activities. Details of the LCF are in Appendix 6.

50. Institutional Strengthening and Capacity Development Support to BML. The proposed LCF will leverage on the strong branch network and wide geographic presence of BML and support BML in its efforts to extend its business outreach to MSMEs located in the targeted regions. As accreditation of lending based on agreed eligibility criteria will be delegated to BML, the financial aspects of BML's performance have been reviewed.²⁸ Details of the BML due diligence are provided in Supplementary Appendix C. To enable BML to fully exploit its potential and effectively intermediate financing, BML must strengthen its existing structure, operations, and capacity for MSME lending. Capacity development will be provided to cover BML's human resource strategy and training, performance targets, and enhancement of efficiency to reach out to target clients in designated regions. Adequate risk assessment and easy loan procedures are as important for MSMEs as low interest rates. Therefore, during the preparatory period for loan implementation, the introduction of appropriate MSME lending products and techniques, risk assessment, loan operating procedures, and strengthening of institutional capacity of BML will be essential.²⁹ The Project will review the legal aspects of enforcing debt recoveries and contract enforcement in the event of defaults on subloans.

b. Subcomponent 2: CIB and CMAR

51. This subcomponent will support the establishment and implementation of a CIB. The International Finance Corporation recently provided support to MMA to develop a feasibility study, including identification and drafting of the necessary regulatory framework, costing, and preparation of technical specifications for appropriate hardware and software. The study concludes that market support will be positive and information asymmetry in the market must be reduced. ADB and International Finance Corporation are currently assisting MMA in preparing a request for proposal for a turnkey consultancy package for establishment and implementation of the CIB.³⁰ The CIB will develop a database for MSMEs to support financing by financial institutions for the subsector.

52. This subcomponent will also support the MMA in laying the foundations for secured transactions, the drafting of the underlying legal/regulatory framework and subsequent

²⁸ The development banking cell in BML has extended need-based credit to island populations. These have helped them to attain income security, own productive assets, and develop their entrepreneurship skills. BML, through its development banking activities, was the implementing agency of the Atolls Credit and Development Banking Project, which covers the northern and central atolls, and the Southern Atolls Development Project, which covers the four southern atolls. Both projects were financed by long-term borrowing from the International Fund for Agricultural Development.

²⁹ For this purpose, the ongoing ADB TA-4745 MLD will provide necessary assistance for BML to ensure that it efficiently intermediates financing and fully utilizes the funds through establishment of adequate financing mechanisms.

³⁰ The Maldives Monetary Authority (MMA), established under the MMA Act of 1981, has been empowered by section 4, subsection (c) to supervise and regulate banking so as to promote a sound financial system. Best practice principles regarding use of credit information have been introduced in the Banking Act and MMA Act. As such, there are no major legal barriers to information sharing under the Project. Moreover, in order to expand the scope of use of credit information from banking sector to nonbanking sector, the Government is reinforcing the necessary legal framework.

introduction of a central moveable assets registry (CMAR) in the medium term,³¹ a master plan ensuring integration between CIB and CMAR, and procurement plans including technical specifications for appropriate hardware and software equipment. MMA is considering a two-phased approach. The first phase under the Project will create a preliminary database listing all existing collateralized properties recorded with the financial institutions and will involve preparation of an action plan for establishment of CMAR including recommendations for the legal or regulatory framework, and equipment needed to integrate all the registration information of CMAR with CIB. The second phase³² will subsequently implement the action plan, arrange links and networks, and make the CMAR operational. The procurement plan is attached in Appendix 7.

3. Component C: Capacity Building for PPP

53. The Project envisages supporting the Government with two aspects of developing PPP infrastructure projects. The first part of the Project will assist the Government through a PPP capacity building consultancy in assessing the existing enabling and regulatory environment for PPP and suggesting measures and reforms required to create a favorable and transparent environment for developing infrastructure projects through PPP. The Project will also focus on developing capacity within the Government to formulate sectoral PPP strategies and projects, and manage PPP procurement processes. A PPP cell will be set up within EDU and the Government will depute additional staff to the PPP cell as the current staff of EDU cannot take on additional responsibilities. An effective knowledge-sharing arrangement will be put in place between MOFT and EDU regarding all past and future initiatives and materials related to PPP. The Project will provide capacity development for the PPP cell as the key IA for the successful implementation of component C.³³ Building on this, the second task is to identify and structure two infrastructure projects using the PPP model on a pilot basis.³⁴ Its target will be to assist the Government in bidding out two pilot projects on a PPP basis. The time gap between developing the enabling environment and actual implementation of PPP pilot projects is reflected in Appendix 8 and Supplementary Appendix E.

a. PPP Enabling Framework and Capacity Development (Task 1)

54. This task involves developing the enabling frameworks for PPP and developing the capacity of key government ministries to institutionalize the development and management process for PPPs. The Project will support the following three aspects.

55. **Policy and Regulatory Framework.** Based on the preliminary analysis of issues in key PPP sectors identified, the Project will review the policy for these sectors and develop improved policies for supporting PPP projects. It will help draft regulations to improve the enabling environment for PPPs, including legal, fiscal, tax, foreign investment frameworks, and other incentives.

³¹ This is subject to MMA acceptance of the concept as per the findings of the feasibility study.

³² Based on the Project's outputs, the proposed ADB project loan, to be processed in 2009–2010, could include a component to establish a basis for introducing a CMAR to be integrated with the CIB. The establishment of the CIB and CMAR will run in parallel, however, these two activities will be independent of each other.

³³ The Public Enterprises Monitoring and Evaluation Board at MOFT is one of the most important pillars for enhancing PPP in the Maldives. It will work closely with the PPP cell at EDU to address any coordination issues between relevant ministries and SOEs already undertaking activities envisaged to be developed through PPPs.

³⁴ Through PPP consultants, the Project will assist the Government in identifying two projects that have the potential to be developed on a PPP basis; carrying out demand/technical assessment, project structuring, financial analysis, and PPP structuring; and developing model bidding documents and development frameworks.

56. **Institutional Framework and Capacity Development.** The Project will assist the Government in formulating institutional strategies to study current Government functions and capacities; and identify support required to encourage and manage PPP in the identified sectors. It will help develop the capacity of identified staff to equip them with a range of skills covering technical, financial, and legal aspects needed for effective management and handling of PPP projects.

57. **PPP Financing Framework.** The Project will help develop two funding mechanisms, a project development fund and a project preparation fund. Given the fragmented demand, PPP projects may not be financially viable at the outset and, as a result, could have long gestation periods. In such a scenario, a dedicated funding mechanism that supports projects especially during their early period of development could take the form of a project support fund. Simultaneously, a project preparation fund, funded initially by the Government, should be developed to fund project preparation activities leading to successful selection of a private developer. The project preparation fund will be in the nature of a revolving fund, wherein once a project is successfully bid out, the related project preparation costs, such as feasibility studies in project design, land acquisition, etc., would be recovered from the successful bidder so that further new project development activities can be undertaken without the government having to incur additional project preparatory costs.

b. Conceptualizing and Structuring Two Projects on PPP (Task 2)

58. The second task under the PPP component is to assist in structuring and developing two identified pilot projects on a PPP basis—for example, one in domestic maritime transport and logistics,³⁵ and another in the power subsector.³⁶ The Project will help detail the concept and structures of the projects and carry out financial feasibility studies. The Project will help identify various PPP models that can be applied and choose the most appropriate model. For chosen projects, partnership frameworks will be developed based on the Government's objectives and priorities for inviting private sector participation.

59. The Project will support the development of the partnership framework identifying key issues and risks in proposed projects and mitigation measures. These will include terms of the concession, financing, revenue risk and guarantees, roles and responsibilities of the Government and private sector, scope of transaction, form and level of government support, and other similar aspects impacting the value proposition for the private and public sectors. Based on the partnership framework, appropriate project and legal documentation will be prepared to form the basis for the transaction and partnership. The frameworks will be discussed within the Government and accepted before the selection process can be designed and run to select a PPP developer.

³⁵ The domestic maritime transport project aims to provide regular and reliable ferry transport services within atolls and between key growth centers across key atolls; and to involve and combine freight and resort transportation elements to bring economies of scale, reduce transport costs, and provide much needed regular access to populations and businesses to various services and facilities being developed at these growth centers. Additionally, such projects can be combined with rights to the development of local transportation and logistics supply chain involving warehousing, cold storages, harbors, and other distribution networks. This will benefit local economies and generate demand for the private sector.

³⁶ In line with the draft energy policy, power projects, including projects relating to renewable energy sources such as those based on solar, wind, or hybrid systems, are expected to be conceptualized and developed by the private sector through innovative packaging allowing economies of scale and savings. The Maldives Electricity Committee is a government agency that regulates tariffs of electricity provided in the islands. The State Electricity Company Limited (STELCO) is a leading SOE in providing electricity to 20 major islands including Malé. Currently, ADB TA (SOE privatization and restructuring) is assisting the restructuring and privatization of STELCO.

C. Project Investment Plan

60. The project investment cost is estimated at \$7.8 million equivalent, including taxes and duties of around \$47,000. The Government will finance local taxes and duties. The project investment plan is provided in Table 1 and detailed cost estimates are in Appendix 9.

Table 1: Summary of Project Costs
(\$ million)

Item	Amount ^a
A. Base Cost^b	
Component A: MSME promotion	1.90
Component B: Enhancing access to finance	3.90
Component C: Capacity building for PPP	1.40
Subtotal (A)	7.20
B. Contingencies^c	0.45
C. Interest Charges^d	0.15
Total (A+B+C)	7.80

MSMEs = micro-, small-, and medium-sized enterprises; PPP = public-private partnership.

^a Includes taxes and duties of \$47,000. Taxes and duties were calculated for roughly 10% of the equipment procurement including computers and office facilities.

^b In mid-2008 prices, estimated cost needed for equipment, training, maintenance, and project administration.

^c Contingency is 10% of total baseline costs. Among these, the price contingencies were calculated pursuant to domestic cost escalation in the Maldives (4% annually).

^d Includes interest, commitment charges, and front-end fees.

Source: Asian Development Bank estimates.

D. Financing Plan

61. The Government has requested a loan in special drawing rights equivalent to \$7.5 million from ADB's Special Funds resources to help finance the Project. The loan will have a 32-year term including a grace period of 8 years; an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; and other terms and conditions set out in the loan agreement. The ADB financing will cover 96.2% of the project costs, primarily for the international consultancy, turnkey consultancy package for CIB, and establishment of a CSF and LCF. The Government will finance \$0.3 million equivalent (3.8% of the project cost) as in-kind support primarily for counterpart staff, communications, workshops, and administration support. The financing plan is provided in Table 2.

Table 2: Financing Plan
(\$ million)

Source	Total	%
Asian Development Bank	7.5	96.2
Government ^a	0.3	3.8
Total	7.8	100.0

^a Includes office space, counterpart staff, communication, administration support, contingencies. The source of the Government funding is from a budget allocation.

Source: Asian Development Bank estimates.

62. **Relending.** Under a subsidiary loan agreement with BML, the Government will relend \$3.0 million equivalent in local currency to BML to develop an LCF on terms and conditions satisfactory to ADB. The terms and conditions of relending will need to reflect the costs of raising such funds locally and avoid discouraging domestic resource mobilization. Under a

subsidiary loan agreement with MMA,³⁷ the Government will relend \$720,000 equivalent to MMA for the setting up of the CIB, drafting of the legal regulatory plan and framework and execution for the central assets registry on terms and conditions satisfactory to ADB. The Government has indicated that the terms of the loans to BML and MMA will not exceed 24 years, including a 3-year grace period. These loans will be disbursed over 3 years, subject to a midterm review after 18 months to review disbursement progress and refine the arrangements as needed.

63. **Onlending.** The maximum subloan size for individual applicants will be Rf1,024,000 (\$80,000). Individual subloans exceeding that amount will be subject to ADB's prior approval. The terms and conditions of onlending will be on a commercial basis at the prevailing market rates of interest and tenor, reflecting costs of raising such funds locally and guaranteeing adequate spread of interest rates for BML to cover transaction costs and risks.

E. Implementation Arrangements

1. Key Project Management Entities

64. MOFT will be the Executing Agency responsible for carrying out the Project and coordinating the activities of all IAs. MOFT will liaise with ADB on all project administration matters in general. The IAs will be (i) MEDT for component A; (ii) BML for component B, subcomponent 1; (iii) MMA for component B, subcomponent 2; and (iv) a PPP cell within MEDT's EDU for component C. Each IA will be responsible for the day-to-day implementation of project components within their respective mandates. A PMU will be established in the EDU and will be headed by a project director. The project director will be responsible for coordinating the project activities, overseeing logistical arrangements, and performing other assignments necessary for project implementation. The PMU will also comprise a project coordinator who will report to the project director.

2. Project Steering Committee

65. A PSC will be chaired by the MEDT deputy minister and comprise the executive directors from MOFT, MEDT, Ministry of Atolls Development, and Ministry of Planning and National Development; a senior executive director of MMA; an assistant general manager of BML; the project director; and executive directors from other ministries and agencies, on a need basis. One representative each from MNCCI and WEC will attend the PSC meetings as observers. All members will have an alternative member in case the member is otherwise engaged. The PSC will include a member from each ministry related to sectors identified for PPPs. The project coordinator under EDU will serve as the PSC secretary. The PSC will meet at least once every quarter to discuss the agenda finalized by the secretary and circulated to the members in advance of the meeting. The IAs will prepare annual work plans and budgets to be presented to the PSC for its endorsement. Moreover, the reports generated through the participatory planning, monitoring, and evaluation system will be presented to the PSC on a biannual basis. The project management organization structure is given in Appendix 10.

³⁷ The subsidiary loan agreement between the Ministry of Finance and Treasury (MOFT) and MMA has been made in line with government policy and arrangement mechanisms in the Maldives.

3. Implementation Period

66. The Project will be implemented within 2.5 years. It will be completed by 28 February 2011. The overall project implementation schedule is summarized in Appendix 8.

4. Procurement and Consulting Services

67. Procurement of goods and services will be subject to the provisions of ADB's *Procurement Guidelines* (2007, as amended from time to time). For procurement of goods and services to be financed by subloans, subborrowers will follow procurement procedures acceptable to ADB. To be acceptable to ADB, such procurement procedures will be (i) in accordance with established private sector or commercial practices, (ii) appropriate under the circumstances, and (iii) comply with the provisions of ADB's *Anticorruption Policy* (1998, as amended to date). Consultants will be recruited in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time). Selection and engagement of consulting services will use the quality- and cost-based selection method, 80:20 ratio, for consulting firms (Appendix 7). The turnkey consultancy packages for CIB under component B, subcomponent 2, are attached in Appendix 7.³⁸ The Project will finance 79 person-months of international consulting services and 124 person-months of national consulting services. The terms of reference for the consultants are attached in Supplementary Appendix H. The Government will be responsible for the procurement plan, and ADB will carry out reviews of the Government's procedures, documents, bid evaluations, award recommendations, and contract in accordance with the agreed procedures.

5. Disbursement Arrangements

68. Immediately after loan effectiveness, MOFT will establish two imprest accounts to expedite project implementation through timely release of ADB funds for eligible expenditures. The first imprest account will finance all activities under component A, subcomponent 2 of component B, and component C. It will be established within MMA in the name of MOFT. The second imprest account will finance all activities under subcomponent 1 of component B and will be open within MMA in the name of MOFT.³⁹ The initial advance to the first imprest account in MOFT will be estimated expenditure for the first 6 months of project implementation or \$380,000, whichever is lower. The second imprest account in MMA will be given an initial advance of the estimated expenditure for the first 6 months of project implementation or \$300,000, whichever is lower. The currency of these imprest accounts will be the dollar. Except as ADB may otherwise agree, BML will establish a second-generation imprest account within BML for the LCF to be financed through the second imprest account. The currency of the second-generation imprest account will be the rufiyaa. The initial amount to be deposited into the second-generation imprest account will not exceed the lower of the estimated expenditure for the first 6 months of project implementation, or the equivalent of \$300,000.

69. MOFT will be responsible for managing and administering the imprest accounts. The project loan will be disbursed using the statement of expenditure procedure to reimburse eligible expenditures and to liquidate advances, in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time). ADB statement of expenditures procedure will be used to reimburse or liquidate and replenish the imprest accounts for individual payments not

³⁸ ADB is jointly working with the International Finance Corporation for the establishment and implementation of the CIB. More detailed terms of reference are attached in Supplementary Appendix I.

³⁹ Supplementary Appendix G provides more detailed information on the fund flow.

exceeding \$50,000. BML will be responsible for managing a second-generation imprest account; it will be subject to the subsidiary loan agreement in place between BML and the Government. The disbursement procedures relating to LCF under subcomponent 1 of component B should be in accordance with the development finance institution loan procedure described in ADB's *Loan Disbursement Handbook* (2007, as amended from time to time) and the detailed arrangements agreed upon between the Government and ADB. With respect to the free limit, the maximum loan size for individual applicants permitted under the loan agreement will be \$80,000 (or Rf1,024,000).

6. Accounting, Auditing, and Reporting

70. The PMU will maintain separate records and accounts for the imprest accounts in accordance with sound accounting principles and will have these accounts and records audited annually in accordance with standards acceptable to ADB. Audited accounts, including statement of expenditures, will be provided to ADB within 6 months at the end of the fiscal year. The annual audit will provide an opinion on the soundness of the imprest accounts and the use of the statement of expenditures procedure. ADB retains the right to (i) audit and examine the records and accounts including those of the IAs, and (ii) verify the validity of the certification issued by the Government for each withdrawal application. The PMU will submit quarterly progress reports to ADB concerning the use of project loan proceeds, project administration, and financial management.⁴⁰

71. The consultants recruited under the Project will prepare (i) an inception report within 4 weeks of service commencement; (ii) midterm reports (including quarterly reports) at appropriate stages of the Project; (iii) a draft final report 4 weeks before completing the contract; and (iv) a final report after incorporating comments from ADB, MOFT, and the IAs. A tripartite meeting of the Government, ADB, and the consultants will be carried out prior to finalizing each undertaking and terminating each contract.

7. Project Performance Monitoring and Evaluation

72. The PMU, drawing on data from the IAs, will establish and maintain a project performance management system that will generate annual reports every 6 months. The system will be established, as agreed between the Government and ADB, to ensure that the Project is managed efficiently, benefits are maximized, and social impacts are monitored.

8. Project Review

73. The Government and ADB will review project implementation at least three times a year. ADB will field regular review missions, including midterm and project completion review missions to coincide whenever possible with the program reviews and tripartite meetings. A comprehensive midterm review at approximately 18 months from the date of loan effectiveness will be undertaken to evaluate progress, and MOFT and the IAs will participate in the midterm review. These reviews will include an evaluation of the project scope, implementation arrangements, and progress with the project agenda.

⁴⁰ The reports will include (i) 6 monthly and annual project implementation reports, (ii) a midterm review report, and (iii) a project completion report to be submitted no later than 6 months after project completion. The reports and consolidating inputs from the implementing agencies will cover (i) expenditures, (ii) activities financed, (iii) a summary of audit issues, and (iv) progress of project components.

9. Governance and Corruption Risks

74. Governance and corruption risks in the Project can be categorized broadly as policy- and legislation-related, capability-related, and project management-related. First, these include weak policy on the privatization policy and PPPs, and potential delays in developing the legal framework to set up a CIB and for a basis of introducing secured transactions. Second, risks include capacity constraints in MOFT and the IAs, and lack of sustainability of capacity development efforts in the Project. Third, risks include political interference in access to credit through the LCF, complex MOFT and IA arrangements, misuse in the LCF, lack of engagement of participants, lack of full adherence or very rigorous criteria for credit eligibility, transaction costs in excess of perceived benefits, and inability of project beneficiaries to meet expectations. Several mitigating measures have been proposed such as (i) capacity development support, (ii) the Government commitment through assurances in the Project, (iii) proper design of the terms of references of consultants and monitoring of their performances, and (iv) encouraging private sector associations to participate in the Project. Appendix 11 provides a risk analysis, and suggests appropriate risk mitigation measures.

75. ADB's *Anticorruption Policy* (1998, as amended to date) was explained to and discussed with the Government. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Project. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* (1998, as amended to date) are included in the loan regulations and the bidding documents for the Project. In particular, all contracts financed by ADB in connection with the Project shall include provisions specifying the right of ADB to audit and examine the records and accounts of the EA, IAs, PMU, and all contractors, suppliers, consultants, and other service providers as they relate to the Project. The Project will introduce additional specific measures to enhance governance and prevent corruption. Such measures include (i) continued consultant support to PMU staff on procurement and project management; and (ii) random and independent spot checks by ADB review missions on procurement and financial project accounts.

IV. PROJECT BENEFITS, IMPACTS, ASSUMPTIONS, AND RISKS

A. Expected Benefits and Impacts

76. The Project is expected to contribute to (i) an improved business environment for PSD with enhanced institutional capacity and financial services outreach; (ii) improved access to credit by MSMEs through better use of credit information; and (iii) increased BDS for enterprises to access training, consulting, marketing, and information. As a whole, the private sector will benefit from the Project's holistic approach to ensuring an enabling environment for doing business, better access to financing, enhanced business support infrastructure, and increased market access and product competitiveness for inclusive growth, as well as creating new employment opportunities for people residing in the atolls especially the youth. About 200–300 MSMEs in targeted regions are expected to receive training and technical support on a cost-sharing basis to increase product competitiveness during project implementation. Under a pilot project, around 70 subloans will be provided to MSMEs in these regions. The Project is unlikely to have any significant adverse environmental impact. Subprojects to be funded from the LCF fund are unlikely to have significant adverse environmental impacts. Subprojects will be required to comply with applicable government environmental regulations and standards. Moreover, PPPs will expedite enhanced private sector participation and business expansion by MSMEs and bidding of two PPP subprojects, which will help increase

employment, facilitate MSMEs to access the market, and enhance quality of life of residents in the targeted regions. The summary initial poverty and social sector analysis is in Appendix 12.

B. Risk Analysis

77. Risks are linked to (i) political factors, (ii) interministerial coordination factors, (iii) capacity constraint factors, and (iv) PPP-related factors. First, political risks suggest that, despite technical merits across reform initiatives supported under the Project, some initiatives will require strong political resolve to implement. Second, the project activities involve a cross-section of the MSME sector and various ministries. Therefore, close coordination is required among relevant government agencies and with the private sector, principally through the business associations of commerce and industry, to support and oversee project implementation. Third, various departments and agencies have capacity constraints. Unless capacity is enhanced, effective implementation of the reforms will be at risk. And fourth, preparation and development of projects on a PPP basis is a complex process requiring the Government's strong commitment and support as well as public acceptance. The Government will be assisted by consultants to develop PPP models and to select projects which are financially viable.

V. ASSURANCES AND CONDITIONS

A. Specific Assurances

78. In addition to the standard assurances, the Government has given the following assurances, which have been incorporated in the legal documents.

- (i) Within 3 months of loan effectiveness, the Government will set up a PSC chaired by the deputy minister of economic development and trade and composed of the executive directors of MOFT, MEDT, Ministry of Atolls Development, Ministry of Planning and National Development, a senior executive director of MMA, an assistant general manager of BML, project director, and executive directors from other ministries and agencies, as appropriate. The PSC will be responsible for the monitoring, evaluation, and coordination of the project activities. The PSC will meet every quarter, or as often as needed. The Government will ensure that (a) ADB is entitled to receive all reports and minutes of the PSC upon request and may attend meetings of the PSC as an observer; and (b) IAs prepare annual work plans and budgets to be presented to the PSC for its endorsement.
- (ii) The Government will ensure that within 3 months of loan effectiveness, EDU establishes (a) the central BDSC, to facilitate coordination between different ministries and other government agencies involved; and (b) the BDSC operation desks in Hithadhoo and Kulhudhuffushi. The Government will ensure that central BDSC and BDSC operation desks are made operational within 6 months of loan effectiveness.
- (iii) The Government will ensure that throughout the implementation period of the Project, adequate budgetary allocations of the required counterpart funds are made available, approved, and released in a timely manner.
- (iv) The Government will ensure that adequate office and other facilities for the Project are made available and ensure that all such facilities are properly maintained during the project implementation period.

- (v) The Government will ensure that each of the IAs is adequately staffed and provided, in a timely manner, with the necessary financial, technical, and other resources, including equipment, to perform their functions under the Project.
- (vi) The Government will ensure that all subloan proposals under the LCF are selected in accordance with the following criteria:
 - (a) the number of employees of the MSME is up to 50;
 - (b) the MSME is registered in the EDU MSME database;
 - (c) the MSME's activities are focused on target clusters (agricultural commercialization, fishery processing, tourism-related activities, and handcrafts);
 - (d) the MSME's operations are based on two focus regions (northern and southern);
 - (e) MSMEs with 20 or less employees will have an enterprise budget and those with more than 20 employees will have adequate cash flow and collateral based on independent default risk assessment criteria agreed to by the Borrower, BML, and ADB; and
 - (f) the proposal is in compliance with the Government's applicable environmental laws and regulations.
- (vii) The Government will ensure that EDU, in cooperation with MNCCI and WEC, conducts information dissemination on BDSC and LCF on a regular basis.
- (viii) The Government will ensure that the CSF is made operational on a pilot basis within 6 months of loan effectiveness.
- (ix) The Government will ensure that BML establishes an LCF desk within 2 months of loan effectiveness to make LCF operational within 6 months of loan effectiveness.
- (x) The Government will ensure that within 3 months of loan effectiveness, BML will finalize a detailed operation mechanism for the LCF.
- (xi) The Government will ensure that LCF-funded subprojects comply with the Government's applicable environmental laws and regulations.
- (xii) The Government will ensure that MMA completes installation of the CIB within 10 months of the award of contract for CIB hardware and software, except as may be otherwise agreed between MMA and ADB.
- (xiii) The Government will ensure that within 3 months of loan effectiveness, notification on the establishment of the PPP cell in EDU is issued by MEDT and an adequate number of staff is recruited or seconded to the PPP cell.
- (xiv) The Government, MOFT, IAs, and PMU will comply with ADB's *Anticorruption Policy* (1998, as amended to date). Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any allegedly corrupt, fraudulent, collusive, or coercive practices relating to the Project. To support these efforts, all contracts financed by ADB in connection with the Project will include provisions specifying the right of ADB to audit and examine the records and accounts of the MOFT, IAs, PMU, and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

B. Condition for Loan Effectiveness

79. The PMU will have been established in EDU, MEDT, and its project director will have been appointed.

C. Conditions for Disbursement

80. No funds will be disbursed under the LCF until (i) a subsidiary loan agreement, in form and substance satisfactory to ADB, will have been executed by the Government and BML; and (ii) the first two onlending agreements will have been executed and submitted to ADB for review.

81. No funds will be disbursed under CIB turnkey package until a subsidiary loan agreement, in form and substance satisfactory to ADB, will have been executed by the Government and MMA.

VI. RECOMMENDATION

82. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and, acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve the loan in various currencies equivalent to Special Drawing Rights 4,573,000 to the Republic of the Maldives for the Private Sector Development Project from ADB's Special Funds resources with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan and Project Agreements presented to the Board.

30 May 2008

Liqun Jin
Vice President

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <p>1. Developed and expanded MSME subsector with adequate support infrastructure leading to accelerated private sector inclusive growth for broadbased and sustainable local economic development in the northern and southern regions and targeted sectors in the Maldives</p>	<p>Reduced ratio of income inequality between the targeted regions and central region (e.g., around 3% gap reduced by 2011)</p> <p>Increased broadbased private and MSME participation in economic activities, measured by</p> <p>(i) increased private sector contribution to local economy of targeted regions and sectors (handicrafts, fisheries, agricultural commercialization, and tourism-related),</p> <p>(ii) total employment by private sector and/or MSMEs in targeted regions and sectors, and</p> <p>(iii) Increased number of registered and operational MSMEs in targeted regions and sectors.</p> <p>Institutionalization of PPPs within the Government with pilot projects undertaken</p>	<p>Monitoring and evaluation reports of EDU</p> <p>Economic reports including MSME monitoring and evaluation report and official statistics</p> <p>Private sector and development partner impact assessment reports</p> <p>Reporting requirements under the Project</p> <p>ADB documents, such as the Maldives country partnership strategy papers, country assistance program evaluation reports, and program completion reports</p> <p>ADB review missions</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • General economic climate remains positive • Sustained positive development of the Maldives' economy • No political interference in the selection of projects to be supported under the CSF or LCF or projects being bid out for PPPs <p>Risk</p> <ul style="list-style-type: none"> • Natural disasters may cause disruption in tourism inflows and foreign investors' participation in PPP projects
<p>Outcome</p> <p>1. Improved capacity for doing business and greater access to finance and business knowledge, as well as expanded business opportunities</p>	<p>Increased number of MSME-registered companies in targeted regions and sectors (e.g., at least 5% increase by 2011)</p> <p>Around 200–300 entrepreneurs assisted by the CSF and around 70 subloans provided to MSMEs in targeted regions and sectors by 2011</p>	<p>Official copies of the Government's confirmation of actions taken</p> <p>Project steering committee meeting minutes</p> <p>Reports of MNCCI and WEC, and publications of development partners</p> <p>Subsequent World Bank investment climate assessment studies</p> <p>Quarterly reports</p> <p>ADB review missions</p>	<p>Assumption</p> <ul style="list-style-type: none"> • Continuous strong Government commitment to undertake capacity development <p>Risk</p> <ul style="list-style-type: none"> • Insufficient counterpart support to undertake and continue project implementation

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Outputs</p> <p>1. Strengthened business support infrastructure through enhanced access to BDS products and improved procedures for MSME development through capacity development of EDU, MNCCI, and WEC</p> <p>2. Enhanced access to finance for MSME through the LCF and CIB, capacity development for the establishment of CMAR and enhanced</p>	<p>Establishment of an EDU PMU to facilitate coordination between BDSCs, related ministries, financial institutions, and the private sector</p> <p>Establishment of a CSF and BDSC operations to promote business development services</p> <p>Increased number of MSMEs availing of BDS and CSF (utilized for about 200 small matching funds and about 30 large matching funds)</p> <p>Number of developed BDS products including cluster approach products</p> <p>MEDT approval of EDU expansion of activities to atolls, budget figures reflect</p> <p>(i) increased human resource requirements,</p> <p>(ii) increased financial requirements for testing innovative BDS, and</p> <p>(iii) financial requirements for implementation of activities</p> <p>Increased MSME sales, increased export sales, growth in profitability, and increased employment</p> <p>Number of training programs for EDU, MNCCI, WEC, and other related stakeholders</p> <p>Operationalized LCF and around 70 loans granted to MSMEs on less restrictive collateral criteria by BML</p> <p>Number of training programs organized for</p>	<p>Official copies of the Government's confirmation of actions undertaken</p> <p>Official copies and publications of BDSC and EDU, including periodic reports produced</p> <p>Financial statements of selected MSMEs</p> <p>Budget plans of MEDT</p> <p>MSME market and domestic BDS provider surveys</p> <p>Interviews with private sector stakeholders</p> <p>Subsequent World Bank's investment climate assessment reports</p> <p>ADB review missions</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Adequate resources and budget support available to carry out all activities • Strong Government commitment to pursue successful project implementation • Good coordination and implementation support among involved government agencies and stakeholders • Qualified consulting services provided to assist successful project implementation • Adequate TA provided to strengthen capacity development of targeted agencies • Sufficient technical skills locally available and sufficient skills with domestic BDS providers available • Sufficient number of skilled people willing to work in the atolls <p>Risks</p> <ul style="list-style-type: none"> • Loss and lack of qualified staff, including counterpart staff to support undertaking PSD implementation

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>capacity development of BML</p> <p>3. Enhanced capacity for PPP from legal, regulatory, financing, and institutional aspects, as well as building a pipeline of PPP projects especially at targeted atolls in selected sectors</p>	<p>LCF desk staff in BML</p> <p>Establishment of CIB and successful pilot operating</p> <p>Completed implementation plan and relevant legal/regulatory framework for establishment of CMAR</p> <p>Accelerated loan appraisal process (shorter than current MSME loan appraisal period)</p> <p>Regulations are made transparent to the business community</p> <p>Establishment of PPP cell in MEDT</p> <p>Establishment of PPP project development units within concerned line ministries</p> <p>Mobilization of consultants for TA</p> <p>Development of legal/regulatory frameworks for developing PPP projects</p> <p>Identification and development of two pilot projects on a PPP basis</p>		<ul style="list-style-type: none"> • EDU and BDSC staff lack skills to implement institutional strengthening measures • Expected results not fully met due to lack of understanding, consensus, or Government commitment • Lack of effective communications and coordination skills on the part of the Government • Willingness and efficiency of BML to implement credit enhancement program • Political commitment to undertake central and atoll reforms • Sufficient resources available for capacity building of regulators and managers of PPP projects • No financially viable projects can be structured on a PPP basis

Activities with Milestones	Inputs
<p>1. MSME promotion</p> <p>1.1 Recruit a specialist on BDS and CSF to prepare detailed operations procedures and manuals as well as BDS needs based on the recommendations of TA 4745-MLD^a within 2 months of loan effectiveness.</p> <p>1.2 EDU to establish the central BDSC to facilitate coordination between different ministries and other involved government agencies and the BDSC operation desks in Hithadhoo and Kulhudhuffushi and within 3 months of loan effectiveness.</p> <p>1.3 The PMU to educate all related stakeholders and targeted MSMEs on BDS and CSF mechanisms and procedures within 5 months of loan effectiveness.</p> <p>1.4 Central BDSC and BDSC operation desks (Hithadhoo and Kulhudhuffushi) to be operating within 6 months of loan effectiveness.</p> <p>1.5 CSF to be operating on a pilot basis within 6 months of loan effectiveness.</p> <p>1.6 The PMU to organize training for capacity building of MNCCI and WEC within 6 months of loan effectiveness.</p> <p>1.7 The PMU to contract training activities to dedicated and specialized training centers within 6 months of loan effectiveness.</p> <p>1.8 The BDSCs to set up a website and to disseminate brochures with information on BDS products within 8 months of loan effectiveness.</p> <p>1.9 Introduce performance benchmarks and monitoring system for enhancing BDSC performance within 8 months of loan effectiveness.</p> <p>1.10 Disseminate performance benchmarks to related stakeholders for benchmark implementation within 12 months of loan effectiveness.</p> <p>1.11 Monitor and report on the performance of the BDSCs through surveys and against performance benchmarks within 12 months of loan effectiveness.</p> <p>1.12 The PMU and central BDSC to prepare the first batch of workshops with the training experts to disseminate the lessons from CSF implementation within 18 months of commencing loan.</p>	<ul style="list-style-type: none"> • TA resources (\$7.8 million) • Consultants (79 person-months international consulting; 124 person-months national consulting) • Equipment (\$70,000) • Training/Workshops (\$270,000) • Contingency (\$455,000) • Interest charges (\$159,000)
<p>2. Enhance access to finance</p> <p>2.1 Recruit an LCF consultant to detail the LCF operating mechanism based on the recommendations of TA 4745-MLD within 1 month of loan effectiveness.</p> <p>2.2 Establish LCF desk in BML within 2 months of loan effectiveness.</p> <p>2.3 Prepare detailed operating mechanism for the LCF; to be drafted and finalized by BML and EDU within 3 months of loan effectiveness.</p> <p>2.4 BML and BDSCs to educate related stakeholders and targeted MSMEs, and conduct public awareness activities for LCF within 5 months of loan effectiveness.</p> <p>2.5 The LCF to be operating within 6 months of loan effectiveness.</p> <p>2.6 BML to organize training for capacity building for its staff and targeted MSMEs within 6 months of loan effectiveness.</p> <p>2.7 Prepare workshops with experts to disseminate lessons from LCF implementation within 18 months of loan effectiveness.</p> <p>2.8 Complete bidding process for selection of vendor for installation of CIB within 3 months of loan effectiveness.</p>	

Activities with Milestones	
<p>2.9 Complete installation of the CIB within 10 months of loan effectiveness.</p> <p>2.10 MMA to recruit consultants to prepare a feasibility study, legal and regulatory frameworks as well as a master plan for the central moveable asset registry within 18 months of loan effectiveness.</p> <p>2.11 Prepare workshops with the training experts to disseminate the lessons from CIB implementation within 24 months of loan effectiveness.</p>	
<p>3. Capacity building for PPP</p>	
<p>3.1 Establish PPP cell in EDU within 1 month of loan effectiveness.</p>	
<p>3.2 Establish PPP project development units in ministries concerned within 6 months of loan effectiveness.</p>	
<p>3.3 Recruit consultants within 3 months of commencing loan.</p>	
<p>3.4 Set up the sectoral PPP strategy, key objectives, and assess the Maldives' PPP and related strategies, policies, and procedures within 7 months of loan effectiveness.</p>	
<p>3.5 Review policy, legal, and regulatory framework for PPP within 7 months of loan effectiveness.</p>	
<p>3.6 Formulate PPP project preparation and development financing mechanism within 8 months of loan effectiveness.</p>	
<p>3.7 The Government signs off on policy and institutional interventions and formulation of PPP policy document as well as on PPP financing mechanisms within 10 months of loan effectiveness.</p>	
<p>3.8 Select two prioritized projects for PPP and traffic/demand and technical studies to define the scope, structure, and commercialization of the Project within 13 months of loan effectiveness.</p>	
<p>3.9 Prepare feasibility and project structuring reports for identified projects within 16 months of loan effectiveness.</p>	
<p>3.10 Complete financial and risk analysis, and bankability analysis with potential foreign bidders/developers, and select project development model within 16 months of loan effectiveness.</p>	
<p>3.11 Prepare model bidding documents for two pilot projects within 17 months of loan effectiveness.</p>	
<p>3.12 The Government signs off on its obligations and objectives and transaction structure within 19 months of loan effectiveness.</p>	
<p>3.13 Prepare workshops with the training experts to disseminate the PPP policy and develop the lessons from the PPP project structure to support training arrangements to enhance the skills set of PPP from 22 months of loan effectiveness onward.</p>	

ADB = Asian Development Bank; BDS = business development services; BDSC = business development services center; BML = Bank of Maldives; CIB = credit information bureau; CMAR = central moveable asset registry; CSF = cost-sharing facility; EDU = Enterprise Development Unit; IA = implementing agency; LCF = line of credit facility; MEDT = Ministry of Economic Development and Trade; MMA = Maldives Monetary Authority; MNCCI = Maldives National Chamber of Commerce and Industry; MOFT = Ministry of Finance and Treasury; MSME = micro-, small-, and medium enterprises; PMU = project management unit; PPP = public-private partnership; PSDP = Private Sector Development Project; PSC = project steering committee; TA = technical assistance; WEC = Women Entrepreneurs Council.

SUMMARY SECTOR AND SUBSECTOR ANALYSIS

A. Small Island Economy

1. **Special Challenges.** The Maldives, a small island economy, comprises 20 natural atolls with a total land mass of less than 300 square kilometers (km²) spread over 900 km². The Maldives has a number of economic disadvantages similar to other small island economies that undermine the country's international competitiveness. In small economies like the Maldives, the percentage deviation of costs from a medium-sized economy are more than 70% for sea freight, nearly 50% for electricity and telephone service, and more than 30% for unskilled labor and fuel. In sectors like tourism¹, these high costs translate into a 60% overall increase in the cost of tourism, which can be passed onto the high-end tourism consumer, but are not readily transferable to products like handicrafts, agro-industrial products, and manufactured goods that compete in fairly homogeneous international product markets. From a policy perspective, this does not suggest the need for protection against the rest of the world, but rather proactive policies that seek to overcome or partially compensate for the economic disadvantages associated with the high production and trading costs.

2. **Economic Growth.** Despite its intrinsic competitive disadvantages, the Maldives is one of the fastest growing economies in South Asia. Two sectors, tourism and fisheries, have been the driving forces behind the expansion of gross domestic product (GDP) and employment generation, and have created linkages to other subsectors like local handicrafts, and tourism. In 2006, the sharp rise in real GDP reflected a resumption of growth following the devastation that occurred throughout the country as a result of the 2004 tsunami. The recovery has been largely driven by tourism and brings the country back to its steady-state growth path of around 6% a year.²

3. **Regional Growth Inequalities.** The benefits of the country's high economic growth rates in the past 10 years have not been equitably distributed to the population. Average household income in the atolls is 55% of that in Malé.³ Decentralization of economic activity has been undermined by lack of infrastructure, a poorly developed interisland transportation system, financial system constraints to credit for businesses, and legal and regulatory barriers. Greater opportunities for people living in Malé have produced a fourfold population expansion in the past 20 years, and Malé now has a population density that is among the highest in the world, a situation made all the more severe by the recent tsunami.

B. Major Constraints

4. Several areas of the Maldives regulatory environment rank fairly high in affecting the ease of doing business, but the country's comparative position recently declined because of increased burdens in several areas that especially impact micro-, small- and medium-sized enterprises (MSMEs). Downgrading has occurred in (i) ease of employing workers, (ii) starting a business, (iii) protection of investors, (iv) contract enforcement, (v) trading across borders, and (vi) ease of closing a business. In other business regulatory environments, the country's comparative ranking has not changed from a year earlier, that is, no comparative improvement in the business regulatory environment has been made.

¹ In addition to 1,190 inhabited islands, 87 islands are designated and developed as tourist resorts, with an additional 11 islands currently being set aside for development.

² For more details, see Supplementary Appendix A (Sector and Subsector Analysis).

³ Ministry of Planning, Republic of the Maldives. 2004. 2002–2003 Household Income and Expenditure Survey. Male.

5. **Internal Constraints.** The ADB provided project preparatory technical assistance that surveyed business conditions and perceptions by MSMEs in three key regions of the Maldives.⁴ The principal concerns of enterprises in the northern and southern regions include lack of technically skilled labor and management, accounting skills, and market information. Availability of skilled labor is the only major problem for enterprises in the northern region, while in the southern region, it ranks below all but cost of capital. Constraints related to capital and labor costs are low in both regions.

6. **External Constraints.** Enterprises in the atolls rank labor issues high and perceive foreign competition to be a threat to their operations. They identify bureaucratic and administrative costs related to fees, licensing costs, and permits; and customs and trade regulations as major constraints. Among factors having a negligible constraint on the enterprises are utility costs; cost and access to finance; and access to land, utilities, and transport facilities. Few enterprises actually consider using external financial sources. Similarly, land and transport services, normally considered to be important constraints, are not ranked as major constraints to these businesses because they tend to operate within existing circumstances and have limited expectations about changes in their operating environment. In contrast, MSMEs operating principally in Malé report limited access to, and cost of, finance.

7. **Skills Deficiencies.** According to the 7th National Development Plan (NDP), the Maldives has one of the lowest labor force participation rates in South Asia (47.7%). One problem is the lack of appropriate skills needed for existing employment opportunities. Educational and vocational institutions have not inculcated enterprise as a career option or provided appropriate business orientation and support skills. Despite some improvement, lack of skilled labor continues to be a major problem, and has created reliance on migrant labor from neighboring countries.

8. **Access to Financing.** The Maldives ranks 132nd worldwide on the comparative ease of getting credit; this is well below most other South Asian countries. The poor ranking is largely due to the complete absence of a public or private credit registry to facilitate the exchange of credit information among lenders. As a result, using a changing pool of assets as security for a loan is not practical. This makes security agreements for MSMEs highly risky, costly, and difficult to enforce. Moreover, the financial sector of the Maldives is narrow with one locally owned commercial bank, Bank of Maldives (BML); branches of three South Asian commercial banks; and a branch of Hongkong and Shanghai Banking Corporation (HSBC) international bank. Banking is regulated by Maldives Monetary Authority (MMA), which acts as the central bank. The nonbank financial subsector comprises a government provident fund, a finance leasing company, a housing bank, two insurance companies registered in the country, and some agents for overseas insurance companies. Capital market operations for securities trading are limited. Three state-owned enterprises are quoted on the stock exchange (BML, Maldivian Transport and Construction Company, and State Trading Organization).

⁴ A survey was conducted on the ADB TA 4745 on Small and Medium Enterprise Development in 2007. More details on findings based on strengths, weaknesses, opportunities, and threats (SWOT) analysis of the enterprises in the northern, southern, and south-central regions of the country, and other information on sector analysis are provided in Supplementary Appendix A.

EXTERNAL ASSISTANCE

Table A3.1: External Assistance in Capacity Building and MSME Development

Financier	Program (Board approval)	Amount	Key Components of the Project	Lessons
Asian Development Bank TA3496-MLD	Capacity Building for the Maldives Customs Service (5 September 2000)	\$700,000	Strengthen customs service's capacity to successfully adopt and apply the World Trade Organization valuation rules in 2000–2001, and to enhance its transparency and accountability to (i) improve customs administration functions; (ii) develop a supportive legal framework; and (iii) establish a valuation database and price analysis tool.	(i) Stakeholders' ownership of a project is secured by involving them at early stages of the project. (ii) Considerable delays in implementing legislative reform were experienced as the Ministry of Trade and Industry was involved in the TA from its inception. (iii) Adequate interdepartmental dialogue is required between major stakeholders including implementing and executing agencies throughout project implementation.
Asian Development Bank TA4261-MLD	Capacity Building for Regional Development (16 December 2003)	\$350,000	Improve environmental and land management using a community-based approach supporting regional development objectives and living standards.	While TA delivery is considered highly satisfactory, sustainability aspects could not be secured during implementation. Output sustainability requires high coordination among key government agencies.
Asian Development Bank Loan 2028-MLD	Employment Skills Training Project (2 December 2003)	\$6.0 million	(i) Provide youth with employment-oriented skills training; (ii) Increase capacity to design, develop, and deliver employment-oriented skills training; (iii) Improve public perception of training and employment in locally available skills-oriented occupations; and (iv) Strengthen labor administration and labor market analysis.	(i) To avoid a mismatch of education and training with the needs of the community, a mechanism must be established to encourage participatory input from major stakeholders during the planning stage. (ii) To ensure employability of trainees, designing of practical and sustainable training program needs will need to be highlighted. (iii) The Government needs to facilitate skills training and provide financing for the socially disadvantaged. (iv) Implementation capacity of ministries concerned should be enhanced through the provision of long-term training.
International Fund for Agricultural Development	Atolls Credit and Development Banking Project	\$600,000	(i) Build up Bank of Maldives (BML) as a development finance institution and help widen its geographic coverage to provide services to outer atolls populations.	A high recovery rate was obtained under both systems (i.e., about 90%) because of the (i) graduation principle built into the lending policy and procedure; (ii) the loan size, determined by economic

Financier	Program (Board approval)	Amount	Key Components of the Project	Lessons
			<ul style="list-style-type: none"> (ii) Establish foundations of development banking and develop credit delivery capability in the outer atolls. (iii) Reduce income disparities between the outer atolls and Malé by increasing employment opportunities. 	<ul style="list-style-type: none"> activities, as well as trustworthiness of the client; (iii) the incentive mechanism provided the prospect of receiving a new and possibly larger loan once the earlier one was repaid, and with a longer repayment period; (iv) rigorous credit recovery procedures; and (v) sanctions in the form of restrictions on further borrowing and legal actions resulting in auction of assets for failure to repay.
International Fund for Agricultural Development	Southern Atolls Development Project	\$880,000	<ul style="list-style-type: none"> (i) Create income generation and employment opportunities for men and women. (ii) Expand banking facilities to the southern atolls on a sustainable basis. (iii) Improve basic facilities in the region 	<ul style="list-style-type: none"> (i) Proposed baseline survey to accurately identify that the target/vulnerable group was never implemented. (ii) Plans for using a group approach to credit/savings failed; group lending would need to be encouraged by BML's Development Banking Cell. (iii) BML failed to implement training and advisory assistance to the target groups.
United Nations Development Programme	Atolls Development for Sustainable Livelihoods II	\$1.7 million	<ul style="list-style-type: none"> (i) Enhance and reform planning efforts at the island level to incorporate community perspectives, reflecting a sustainable ecosystem management approach. (ii) Ensure local development planning reflects that national development directions are used in the national budget planning process. (iii) Increase access of island communities to finance for income-generating activities and community infrastructure. 	<ul style="list-style-type: none"> (i) Local governance. Awareness is lacking about the avenues for participating in local planning and decision-making (relating to both the island development committees and women's development committees). (ii) Gender. Women have been given less emphasis in the development process and their control of resources has been inadequate. (iii) Microfinance. Concerns are for high interest rates, difficulties in arranging collateral for loans, and inadequate payment periods/maturity of loans. The main factor hindering the financially disadvantaged and women to utilize bank credit relates to their lack of confidence and general lack of awareness.

Financier	Program (Board approval)	Amount	Key Components of the Project	Lessons
World Bank	Education and Training Project (1995)	\$8.2 million	<ul style="list-style-type: none"> (i) Upgrade quality of upper secondary education at the education center through the provision of fellowships, equipment. (ii) Finance a national scholarship program for more overseas training fellowships. (iii) Provide financing experts to strengthen the planning capacity of the Ministry of Education. 	<ul style="list-style-type: none"> (i) Government commitment is critical for successful implementation. This lesson has been repeated often, yet this commitment was particularly important for the success of these projects; (ii) In small countries, projects often have components involving multiple ministries. These can be successfully implemented when stakeholders are strongly committed to reform and when there is political and administrative commitment to achieving high-quality standards. (iii) An increase in the supply of teachers is not automatically related to the provision of suitable education. The social and economic challenges of the profession make it attractive to fewer people than countries often need. Suitable incentives are needed to create a pool of qualified and effective teachers.
	Second Education and Training Project (2000)	\$13.0 million	<ul style="list-style-type: none"> (i) Improve primary and secondary education quality and provide better opportunities for the poor and the atolls. (ii) Upgrade atoll primary teachers and staff at health and vocational institutions. (iii) Increase fellowship training opportunities. 	
World Bank	Proposed Mobile Phone Banking Project (2008, second quarter)	\$6.8 million	Provide an automated banking and payment system through mobile phones leading to reduced transaction cost.	

BML = Bank of Maldives; TA = technical assistance.

Sources: Asian Development Bank (ADB), International Fund for Agricultural Development (IFAD), United Nation Development Programme (UNDP), and World Bank.

Table A3.2: External Assistance in Legal, Public Management, Trade, and Investment

Program	ADB	Other Development Partners
Justice Reform	To work with the Government to develop a more appropriate framework of commercial law	UNDP and other United Nations agencies continue to help the Government harmonize the legal framework with international standards, increase access to justice for all, and increase the capacity of the justice system.
Transparency and Accountability	To focus under the assistance framework for supporting economic management and public policy	<p>The World Bank continues to manage European Union-funded activity to develop and implement a public accounting system, as well as Institutional Development Fund grants for strengthening procurement capacity.</p> <p>UNDP and other United Nations agencies propose to provide assistance to the Anticorruption Board, Public Complaints Bureau, and Audit Office.</p> <p>A variety of regional and European governments are providing assistance to develop the media and increase public awareness.</p>
Trade and Investment	<p>To reduce constraints to the creation and expansion of MSMEs; and increase access to finance for small businesses and private borrowers</p> <p>To deepen financial markets, the ADB (Private Sector Operations Department) provided assistance to the Maldives Leasing Development Co. in 2007 and is examining a proposal to strengthen the mortgage market by providing support for the Housing Development Finance Co.</p>	<p>UNDP, IFAD, and Food and Agriculture Organization propose to work in the atolls to promote job creation with a particular emphasis on creating opportunities for women and youth.</p> <p>World Bank and ADB are providing financing and credit for state-owned enterprises, through their tsunami reconstruction activities.</p> <p>International Finance Corporation has provided loans for (i) the development of tourist resorts, and support of local shipping operations. It is providing equity participation and TA to a leasing company, (ii) TA to BML, and (iii) TA to Housing Development Finance Co. in preparation for possible privatization.</p> <p>Islamic Development Bank has provided a Trade Financing Facility to the Maldives Transport and Contracting Company, Maldives Industrial Fisheries Company Limited, and State Trading Organization.</p>

ADB = Asian Development Bank; BML = Bank of Maldives; IFAD = International Fund for Agricultural Development; MSME = micro-, small-, and medium-sized enterprise; UNDP = United Nations Development Programme; TA = technical assistance.

Sources: Asian Development Bank (ADB), International Fund for Agricultural Development (IFAD), United Nation Development Programme (UNDP), and World Bank.

**PRIVATE SECTOR DEVELOPMENT PROJECT COMPONENTS IN SUPPORTING
THE 7TH NATIONAL DEVELOPMENT PLAN**

Guiding Principles: Enable private and civil society participation	
The Government's development priorities	Proposed components under the Project
Create an enabling environment for the private sector to play an increasing role in the development of the Maldives. The environment should be market-based and actively promote competition, innovation, and resilient PPPs (p. 2).	PPP component of assisting the Government (i) in preparing, developing, and bidding out two pilot projects on a PPP basis, and (ii) in developing an enabling policy, institutional, and financial framework for attracting private sector in infrastructure projects.
Goal 2 of the 7th NDP: Enhance trade, support businesses, and build competitive industries	
The Government's development priorities	Proposed components under the Project
Introduce PSD programs for MSMEs by providing technical assistance to start-up enterprises (p. 52).	Establish BDSCs and CSF, which will provide start-up and established MSMEs with technical assistance and training. Enhance access to finance (LCF, CIB, capacity building).
Facilitate the establishment and growth of MSMEs through providing access to business support services. Encourage technology transfer, innovation and creativity for business (p. 52).	In addition to the operation of the BDSCs and CSF, provide capacity building training to leading private sector association by linking MSMEs with available markets and providing upgraded consultancy.
Develop guidelines to strengthen institutional capacity, staff training, and productivity (p. 51).	Provide capacity building to the public sector policy maker to improve design and implementation of the Project.
Increase human resource capacity to support sector development and diversification in fisheries and agriculture (p. 60 and 63).	Fisheries and agriculture are targeted areas where capacity building and training will be provided under the BDSCs and CSF mechanism.
Goal 3 of the 7th NDP: Invest in strategic and state of the art infrastructure to enable ease of movement, enhanced access to services, and the building of competitive advantage	
The Government's development priorities	Proposed components under Project
Enable access to finance for private and public enterprises to establish inter- and intra-atoll ferry services to ensure that the transport system meets the mobility needs of the people and facilitates efficient movement of goods (p. 78–79).	PPP component aims to develop and bid out PPP projects such as regular and reliable ferry transport services within atolls and between key growth centers across key atolls, which will combine the development of local transportation and logistics supply chain (warehousing, cold storages, and other distribution networks).
Introduce and demonstrate sustainable solar and wind energy applications, and facilitate/promote the role of private sector in the development of the energy sector (pp. 94–95).	In addition to transport services, the PPP component aims to develop and bid out PPP projects relating to renewable energy sources.

BDSC = business development services center; CSF = cost-sharing facility; LCF = line of credit facility; MSME = micro-, small, and medium-sized enterprise; NDP = national development plan; PPP = public-private partnership; PSD = private sector development.

Sources: Asian Development Bank (ADB) and the Republic of the Maldives.

BUSINESS DEVELOPMENT SERVICE CENTERS AND COST-SHARING FACILITY

A. Business Development Services Centers (BDSCs) in Target Regions

1. **Strategy and Organization.** Field research conducted for the Project shows that the economic activities of micro-, small-, and medium-sized enterprises (MSMEs) in the atolls are limited. Two of the major obstacles are (i) limited access to all types of business development services (BDS) like information, marketing services, communication, and training; and (ii) inability to access finance at reasonable costs. On the supply side, the atolls have no private sector-based providers of BDS, and only a few public sector providers through trainings on a nonregular basis. On the demand side, MSMEs are unaware of the concept of professional support for enterprise development, despite their urgent need for it. The current market volume of BDS is nonexistent, as all services from public providers are delivered free of cost. In the absence of private sector BDS providers in the regions, as well as business membership organizations like chambers of commerce or business associations, business development service centers (BDSCs) will be established as new institutions in each of the focal regions to deliver BDS to MSMEs and to facilitate local economic development.

2. **Functions.** The BDSCs will be the principal vehicle for delivery of BDS products to MSMEs and will facilitate cluster development in the atolls. Each focal region will have a BDSC operation desk in its key atoll; a central BDSC at Malé will offer a wide range of services to MSMEs and cooperative initiatives at cost-based prices. As neither start-ups nor established MSMEs have been exposed to the concept of professional, and demand-oriented delivery of BDS at market prices, they are unprepared to pay the cost-based price for such services. A cost-sharing facility (CSF) will be established as the principal funding mechanism for the development of a commercial BDS market. The CSF will enable the BDSCs to initially offer services at a low and subsidized price. It will support the BDSCs in developing service products and provide substantial income to the BDSCs during the pilot operation of the CSF. The BDSCs will have a business plan indicating core activities, required investment, and planned revenue streams. They will develop a clear strategy comprising a vision, mission, goals, and line of activities, as well as an annual operating plan.

3. **Objectives and Services to Be Provided.** The BDSCs will have three objectives: (i) to provide BDS products to start-ups and established MSMEs; (ii) to facilitate local economic development and cluster development in their respective regions; and (iii) to link start-ups and other types of MSMEs to financing opportunities. To meet its objectives, the BDSCs will offer a wide range of services classified in four categories: (i) consulting services for business planning and business counseling, identification and provision of information, and coaching; (ii) training services on costing and pricing, marketing and sales, accounting, and entrepreneurship; (iii) services for facilitating market access, access to finance, and formation of cooperatives; and (iv) government-related services covering support for business registration and licensing, linking to government databases and to government extension services. To sustain its pilot operation of the CSF, the BDSCs are envisaged to become independent and market-oriented service providers with development and commercial objectives.

4. **Staffing.** The project management unit (PMU) within the Enterprise Development Unit (EDU) will be the overall coordinating body for the BDSCs. It will disseminate information, and monitor and evaluate BDSC services. The project coordinators of the PMU will be recruited on an international contract and work for 24 person-months intermittently for the duration of the Project. The project coordinator will be supported by one national MSME portal and communication specialist, and one national monitoring and evaluation specialist who will also

work for the duration of the Project. The PMU will share EDU administrative and support staff during the pilot phase.

5. The central BDSC will be housed within EDU and comprise one BDS officer in the pilot phase, and need-based consultants. It will share administrative and support staff already present within EDU during the pilot phase. The BDSC operation desks at Hithadhoo and Kulhudhuffushi will be housed within the regional development and management offices. They will each comprise one full-time nationally recruited business development officer for the duration of the Project. One administrative staff and one support staff will be deputed from among existing staff of the regional development and management offices to these operation desks to work on a full-time basis.

6. The Project will provide capacity development support to EDU by financing the cost of the project coordinator, MSME portal and communications specialist, monitoring and evaluation specialist, and administrative staff. In addition, training programs will be conducted for regular EDU staff in marketing, financing, and communication skills. The Project will support EDU in designing and implementing a media campaign, and developing and registering an EDU web portal.

7. The Maldives National Chamber of Commerce and Industries (MNCCI) and the Women Entrepreneurs Council (WEC) will supporting the operation of the BDSCs by providing linkages with available markets and consulting service. The Project will support MNCCI in its strategic planning process, including the elaboration of an operations plan and a human resource development plan, as well as training recruited professional staff. WEC needs a secretariat with suitably qualified staff to undertake quality control, inventory management, marketing, and website maintenance. The Project will support the capacity building of WEC to undertake such activities more efficiently and provide extension services to the BDSCs.

8. **Monitoring and Evaluation on Performance Measurement.** The BDSCs will establish a performance measurement framework as a systematic tool for measuring operating results related to the centers' activities, including CSF-based financial support to entrepreneurs. Among the information gathered by the centers and published on a quarterly basis will be the (i) number of businesses consulted; (ii) number of business plans prepared; (iii) number of financial applications processed for each of the financing mechanisms supported by the BDSCs; (iv) breakdown of clientele by sector and size of enterprises; (v) number of courses provided and participants in each course; (vi) participant evaluations of each training course; (vii) revenue from conditional support for successful applications to various financing mechanisms; (viii) other revenue sources; and (ix) CSF management, allocation, and monitoring analysis. Each BDSC (central and local operation desks) will be responsible for establishing a results-based management and accountability framework.

B. Cost-Sharing Facility on a Pilot Basis

9. **Institutional Setup of a CSF.** A CSF will be set up within the central BDSC. The central BDSC will act as the CSF management unit, headed by an international consultant. It will be responsible for project analysis, dissemination of information, marketing, financial management, monitoring and evaluation, and coordination with EDU and other government stakeholders.

10. **Principle of Services.** The BDSCs will offer a wide range of services to MSMEs and cooperative initiatives at cost-based prices (paragraph 2). The CSF will enable the BDSCs to initially offer services at a low, and subsidized price to demonstrate value for money, and

establish successful case studies to generate demand for BDS on a market price basis in the future. Charging for services during the initial stage of the Project will ensure that only serious cases come to the BDSCs and that it is a demand-driven effort.

11. **Administration Mechanism.** The CSF PMU will work with a subcommittee for initial screening and provision of its recommendations to the project steering committee for final approval of the cost-sharing grant. The BDSCs will be accountable to the project steering committee. The subcommittee will be chaired by the project coordinator with EDU, MNCCI, and WEC each nominating one representative. A quorum of three members will be required for finalizing recommendations and taking decisions on forwarding the applications to the project steering committee. The decisions of the subcommittee will be by majority vote with the project coordinator retaining the veto right for nonapproval. The reasons for vetoing any proposal will be well documented by the project coordinator.

12. **Eligible Applicants.** The main target group for grants will be MSMEs with operations based in the northern and southern regions,¹ and with 50 employees or less. One of the prerequisites for entrepreneurs to receive CSF support will be the completion of an application submitted to the CSF subcommittee through the BDSCs. Only domestically owned MSMEs or service providers will be eligible. *Parastatals* (owned or controlled wholly or partly by the government), government entities, and other MSMEs, or service providers where the government or its agencies have management control, by virtue of being the largest shareholder or by virtue of having a board majority, will not be eligible. The CSF supports group activities covering more than one MSME or service provider, for instance, those sponsored by business or trade associations, MNCCI, WEC, or organized clusters where the benefits are widespread. Applications made on a group basis will be evaluated and processed as a single application.

13. **Size of Grant.** The CSF is to reduce the cost of external service provision by cofinancing projects of applicants with a flat rate of 80% of the total project cost. The maximum individual support under the CSF will be Rf51,200 (\$4,000), with an average of Rf25,600 (\$2,000), to assist a maximum of 200 projects during the implementation period on a pilot basis. However, large matching grants will have a maximum of Rf512,000 (\$40,000) with an average of Rf192,000 (\$15,000), to assist a maximum of 30 cooperative projects during the period.² The CSF will limit applications by applying a minimum grant amount of Rf12,800 (\$1,000) and a maximum grant amount of Rf512,000 to maintain reasonable administrative costs and ensure that the main beneficiaries are served.

14. **Eligible Services.** Clearly defined approval criteria will be prepared to support the decision-making of the CSF subcommittee and project steering committee. The application form will include information about the nature of business, the purpose of the project, details about requested support, market coverage, existing and needed equity, enterprise experience, expected employment generation, and contribution to island infrastructure. Applications from

¹ Under the 7th National Development Plan, the Government emphasizes the importance of reducing regional differentials and promoting growth and employment opportunities, particularly in the far north and far south atolls. Based on consultation with stakeholders, the Project is designed to start up its operations in these two domestic regions (southern and northern regions).

² ADB. 2005. *Technical Assistance to the Republic of the Maldives for Small and Medium Enterprise Development*. Manila (TA 4745-MLD, approved on 19 December, for \$600,000). The TA included an MSME market survey and the anticipated demand for grants, and maximum and average sizes under the CSF are calculated based on (i) the projection of total average number of MSMEs during project implementation in targeted regions, based on the latest statistics from the Ministry of Economic Development and Trade; (ii) priority sectors (fishery processing, agricultural commercialization, handicrafts, and tourism-related activities) for cooperative efforts; and (iii) information on average yearly spending and sale size of MSMEs from the MSME survey.

individuals and groups will be encouraged, especially from cooperatives or cluster-based groups. Examples of eligible services to be supported by the CSF will include training business management courses, hiring a consultant to create new handicraft designs, hiring an expert to improve the quality and efficiency of fish processing, developing new market access, and supporting the application for financing to purchase capital equipment. For each eligible service usage supported by the CSF, the concerned MSME will be expected to provide at least one deliverable. The CSF management unit will verify that the activity has taken place as approved. Depending on the circumstance, a defined deliverable may consist, for instance, of a detailed engineering drawing, a product prototype incorporating quality improvements, a training certificate, or an externally commissioned market report. Sample service usage includes in-factory consultancy and short-term contract management services, for example, up to 3 months of an introduced expert would normally be eligible, but new permanent staff appointments would not. The length of time for which temporary contract management could be supported will depend on the time required for the required knowledge transfer and technical assistance. Priority will be given for services that can eventually be easily replicated.

15. **Eligible Expenditures.** Expenditures on service fees, and travel and incidental expenses charged at cost, incurred wholly and exclusively on a CSF-approved service and travel usage will be eligible for grant support. Salaries for staff employed by the MSME and recurring costs such as royalty fees will not be eligible. No single recipient MSME or group of MSMEs will receive total grants in excess of a cumulative limit of Rf512,000 (\$40,000) unless expressly approved by the project steering committee.

16. The CSF will operate on a first come, first served basis in northern and southern region. To enhance transparency and efficiency of CSF implementation, the project coordinator will help with management of the facility during the operation period to transfer facility management skills and expertise.

LINE OF CREDIT FACILITY PILOT OPERATION

1. **Eligibility Criteria for Subloans.** The line of credit facility (LCF) will be managed by Bank of Maldives (BML) to promote micro-, small- and medium-sized enterprises (MSMEs) by providing them with financing for investment. The eligibility criteria for such financing will be (i) the MSME has 50 or fewer employees and is registered in the MSME database of the Enterprise Development Unit (EDU);¹ (ii) the MSME's activities focus on target clusters (agricultural commercialization, fishery processing, handicrafts, and tourism-related activities); (iii) the MSME's operations are based on two focus regions (northern and southern domestic regions); and (iv) the MSME has adequate cash flow or enterprise budget as well as collateral. The adequacy of cash flow, enterprise budget, and default risk assessment criteria will be well defined and agreed to at the inception of the facility by the ADB, BML, and EDU. The Government is expected to retain the right to terminate or suspend the LCF after a specific duration to be specified at the initiation of LCF.

2. **Relending.** The Government will borrow from ADB's Special Funds resources and bear the foreign exchange risk of the loan. The Ministry of Finance and Treasury (MOFT), on behalf of the Republic of the Maldives, will relend the loan to BML and enter into a subsidiary loan agreement with BML. MOFT will advance the LCF funds to BML semiannually based on the projected loan processing amount over the next 6 months. The Government has indicated that the loan term (Government to BML) will not exceed 24 years, including a 3-year grace period, with the Government retaining the right to close the LCF. The LCF loan will be disbursed over 3 years, subject to a midterm review after 18 months to review disbursement progress and refine the arrangements as needed.

3. **Onlending Loan Size and Costs.** BML will undertake an independent credit risk assessment analysis for proposals to determine if they meet the lending criteria agreed among the Government, ADB, and BML². If the credit risk assessment is satisfactory, BML will approve the subloan and execute an onlending agreement. Onlending agreements will be signed between BML and the subborrower on terms and conditions, as agreed among the Government, ADB, and BML. BML will submit a report on approved subloans and a copy of onlending agreements to MOFT. The maximum subloan size for individual applicants will be Rf1,024,000 (\$80,000) and the anticipated average subloan size is Rf512,000 (\$40,000). It is expected that BML will provide around 70 MSMEs with subloans under LCF. Any deviation will be subject to ADB's prior approval. The terms of lending will be on a commercial basis at the prevailing market rates of interest and tenor, reflecting costs of raising such funds locally and guaranteeing adequate spread of interest rates for BML to cover transaction costs and risks. The subborrower will be required to pay an upfront processing fee³ as per the current processing fee requirements being followed by BML. Subborrowers will have to provide any assets acquired with the credit line subloan as collaterals. The grace period and a maximum maturity will be decided based on the reasonable assessment of amount and maturity of credit demand by the targeted MSME at the initial stage of implementation.⁴ Implementation of the scheme will be

¹ About 1,000 MSMEs from two targeted regions are registered with the EDU MSME database.

² Development Banking Cell (DBC) within BML has experience of conducting credit analysis under other development projects provided by ADB and other donors (Please see Supplementary Appendix C: Bank of Maldives Due Diligence).

³ In the Maldives, the 'upfront processing fee' is considered to be as a 'guarantee fee.' The guarantee fee will cover the cost of application processing as well as discourage non-serious applications.

⁴ Detailed LCF onlending commercial terms and manuals are to be reviewed as part of ADB TA 4745. ADB. 2005. *Technical Assistance to the Republic of the Maldives for Small and Medium Enterprise Development*. Manila (TA 4745-MLD, approved on 19 December, for \$600,000).

based on a selective approach in which subloans are extended on a case-by-case basis. BML will lend from the LCF on less restrictive collateral requirements agreed between the Government and ADB, and incorporated in the subsidiary loan agreement between BML and the Government.

4. **Onlending Default Coverage.** To provide BML with an incentive for onlending to MSMEs in designated local atolls with less restrictive collateral, which is the core of the Project in line with the purpose of the loan under the LCF, the Government will provide BML with an 80% guarantee for defaulted subloans. BML will bear the remaining risk to ensure that BML continues to be diligent in its onlending activities. BML and the Government will agree on the length of time after which the subloan is considered to be in default; this will be documented in the relevant onlending agreement. The default rate will be a prime determinant of the scheme's viability. A default rate between 2% and 3% should be targeted; the maximum acceptable rate should be 6%.

5. **Onlending Procedures.** The business development services centers (BDSCs) will assist the subborrower in preparing the subloan applications and forward them to BML with business plans and financial requirement information submitted by or consulted with the MSME applicant. Upon receipt of these documents, BML will undertake an independent credit risk assessment analysis to determine whether it meets the lending criteria agreed among the Government, ADB, and BML. Upon completion of scrutiny, BML will decide whether to approve the subloan. If approved, BML will execute an onlending agreement with the subborrower and submit a report on approved subloans and a copy of onlending agreements to MOFT. The disbursement of the subloan will be made with reference to the BDSCs. Time limits for BML to undertake the credit risk assessment will be agreed upon at the time of finalizing the operating procedures for the LCF. EDU in coordination with the BDSCs will be responsible for encouraging use of the LCF.

6. **Proposed Pilot Operation and Targeted Subloans.** Technical assistance consultancies will be provided to BML and EDU at the initial stage of loan implementation to develop and detail LCF operating procedures. The pilot phase will focus on institutional organization and staffing, capacity development, and implementation of a pilot LCF of \$3.0 million to provide about 70 subloans. Depending on outcomes of the LCF pilot operation, the second phase will establish regular LCF operation with a further fund contribution.⁵ The first two subloans during the pilot operation will be referred to ADB for its prior monitoring and review.

⁵ The assumption is that if BML becomes competent by this period, then it will introduce a credit guarantee product in the near future. During the regular operation, the number of credit lines will be dependent on loan recoveries, any further capitalization of the fund, and acceptable leverage by BML.

Table A6: Line of Credit Facility

Item	Phase I: Pilot Operation FY2008–FY2011	Planned Phase II: Regular Operations FY2011 Onward
Fund size (\$)	3,000,000	Additional Fund ^a
Maximum subloan (Rf)	1,024,000	1,024,000
Average subloan (Rf)	512,000	512,000
Loan target(Number by the end of period)	About 70 subloans	Based on loan recoveries and available capital
Upfront fee from borrower (%)	1.5% of the subloan size	1.5% of the subloan size
Default coverage (%)	80% by the Government	Based on loan recoveries and lessons

^a A phase II project is scheduled to be processed during 2009–2010. Depending on the outcomes and recommendations of the LCF pilot operation, phase II may be designed to allocate additional funds to the LCF.

Sources: Asian Development Bank and Bank of Maldives.

7. **BML's Obligation to ADB.** BML will conduct its business in accordance with sound banking, administrative, financial, environmental, and business practices. BML will notify ADB and afford ADB adequate opportunity to comment prior to (i) selling, leasing, transferring, or otherwise disposing of any of its assets, except in the ordinary course of its business; or (ii) establishing or acquiring any subsidiary.

8. **Institutional Strengthening and Capacity Development Support to BML.** Capacity building will facilitate BML administration of the LCF. BML will provide office infrastructure and equipment to the LCF, thus ensuring that the fund capital can be fully utilized for credit line subloans. In contrast to creating a new LCF institution, its placement as a division of BML offers the following advantages: (i) the LCF can use existing facilities (BML head office and branches in outer atoll islands), and possibly draw on existing staff and institutional capacities such as secretarial support, accounting, and product advertisement; (ii) career development will be enhanced, thereby making the LCF attractive to well-qualified staff; and (iii) mutual synergies will exist between BML and the businesses, such as extending the range of collateral-based lending, based on lessons from the pilot operation.

9. Technical assistance will be provided to BML for developing and detailing the operating procedures of the LCF. An LCF manager will form an LCF desk within BML. Even though the LCF subloans are for clients in the outer atolls in the northern and southern regions, the facility will be domiciled in the head office of BML in Malé, which is geographically situated in the center of the country. Moreover, the advantages of establishing the LCF as a BML desk can best be realized if the LCF operations are located within BML's head office. Moreover, based on the experiences of the Project and the capacity built within BML, BML would be able to continue facility operations as a credit guarantee facility, a new product offering, beyond the Project period.

PROCUREMENT PLAN

A. Project Information

Country	Republic of the Maldives
Name of borrower	Republic of the Maldives
Project name	Private Sector Development Project
Loan or technical assistance reference	Tbd
Date of effectiveness	Targeted for August 2008
Amount \$ (total from all financiers):	\$7.5 million
Executing agency	Ministry of Finance and Treasury
Approval date of original procurement plan	Tbd
Approval of most recent procurement plan	Tbd
Publication for local advertisement ^a	Tbd
Period covered by this plan	2008–2011

^a General procurement notice, invitations to prequalify and bid, calls for expressions of interest.

B. Procurement Thresholds for Goods and Related Services, Works and Supply, and Installation

Procurement Methods	Thresholds
International competitiveness bidding goods	Equal to and more than \$0.5 million
National competitiveness bidding goods	Less than \$0.5 million
Shopping goods	Less than \$0.1 million

C. Procurement Thresholds for Consultants Services

Procurement Methods	Thresholds (\$)
Quality-based selection	FTP: Over \$1.0 million
	STP: Over \$0.3 million and no more than \$1.0 million
Quality- and cost-based selection	FTP: Over \$1.0 million
	STP: Over \$0.3 million and no more than \$1.0 million
Alternative methods	Individual consultant selection, direct contracting

FTP = full technical proposal, STP = simplified technical proposal.

D. List of Contract Packages in Excess of \$10,000 for Goods, Works, and Consulting Services

Contract Description	Estimated Cost (\$'000)	Procurement Method	Expected Date of Advertisement	Prior Review	Comments
Contract 1 (Component A): Consultancy and training on BDSC and capacity development	725	QCBS with STP	2008Q3	Yes	Financed by ADB
Contract 2 (Component B): Consultancy and training on CMAR, and LCF	170	Individual consultant selection	2008Q3	Yes	Financed by ADB
Contract 3 (Component B): Turnkey consultancy package including hardware and software for CIB, training as well as the first year operating cost ^a	540	QCBS with FTP	2008Q2	Yes	Financed by ADB
Contract 4 (Component C): Consultancy and training on PPP enabling framework	480	QCBS with STP	2008Q3	Yes	Financed by ADB
Contract 5 (Component C): Consultancy and training	820	QCBS with STP	2008Q3	Yes	Financed by ADB

Contract Description	Estimated Cost (\$'000)	Procurement Method	Expected Date of Advertisement	Prior Review	Comments
on developing PPP projects					
Contract 6: Procurement of computers	10	Shopping	2008Q3	Yes	Financed by ADB
Contract 7: Procurement of computers, printers, photocopiers, and other related facilities	60	Shopping	2008Q3	Yes	Financed by the Government

ADB = Asian Development Bank; BDSC = business development services center; BML = Bank of Maldives; CIB = credit information bureau; CMAR = central moveable asset registry; FTP = full technical proposal; LCF = line of credit facility; PPP = public-private partnership; QCBS = quality- and cost-based selection; STP = simplified technical proposal.

^a The credit bureau implementation and operations should require a combination of proprietary skills and experience in the areas of (i) consumer finance and banking in general, (ii) credit reporting and financial industry legislation on a local and worldwide basis, (iii) personal data security, consumer protection and other legal compliance, (iv) public relations and media coverage, crisis management, (v) data processing management, (vi) operational support of the credit bureau, (vii) documentation and training support, (viii) overall corporate managerial capabilities, (ix) information technology project management, (x) software development and maintenance, and (xi) provision of continuous evolution of solutions as technologies and business needs change. Maldives Monetary Authority (MMA) is seeking a technology partner with international experience to assist with the establishment of an "international best practice" credit bureau through this procurement bid. Against this background, the required solution should be both functionally rich and flexible and, moreover, it should be priced at a level appropriate to the scale and sophistication of the local market. The technology partner will provide training for MMA during the testing in addition to credit information registry installation and operationalization under the proof of concept. The technical specification is expected to have, as a minimum, the following features: functionality, such as user access (user identification, user log-on), inquiry access, inquiry input fields (date and time, member details, product type, value of credit sought), application security, database content, data maintenance application, and billing system.

Notes:

- (i) A fixed quality cost ratios of 80:20 will be applied to the consultancy selection.
- (ii) For procurement of goods and services to be financed by subloans, subborrowers will follow established private sector or commercial practices acceptable to ADB.

Source: Asian Development Bank estimates.

Activity	Year 1 (2008)			Year 2 (2009-10)				Year 3 (2010-11)					
	Q2*	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
Prepare workshops with the training experts to disseminate lessons from LCF implementation													
Subcomponent 2: Credit Information Bureau Registry													
Bidding process to be completed for selection of vendor for installation of CIB													
Completion of CIB Installation													
Recruit consultants to prepare feasibility study (legal/regulatory framework, etc) for CMAR													
Prepare workshops with the training experts to disseminate the lessons from CIB implementation													
Component 3: Capacity Building for PPP													
Establish PPP cell in EDU													
Establish PPP project development units in ministries													
Recruit consultants on PPP													
Training and capacity building of staff under PPP units													
Setting up sectoral PPP strategy, key objectives, and strategic expectations of the Government													
Review of policy, legal, and regulatory framework for PPP													
Formulation of PPP project preparation and development financing mechanisms													
Government sign-off on policy and institutional interventions and formulation of PPP policy document and PPP financing mechanisms													
Selection of two prioritized projects for PPP and technical studies to define the scope, commercialization of the Project, etc.													
Preparation of feasibility and project structuring reports for identified projects													
Financial and risk analysis, bankability analysis with potential foreign bidders/developers, and selection of project development model													
Preparation of bidding documents for projects													
Government sign-off on its obligations and objectives and transaction structure													
Transaction process and selection of bidders													
Prepare workshops and support training arrangements to enhance skills set of PPP													
D. Reporting													
PMU quarterly reports		X	X	X	X	X	X	X	X	X	X	X	
ADB monitoring and review missions		X		X		X		X		X			
		Note: * project preparation					continuous				Intermittent		

ADB = Asian Development Bank; BDS = business development services; BDSC = business development services center; BML = Bank of Maldives; CIB = credit information bureau; CMAR = central movable asset registry; CSF = cost-sharing facility; EDU = Enterprise Development Unit; LCF = line of credit facility; MMA = Maldives Monetary Authority; MNCCI = Maldives National Chamber of Commerce and Industry; MSME = micro-, small-, and medium-sized enterprise; PMU = project management unit; PPP = public-private partnership; TA = technical assistance; WEC = Women Entrepreneurs Council.

^a ADB. 2005. *Technical Assistance to the Republic of the Maldives for Small and Medium Enterprise Development*. Manila (TA 4745-MLD, approved on 19 December, for \$600,000).

Sources: Asian Development Bank (ADB) and Republic of the Maldives.

COST ESTIMATES AND FINANCING PLAN

Item	Component A		Component B		Component C		Total
	ADB	Govt	Subcomponent 1 ADB	Subcomponent 2 Govt	ADB	Govt	
A. Baseline Costs							
1. Consultants							
a. Remuneration and per diem							
i. International consultants	480,000		50,000		85,000		1,060,000
ii. National consultants	145,000				5,000		20,000
b. International and local travel							
i. International travel	80,000		10,000		20,000		180,000
ii. Local travel	20,000						40,000
c. Reports and communications		10,000		10,000			5,000
2. Equipment and office accommodation	10,000	20,000		20,000			20,000
3. Taxes and duties ^a		3,000		2,000		40,000	2,000
4. Training/workshop including manuals	100,000	40,000	50,000	40,000			30,000
5. Miscellaneous administration and support cost		14,000		15,000		3,500	6,500
6. Cost-sharing facility	1,000,000						
7. Line of credit facility			3,000,000				
8. Turnkey consultancy package for a credit information bureau (CIB) ^c					390,000		
9. CIB first year operating cost					150,000		
Total baseline costs (A)	1,835,000	87,000	3,110,000	87,000	650,000	43,500	1,330,000
B. Contingency^b	185,000	10,000	20,000	10,000	70,000	5,000	150,000
Total project costs (A+B)	2,020,000	97,000	3,130,000	97,000	720,000	48,500	1,480,000
Interest charges	60,000	3,000	20,000	3,000	30,000	1,500	40,000
Total costs to be financed	2,080,000	100,000	3,150,000	100,000	750,000	50,000	1,520,000
ADB	2,080,000		3,150,000		750,000		1,520,000
Government		100,000		100,000		50,000	50,000

ADB = Asian Development Bank.

^a Taxes and duties have been calculated as the amount exceeding 10% of the equipment procurement price (e.g., computers and office facilities, etc.)

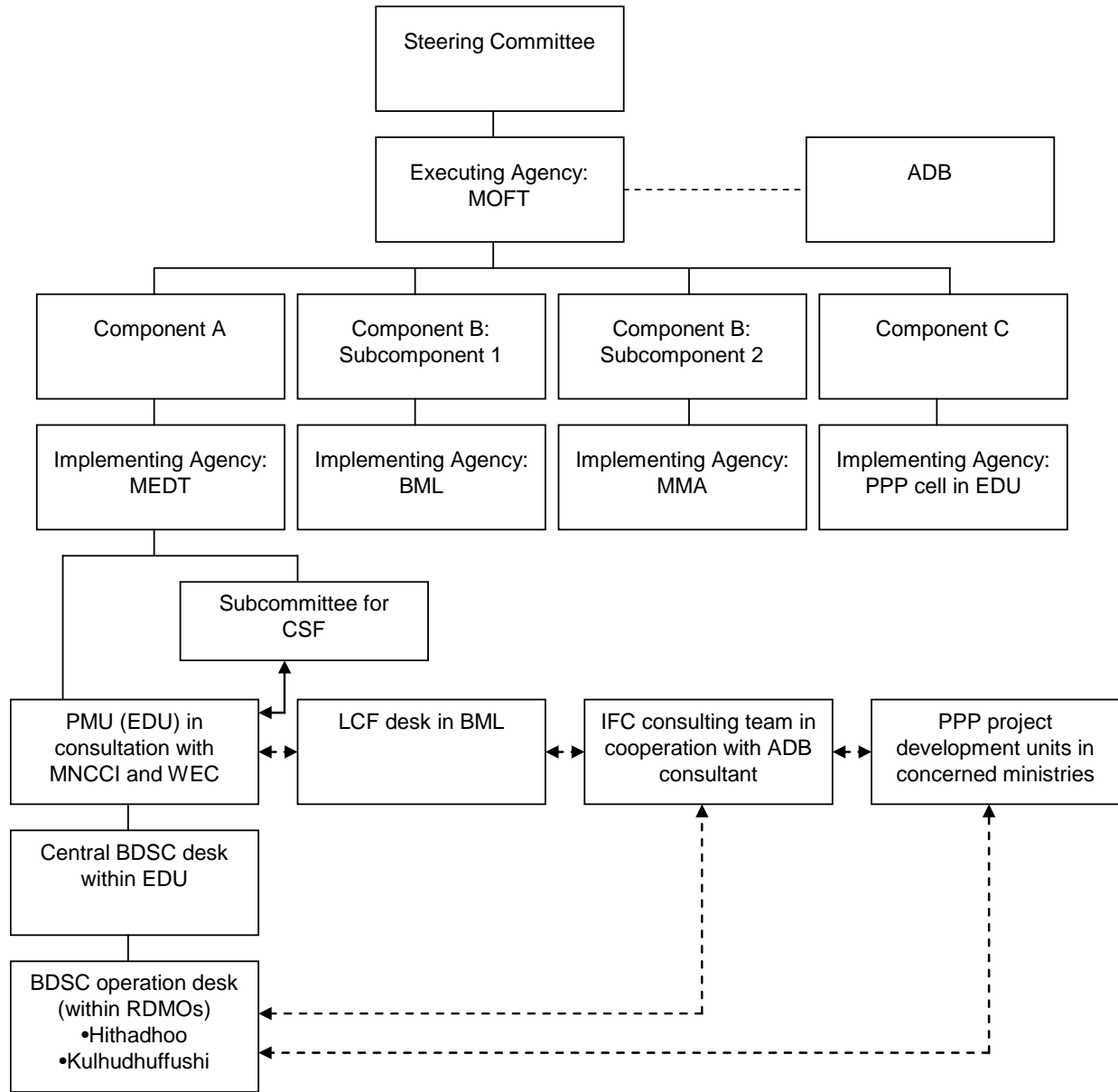
^b 10% contingency of total baseline costs. Among these, the price contingencies have been calculated pursuant to domestic cost escalation in the Maldives (4% annually).

^c Turnkey consultancy package for a credit information bureau comprises consultancy and procurement of software and hardware (provisional sum). The first year operating cost (provisional sum) of Credit Information Bureau will be also implemented as part of the turnkey consultancy package.

Note: Source of government funding is from budget allocation.

Source: Asian Development Bank estimates.

PROJECT MANAGEMENT ORGANIZATION



ADB = Asian Development Bank; BDSC = business development services center; BML = Bank of Maldives; CSF = cost-sharing facility; EDU = Enterprise Development Unit; IFC = International Finance Corporation; LCF = line of credit facility; MEDT = Ministry of Economic Development and Trade; MMA = Maldives Monetary Authority; MNCCI = Maldives National Chamber of Commerce and Industry; MOFT = Ministry of Finance and Treasury; PMU = project management unit; PPP = public-private partnership; RDMO = regional development and management officer; WEC = Women Entrepreneurs Council.

Sources: ADB and Republic of the Maldives.

SUMMARY GOVERNANCE AND CORRUPTION RISK ASSESSMENT

1. This assessment of good governance and corruption conforms with the recommendations of the Governance and Anticorruption Action Plan¹ of the ADB, which specifies that program design should incorporate findings of governance, institutional, and corruption risks assessments, and that the project documentation clearly identify risks, risk management and mitigation measures. This summary assessment covers (i) relevant issues in private sector development, (ii) relevant risk analysis, including specification of (a) underlying assumptions in the risk analysis; (b) various potential risks in the Project and parties who bears them; (c) perceived severity of the risks; (d) review of ongoing and proposed mitigation measures to address the risks; and (e) residual risks, if any; and (iii) recommendations on how the assessment findings can be incorporated in the project design.

A. Private Sector Development

2. The Government dominates the economy in the Maldives; most of the key business activities are carried out by state-owned enterprises (SOEs). The policy environment has not been conducive to the development of the private sector. Government ownership, whether full or partial, is still widespread in every sector except tourism. In addition, the Government has had little experiences with PPP through build-own-operate and build-own-operate-transfer mechanisms. The share of the gross domestic product (GDP) absorbed by government output increased from 8.4% of GDP in 1984 to 12.4% in 2004, as civil service employment increased fivefold in 20 years.

3. SOEs play an important role in the economy given that most large enterprises are in the public sector. They currently dominate almost all significant sectors (such as civil aviation, financial services, fisheries, public utilities, and telecommunications). Concerns about the limited capacity of the private sector, possibility of private monopolies due to the small size of the domestic market, and the desire to benefit potential scale economies in production have been among the factors that explain the Maldives' sizable SOE sector.

4. The Government recently indicated its full commitment to SOE restructuring and privatization. This comes as the Government increasingly recognizes that with increased participation of the private sector in the economy, the rationale for retaining public ownership of companies is weakening. Moreover, recommended business profit tax would provide a replacement for the dividends currently being received from profit-making SOEs.

5. While the foundations or architecture for implementing a privatization strategy need to be established, the Government has adopted a parallel course of action to move forward with the privatization agenda. This comprises developing the foundations for privatization while simultaneously privatizing priority SOEs and other actions such as divesting shares of the Housing Finance Corporation to multilateral financial institutions. This is to be followed by the adoption of a privatization law. The Public Enterprise Monitoring and Evaluation Board will simultaneously require upgrading to become the nodal agency in the Government responsible for implementing SOE privatization and restructuring. The board currently has five staff; the Government will need to strengthen its capacity.

¹ ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

B. Risks, Risk Severity, and Mitigation Measures

6. This discussion on risks and risk mitigation analyzes (i) potential risks to ADB and the Government in the proposed Project, and (ii) risks within the context of the Government's own strategy for sector development, including institutional development and anticorruption.

7. **Underlying Assumptions.** The main underlying assumptions made in this risk analysis are that (i) consensus is considerable on the need for reforms to address structural constraints, and the Government will continue political and economic reforms; (ii) the Government must urgently strengthen the private sector if the country is to increase its growth rate; and (iii) effective institutional building in key institutions will proceed as currently planned.

8. **Risk Specification.** Analysis of sector developments identifies three categories of risks (Table A11.1).

Table A11.1: Risk Specification

Category of Risk	Description
Policy- and legislation-related	<ul style="list-style-type: none"> • Weak government commitment to instituting needed sector reforms • No clear privatization policy of government • Weak government policy on PPP • Government action inconsistent with project goals, such as on PPP • Capacity development plans not fully implemented • Interagency coordination lacking • Delays in legal framework in setting up CIB and PPP policy
Capability-related	<ul style="list-style-type: none"> • Capacity constraints in project implementing and executing agencies • Regional BDSC not managed properly • Weak sustainability of capacity development efforts
Project management-related	<ul style="list-style-type: none"> • Political influence in access to finance through the LCF • Complex project implementing and executing arrangements • Misuse of the LCF • Credit information used maliciously • Weak engagement of participants (business associations, and BML) • Criteria for credit eligibility not fully adhered to or very rigorous • Transaction costs of project in excess of perceived benefits • Project beneficiaries not able to meet project expectations

BDSC = business development services center; CIB = credit information bureau; LCF = line of credit facility; MSME = micro-, small-, and medium-sized enterprise; PPP = public-private partnership.
Sources: Asian Development Bank (ADB) and Republic of the Maldives

9. Other risks that cannot be controlled for (either wholly or partially) include (i) internal stability in the Maldives may be disturbed thus impacting systemic reforms; and (ii) the current democratization process may not evolve smoothly thus contributing to destabilizing tendencies.

10. **Risk Severity.** Figure A11 shows the degree of severity of these and other risks. Note that type I are the most severe, followed by types II and III.

Figure A11: Risk Severity Matrix

		Impact (I)				
		5	4	3	2	1
		Very High	High	Moderate	Low	Very Low
Likelihood of event occurring (L)	5 Very likely	<ul style="list-style-type: none"> Capacity constraints in project implementing and executing agencies 	Type I	Type II		Type III
	4 Likely					
	3 Moderately likely	<ul style="list-style-type: none"> Weak Government commitment to instituting needed larger sector reforms Weak engagement of participants (business associations, BML) 	<ul style="list-style-type: none"> Weak sustainability of capacity development efforts in the Project Government action inconsistent with project goals, such as on PPP Weak government policy on PPP Transaction costs of Project in excess of perceived benefits Capacity development plans not fully implemented 	<ul style="list-style-type: none"> Delays in legal framework in setting up CIB registry, PPP policy Potential beneficiaries not able to meet project expectations Political influence in access to finance through the LCF Misuse of the LCF 	Type IV	
	2 Unlikely		<ul style="list-style-type: none"> No clear privatization policy of the Government Criteria for credit eligibility not fully adhered to or very rigorous 	<ul style="list-style-type: none"> Credit information used maliciously 		
	1 Rare					

BDSC = business development services center; CIB = credit information bureau; LCF = line of credit facility; MSME = micro-, small-, and medium-sized enterprise; PPP = public-private partnership. Sources: Asian Development Bank (ADB) and Republic of the Maldives.

C. Ongoing and Proposed Mitigation Measures, and Residual Risks

11. Table A11.2 discusses the ongoing and proposed mitigating measures to account for the risks of type I, type II and type III.² It also details any residual risks in the sector.

² For more details on the risk analysis of these types, see Supplementary Appendix D.

Table A11.2: Risk Mitigation Measures Matrix

Risk Specification	Ongoing Mitigation Measures	Proposed Mitigating Measures	Residual Risks, if any
Capacity constraints in project implementing and executing agencies	<ul style="list-style-type: none"> • Institutional strengthening through the Government's own support and from development partners • Using contract (temporary) expertise wherever needed 	<ul style="list-style-type: none"> • Provide capacity building support to these agencies. 	<ul style="list-style-type: none"> • Capacity building efforts may not be sustained at the end of the development partner support • Capacity building efforts will take time, and together with continued dearth of skilled expertise in-country, this will mean that the residual risk of low capability will remain for some time more
Weak government commitment to instituting needed sector reforms	<ul style="list-style-type: none"> • Commitment to political reforms is evident but strong commitment to economic reforms is not yet evident 	<ul style="list-style-type: none"> • Make commitment to economic reforms explicit through, for example, appropriate budget statements. 	—
Weak sustainability of capacity development efforts in the Project	<ul style="list-style-type: none"> • Government commitment to continue with assistance once the Project has ended 	<ul style="list-style-type: none"> • Lock in the Government commitment (such as through assurances in the Project). 	<ul style="list-style-type: none"> • The Government can always go back on its commitment, thus retaining the risks
Government action inconsistent with project goals	<ul style="list-style-type: none"> • Government is currently committed to achieving the project goals 	<ul style="list-style-type: none"> • Consistently liaise with the Government to ensure that proper focus is maintained. • Make the project assurances more rigorous, and monitor their adherence. 	<ul style="list-style-type: none"> • Future changes in the project context, or other situations, may warrant the Government engaging in action that may run counter to project goals
Complex project implementing and executing arrangements		<ul style="list-style-type: none"> • Endeavor to reduce the number of implementing agencies to the minimum. • Ensure that relevant TORs are rigorously designed, and adherence to them is monitored. 	<ul style="list-style-type: none"> • Changes in project design in the future may warrant complex implementing arrangements
Transaction costs of the Project in excess of perceived benefits		<ul style="list-style-type: none"> • Endeavor to reduce the number of implementing agencies to the minimum. • Ensure that relevant TORs are rigorously designed, and adherence to them is monitored. 	<ul style="list-style-type: none"> • Given the range of project interventions, the complexity will likely remain, thus compromising the benefits from the Project

Risk Specification	Ongoing Mitigation Measures	Proposed Mitigating Measures	Residual Risks, if any
Weak engagement of participants	<ul style="list-style-type: none"> • EDU, MNCCI, and others playing an advocacy role 	<ul style="list-style-type: none"> • Engage regional associations and BDSCs to encourage greater participation in the Project. 	<ul style="list-style-type: none"> • Some actors, such as BML, may lose interest in the Project if they do not see gains from participating
Weak government policy on PPP		<ul style="list-style-type: none"> • Support necessary measures to develop and strengthen PPP policy. 	<ul style="list-style-type: none"> • PPP require more than just a policy; other risks (such as interest from the private sector) could jeopardize PPP implementation
Capacity development plans not fully implemented	<ul style="list-style-type: none"> • Participating agencies have made a commitment to support capacity development actions 	<ul style="list-style-type: none"> • Engage in active monitoring and lobbying to ensure that stipulated plans are implemented on time and in the manner specified. 	<ul style="list-style-type: none"> • Resource constraints in the Government may jeopardize full implementation
Political influence in access to credit		<ul style="list-style-type: none"> • Adhere strictly to established criteria. • Make all stakeholders aware of criteria. • Bring pertinent cases to the project steering committee (PSC) for review. 	<ul style="list-style-type: none"> • While this may not necessarily be a problem at the central level, some cases of influence are likely in the atolls
Misuse in the LCF	—	<ul style="list-style-type: none"> • Develop stringent criteria for LCF usage in the Project. • Ensure aggressive monitoring by the Project and the PSC. 	<ul style="list-style-type: none"> • The risks are not substantial, but without proper monitoring mechanisms, this situation could materialize
Interagency coordination lacking	<ul style="list-style-type: none"> • Existing government processes seek to enhance coordination 	<ul style="list-style-type: none"> • The PSC will need to be vigilant to ensure that coordination takes place on a regular basis. 	<ul style="list-style-type: none"> • Given the large numbers of participants in the Project, a danger is that this coordination will not always be present
Regional BDSC not managed properly	—	<ul style="list-style-type: none"> • The Project will provide technical assistance to ensure proper management. • MNCCI could be requested to encourage maximum cooperation from its members in the regions. 	<ul style="list-style-type: none"> • The current state of the BDS is rather poor; even the TA support may not be adequate; moreover, there is a danger that the post-TA situation may worsen

BDSC = business development services center, BML = Bank of Maldives, EDU = enterprise development unit, LCF = line of credit facility, MNCCI = Maldives National Chamber of Commerce and Industry, PPP = public-private partnership, TA = technical assistance, TOR = terms of reference.

Sources: Asian Development Bank (ADB) and Republic of the Maldives

D. Recommendations

12. Given this analyses, recommendations to strengthen the design of the Project include

- (i) drawing from this risk analysis, incorporating several provisions on good governance and anticorruption as loan assurances and/or conditions;
- (ii) revising relevant documentation (Report and Recommendation of the President to the Board of Directors) for the Project in line with this assessment;
- (iii) reviewing the risk analysis with the Government and other partners, as necessary;
- (iv) revisiting the risk assessment at a suitable opportunity during the loan period to assess whether conditions are more or less favorable for effective loan implementation; and
- (v) encouraging the Government to buy in to the governance assessment during project formulation and to agree on a set of planned activities that addresses the specified and residual risks in the Project.

SUMMARY INITIAL POVERTY AND SOCIAL SECTOR ANALYSIS

Country/Project Title: Private Sector Development Project

Lending/Financing Modality:	Project loan	Department/ Division:	South Asian Department/ Governance, Finance, and Trade Division
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I. POVERTY ANALYSIS AND STRATEGY

A. Linkages to the National Poverty Reduction Strategy and Country Partnership Strategy

The Project encourages market-based strategies and actively promotes competition, innovation, and resilient PPPs. To foster greater private sector participation in line with the 7th National Development Plan, the Project envisages the Government and the private sector working as partners to improve corporate governance and transparency, and maximizes the potential of PPPs with a view to providing opportunities for MSMEs to participate in a more competitive environment. The Project is also in line with ADB's CPS 2007–2011.^a The CPS identifies key indicators including business model development linked to the markets, with enhanced access to financing and improved PPP development. Once readiness is secured, ADB's second phase of assistance would include support for investment projects to leverage institutional strengthening measures already in place.

B. Poverty Analysis

Targeting Classification: General intervention

1. Key Issues. In 2004, the Government conducted a second vulnerability and poverty assessment^b (VPA2) covering the households on 200 inhabited islands. During 1997–2004, the Maldives made impressive progress in its socioeconomic development with per capita household income in the atolls increasing by about 50%. A significant reduction in poverty was achieved everywhere in the region with the percentage of people having less than Rf10 (around \$1) per day decreasing from 20% in 1997 to 10% in 2004. Similarly in 1997, 60% of the population had less than Rf20 and, in 2004, 35%. Nonetheless, income distribution remains unequal especially between Malé and the atolls. Given the relation between economic activity and geographic dispersion for Malé between 1997 and 2004 the gini coefficient actually rose from 0.12 to 0.18. With respect to access to basic public services, the VPA2 notes that access to educational services for the population living in the atolls increased quite substantially. In 2004, two thirds of the people living on islands were offered education up to grade 10 compared to one fourth in 1997. Since 1997, infant mortality has decreased, while life expectancy has improved from 62 to 68. Over the last few years, constraints on physical infrastructure have improved, and now 24-hour electricity supply is available to nearly all islands. The building of new harbors and jetties has resulted in two thirds of the island population always being accessible by boat. The situation for women in the Maldives is continuously improving. They have achieved parity in both primary and secondary education. Progress has also been made in meeting nutritional requirements.

In 2002, the Government and the ADB signed a poverty reduction partnership agreement defining a long-term vision for poverty reduction. It sets out short-, medium-, and long-term priorities and targets to monitor progress. Innovations in governance and fiscal consolidation are among the key instruments envisaged in the agreement to reduce poverty incidence and to expand access to economic infrastructure and quality social services in the atolls.

2. Design Features. The Project will contribute to poverty reduction in general in the Maldives in several aspects. First, it is expected to contribute to an improved business environment for MSMEs with enhanced institutional capacity and financial services outreach, improved access to credit by MSMEs through better use of credit information, and increased BDS for enterprises to access training, consulting, and marketing and information. Given the targeted enterprises are located in the northern and southern regions with equal to or less than 50 employees, the Project is expected to increase business activities and employment ratio and contribute to income generation in these remote regions. Second, the Project will assist the Maldives in developing and delivering critical infrastructure and services projects through private investment, thereby reducing government's financial burden, and enhancing private sector participation and business expansion by MSME. The PPP will induce private sector investment into social infrastructure, including power generators, transportation, water treatment facilities, and to their operation and maintenance. Third, capacity development initiatives under the Project will facilitate the operations of these reform initiatives, and provide long-term sustainability over and beyond the Project period which would be essential to ensure that the expected benefits in terms of poverty reduction are efficiently and effectively achieved and distributed.

II. SOCIAL ANALYSIS AND STRATEGY			
A. Findings of Social Analysis			
<p>The private sector in the Maldives has a dualistic structure. Ninety percent of firms are indigenous that are either owner-operated or microenterprises with fewer than three employees. At the other end of the spectrum are a large number of foreign direct investors, principally involved in the management of tourist resorts and public utilities. The MSMEs are confronted with major obstacles such as high costs and limited access to finance, lack of skilled labor, asymmetries of market information and business related expertise, poorly developed interisland transportation, and high cost of power generation. Moreover, according to the 2006 census, 8.3% of the adult population is unable to find suitable employment or lacks employment opportunities. Under the 7th National Development Plan, the Government provides specific guidelines on its strategies to increase employment opportunities. They include the preparation of human resource needs assessment, training and capacity building of atoll laborers, and a labor market information system. The Project will contribute to developing the private sector by promoting business practices; enhancing access to financing; developing linkages between domestic and international private sectors to share knowledge, expertise, and technology; as well as supporting training and capacity building of entrepreneurs in remote atolls.</p>			
B. Consultation and Participation			
<p>1. Provide a summary of the consultation and participation process during the project preparation.</p> <p>Under the Project, public awareness seminars and campaigns will be undertaken to introduce BDS, the cost-sharing facility, the line of credit facility; and a credit information bureau registry. Moreover, key stakeholder seminars will be arranged to develop and deliver critical infrastructure and services through PPP. Following project implementation, concerted efforts will be made to disseminate lessons and major outcomes, which will be used to design and develop a project on MSME development, scheduled to be processed in 2009-2010.</p>			
<p>2. What level of consultation and participation (C&P) is envisaged during the project implementation and monitoring? <input checked="" type="checkbox"/> Information sharing <input checked="" type="checkbox"/> Consultation <input type="checkbox"/> Collaborative decision making <input type="checkbox"/> Empowerment</p>			
<p>3. Was a C&P plan prepared? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No During project implementation, an environment and social expert (an international consultant) will review current environmental and social guidelines and provide appropriate inputs and consultation to mitigate any adverse impact of project implementation. A budget has been allocated to recruit an international consultant for 2 person-months.</p>			
C. Gender and Development			
1. Key Issues.			
<p>The Project is expected to be neutral in its impact on gender.</p>			
<p>2. Key Actions. Measures included in the design to promote gender equality and women's empowerment—access to and use of relevant services, resources, assets, or opportunities and participation in decision-making process: <input type="checkbox"/> Gender plan <input type="checkbox"/> Other actions/measures <input checked="" type="checkbox"/> No action/measure</p>			
III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS			
Issue	Significant/Limited/ No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design
Involuntary Resettlement	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	Not applicable. The action under the Project does not require any element of land acquisition; no resettlement is expected.	<input type="checkbox"/> Full Plan <input type="checkbox"/> Short Plan <input type="checkbox"/> Resettlement Framework <input checked="" type="checkbox"/> No Action

Issue	Significant/Limited/ No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design
Indigenous Peoples	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	Not applicable. The Project is not expected to have any negative impact on indigenous peoples.	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input type="checkbox"/> Indigenous Peoples Framework <input checked="" type="checkbox"/> No Action
Labor <input type="checkbox"/> Employment opportunities <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Core labor standards	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	Not applicable.	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action
Affordability	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	Not applicable.	<input type="checkbox"/> Action <input checked="" type="checkbox"/> No Action
Other Risks and/or Vulnerabilities <input type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human trafficking <input type="checkbox"/> Others(conflict, political instability, etc)	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	Not applicable.	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action
IV. MONITORING AND EVALUATION			
Are social indicators included in the design and monitoring framework to facilitate monitoring of social development activities and/or social impacts during project implementation? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No			

ADB = Asian Development Bank; BDS = business development services; CPS = country partnership strategy; MSME = micro-, small-, and medium enterprises; PPP = public-private partnership.

^a ADB. 2007. Maldives Country Partnership Strategy 2007–2011. Manila.

^b The first vulnerability and poverty assessment conducted in 1997 had the same household coverage as the second.