



# Technical Assistance Report

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Project Number: 37405  
December 2005

## Technical Assistance Republic of the Maldives: Preparing the Small and Medium-Sized Enterprise Development Project

## CURRENCY EQUIVALENTS

(as of 09 December 2005)

Currency Unit	–	rufiyaa (Rf)
Rf1.00	=	\$0.080
\$1.00	=	Rf12.865

## ABBREVIATIONS

ADB	–	Asian Development Bank
BDS	–	business development services
GDP	–	gross domestic product
PSD	–	private sector development
SME	–	small- and medium-sized enterprise
SOE	–	state-owned enterprise
TA	–	technical assistance

## TECHNICAL ASSISTANCE CLASSIFICATION

<b>Targeting Classification</b>	–	General intervention
<b>Sectors</b>	–	Multisector; finance; law, economic management, and public policy
<b>Subsectors</b>	–	Economic management, finance sector development
<b>Themes</b>	–	Sustainable economic growth, private sector development, gender and development
<b>Subthemes</b>	–	Promoting economic efficiency and enabling markets, policy/institutional/legal/regulatory reforms

## NOTE

- (i) The fiscal year (FY) of the Government ends on 31 December.  
(ii) In this report, "\$" refers to US dollars.

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## I. INTRODUCTION

1. The Government of the Maldives (Government) requested the Asian Development Bank (ADB) to provide technical assistance (TA)<sup>1</sup> for preparing a small- and medium-sized enterprise (SME)<sup>2</sup> project to reduce regional income inequalities through economic growth and diversification. Regional development and enhancement of private sector participation are the key objectives of economic development under the Sixth National Development Plan. Accordingly, the country strategy and program update for the Maldives (2004–2006)<sup>3</sup> includes a TA for preparing the Small and Medium-Sized Enterprise Development Project.<sup>4</sup> TA fact-finding missions fielded in September and November 2005 held discussions with key Government ministries, financial institutions, SMEs, prospective entrepreneurs, and development partners. This report reflects the missions' findings and the understanding reached with the Government on objectives, scope, cost, implementation arrangements, and terms of reference for the TA. The design and monitoring framework is in Appendix 1.

## II. ISSUES

2. The Maldives has made significant progress in recent years. Gross domestic product (GDP) more than doubled during the decade ending in 2004, and all key social indicators made notable progress. Economic progress, however, has been uneven and regional income disparities have widened. The disparities were further accentuated by the devastating impact of the December 2004 tsunami which damaged infrastructure, enterprises, and means of livelihood.

3. The economy is service-oriented, with 80% of GDP in 2004 supported by tertiary sector activities—tourism (33%), transport and communications (15%), wholesale and retail trade (4%), financial (3%), real estate (8%), other business services (3%), government administration (12%), and social services (2%). The private sector accounted for about 60% of GDP in 2004 and roughly two thirds<sup>5</sup> of domestic employment. The main sectors, including tourism, fishing, and telecommunications, are dominated by a few large companies. SMEs and microenterprises are mainly informal and concentrated in small trade and low-end manufacturing, characterized by meager value addition.

4. Although the private sector presence is encouraging in the tourism sector, and the fishing and telecommunications sectors which have opened up recently, an enabling environment for the private sector in general, and for SMEs in particular, is required across the economy. The absence of a coordinated strategy and framework that links policies, laws, and institutional support, and enhances access to finance, skills, and markets, impedes the contribution of private sector development (PSD) and SME development to economic growth and job creation. Inadequacies are most obvious in ownership and property rights, access to finance, skills availability, registration, and licensing. The significant presence of the public sector and state-owned enterprises (SOEs) in commercial activities also affects PSD and SME development.

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<sup>1</sup> The TA first appeared in the *ADB Business Opportunities* (internet edition) on 20 October 2005.

<sup>2</sup> The Maldives has no official definition of SME and microenterprises. These terms connotes enterprises that are being operated or could be initiated either by individual upper-to- and middle- income households, or by individual or groups of low- income households or groups of such households.

<sup>3</sup> ADB. 2003. *Maldives: Country Strategy and Program Update (2004–2006)*.: Maldives. Manila.

<sup>4</sup> Due to changes in priorities in the wake of the tsunami, the Government has requested the Small and Medium-Sized Enterprise Development in the Atolls Project be programmed for 2008.

<sup>5</sup> Estimates based on employment data as presented in the *Statistical Yearbook of Maldives, 2004*.

5. All land and property rights over natural resources are vested in the Government. Land is not sold for any use but is leased for commercial purposes. The Government has vested management of land to four agencies, which apply different policies, directives, and guidelines when allocating land for use in their areas. Use of buildings and other permanent structures as collateral without clear title to the land compromises legal remedies against default. The disposal of tenure rights is not yet subject to a holistic policy. The time, cost, and uncertainty of establishing claim to secure payment of credit, prioritizing claims, and foreclosing affects access to credit and increases risk premiums. The economic potential of using collateral to secure financial transactions is not fully advantaged to increase output and employment.

6. The financial sector is narrow and dominated by five commercial banks. Nonbank financial institutions consist of a provident fund, a finance leasing company, two registered insurance companies, some agents for overseas insurance companies, a specialized housing finance institution, and money service businesses. Access to credit and other banking products is constrained by geography and a population dispersed across 200 islands. Only the Bank of Maldives offers branch service outside the capital city—12 island subbranches and 5 mobile banking units,<sup>6</sup> with nonbank financial institutions entirely limited to offices in Male. On the supply side, financial institutions report high transaction costs<sup>7</sup> and limited number of bankable SMEs as major impediments to expanding service coverage. On the demand side, the key constraint is the high cost of credit, particularly for SMEs.

7. While the active labor force constitutes about 55% of the total population, and in accordance with the 2000 census the unemployment rate is about 2%, skills that could enable equitable participation in economic growth are lacking. Educational and vocational institutions have not inculcated enterprise as a career option or provided appropriate business orientation and support skills. Hiring more expatriates<sup>8</sup> to solve the skill mismatch raises the cost of doing business. In addition, the labor market is inadequately regulated. While the passage of the Labor Bill will address regulation, a minimum wage may adversely affect PSD and SME development.

8. Trade and manufacturing sectors offer opportunities for SME development. However, the trade sector already has a concentration of competitive SMEs. The manufacturing sector, other than fish processing, primarily consists of a few modern foreign-owned garment factories and other small businesses.<sup>9</sup> Thus, the challenge is diversification and identification of further opportunities, particularly those that will support growth in the atolls. However, business development services (BDS), including financial, marketing, and skill development services,<sup>10</sup> which could facilitate diversification and help mitigate the skill deficit through demand-based capacity development, do not target SMEs' needs and are not affordable, if offered at all. The lack of BDS is felt acutely in fisheries and agriculture, which support a large part of the country, particularly where the tourism has not yet reached or is unlikely to reach. Both sectors are key pillars of the Government's plan for domestic investment and job creation.

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<sup>6</sup> The almost 200 inhabited islands are assured access to banking services at least once a month.

<sup>7</sup> In addition to high logistical/operational costs involved in providing financial services to the atolls, regulated banks under regulation must maintain 30% minimum reserves requirements.

<sup>8</sup> In 2003, expatriates comprised about approximately 12% of the total population and held one-third of total formal jobs.

<sup>9</sup> Other activities include food processing and bottling; herbal medicine; construction materials/supplies (cement, concrete blocks, roofing, aluminum doors/windows, and electrical panels); furniture making; and boat construction.

<sup>10</sup> Including financial, technical, marketing, and skills development services.

9. The procedure for registering business entities, and the regulatory regime for tourism, fisheries, construction, and services, including licensing and investment approval, are cumbersome for SMEs. SME development is also impeded by implicit and explicit barriers to entry because of the significant presence of SOEs<sup>11</sup> in the main sectors and by a geographically isolated and dispersed market. SOEs receive implicit subsidies in the form of exemption from payment of rent for the Government land they occupy, monopoly privileges where there is scope for competition, and government guarantees for their loans. Yet, some SOEs incur losses because of mismanagement, social overhead, and inefficiency.

10. The small size of the economy, the threat of private monopolies, and the region's remoteness (and thus high transport cost) make extensive privatization difficult in the medium term. Nevertheless, competition could be promoted through private ownership and private–public partnerships in activities such as hotels, catering, and transport services, airports, and ports. Since the SOEs are small by international standards, their restructuring could be used to promote SMEs, particularly where outsourcing and immediate privatization are possible. PSD will be significantly enhanced by promoting competition, efficiency, financial discipline, and good corporate governance in SOEs. Taxing profit and weaning SOEs away from budgetary support and indirect subsidies should be part of leveling the playing field.

11. Replicating the experience of private sector-led growth in tourism, fishing, and telecommunications is a Government priority. The Government is cognizant that mainstreaming private sector participation in all economic sectors, particularly SME development, and restructuring SOEs are critical. More accessible and affordable products and efficient operation resulting from greater competition will reduce economic inequalities and enable the Government to reduce SOE budgetary expenses.

### **III. THE TECHNICAL ASSISTANCE**

#### **A. Impact and Outcome**

12. The TA's desired impact is to enhance SME growth and competitiveness and increase the private sector's role in accelerating economic growth and poverty reduction, especially in the atolls. The TA's objective is to help the Government and ADB prepare and finalize the project design, emphasizing a development framework for PSD and SME, BDS and technical support for SMEs, entrepreneurial opportunities for the poor, and SOE restructuring.

13. The TA will help develop policy, regulatory, and institutional reforms to be supported by the project. The TA will help the Government (i) prepare an SME development strategy, targeting the atolls and outer islands; (ii) design technical support to strengthen the policy framework and enabling environment for SME development; (iii) develop SME business support networks as well as improve access to affordable BDS, financial services, and financing; (iv) identify, access, and support entrepreneurial and job opportunities for economically vulnerable people in the atolls; and (v) prepare a strategy and plan to privatize and restructure SOEs, identifying and prioritizing opportunities for their development and SME participation. The TA design and monitoring framework is in Appendix 1, and the initial poverty and social sector analysis is in Appendix 2.

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<sup>11</sup> There are 19 state-owned enterprises in the following sectors: public utilities; tourism; fish processing and export, import, wholesale, and retail of general merchandise; transport and communications; and social services.

## **B. Methodology and Key Activities**

14. The TA will be implemented in a programmatic yet flexible manner. The TA is structured into four components:

- (i) Component 1 focuses on preparing a strategy and time-bound action plan to facilitate PSD and SME initiatives, activities, and market access particularly in the atolls by assessing the policy and legal environment and availability and accessibility of BDS.
- (ii) Component 2 focuses on designing technical support to strengthen the enabling environment for PSD and SME development, and to develop SME BDS and support networks.
- (iii) Component 3 focuses on generating entrepreneurial and job opportunities for economically vulnerable people in the atolls.
- (iv) Component 4 focuses on preparing a strategy and time-bound action plan for SOE privatization and restructuring based on assessment of SOEs' (a) contribution to the national interest, (b) natural monopoly features, (c) viability, and (d) potential to offer opportunities for SME development.

15. The TA will be implemented in three phases. Workshops will enable broad participation, and involve central ministries and agencies as well as representatives from the atolls and islands, private sector, nongovernment organizations, and other development partners. During phase 1 or the inception phase (1 month), priority activities, in addition to defining the role of counterpart agencies and preparing an implementation plan, will include: (i) assessment of the Government's strategy to foster private sector-led growth, and a review of the findings and recommendations of studies on PSD and SME development and externally-funded activities; and (ii) a detailed mapping of externally-funded activities for PSD and SME development. Phase 2 (10 months) will focus on the assessments and analyses for developing the strategies and approaches for all components. A detailed breakup of activities and milestones is in the TA design and monitoring framework (Appendix 1) and the outline terms of reference (Appendix 4). Consultations throughout the process will ensure endorsement of the Government, stakeholders, and ADB of the scope and contents of the strategies. During phase 3 (1 month), the outcomes of phases 1 and 2 will be consolidated to design the project with a realistic and implementable scope and appropriately sequenced and linked reforms.

## **C. Cost and Financing**

16. The cost of the TA is estimated at \$720,000 equivalent, consisting of \$600,000 in foreign exchange and \$120,000 equivalent in local currency. ADB will provide \$600,000 to finance the entire foreign exchange cost. The Government will contribute about \$120,000 equivalent in kind. The TA will be financed on a grant basis by ADB's TA funding program. The detailed cost estimates and financing arrangements are in Appendix 3. The Government has been informed that TA approval does not commit ADB to finance any ensuing project.

## **D. Implementation Arrangements**

17. The Ministry of Finance and Treasury will be the Executing Agency. A TA steering committee will be established, chaired by the Ministry of Atolls Development (MOAD). It will meet once every 3 months and will include senior officials from the ministries of finance and treasury, economic development and trade, agriculture and fisheries, and higher education and employment, and from the Maldives Monetary Authority. The Ministry of Atolls Development will

be the main implementing agency and the ministries of economic development and trade and higher education and employment will implement pilot activities, as required.

18. The TA is expected to commence in February 2006 and completed by February 2007. TA implementation requires 14 person-months of international and 27 person-months of domestic consulting services. Terms of reference for consulting services are in Appendix 4. The PSD and SME specialist (international) will be the team leader and will be assisted by the SME financing, SME BDS, and SOE privatization and restructuring specialists. Domestic consultants include PSD and SME, SME financing, legal, and SME sector specialists (tourism, trade, fishing, agriculture, services sector, and manufacturing). Twelve person-months of domestic consulting services will be defined during implementation, depending on the scope of assessment of SOE restructuring and privatization as part of component 4. An international firm will provide the international and domestic consultants. The TA consultant will be selected and engaged in accordance with *Guidelines on the Use of Consultants by ADB and its Borrowers* and other arrangements satisfactory to ADB on the engagement of domestic consultants. To select the firm, the quality- and cost-based selection method with simplified technical proposals will be used. All procurement under the TA will be done in accordance with ADB's *Guidelines for Procurement*. Equipment procured in accordance with ADB's procurement guidelines will be turned over to the government on completion of the TA.

19. The TA consultant will prepare (i) an inception report including a detailed work program, to be submitted within 30 days after the TA starts and to be discussed at the initial tripartite review meeting; (ii) quarterly progress reports on all components, indicating work progress, the work program for the next quarter, and any outstanding issues; (iii) an interim report, presenting draft outputs, to be submitted within 5 months after the TA starts, to be discussed at the interim tripartite review meeting; (iv) a draft final report compiling all TA activities and consultants' recommendations, to be submitted at least 1 month before TA completion and to be discussed at the final tripartite review meeting; and (v) a final report at TA completion.

#### **IV. THE PRESIDENT'S DECISION**

20. The President, acting under the authority delegated by the Board, has approved the provision of the technical assistance not exceeding the equivalent of \$600,000 on a grant basis to the Government of the Maldives for preparing the Small and Medium-Sized Enterprise Development Project, and hereby reports this action to the Board.

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b> Enhanced economic growth, increased private sector participation, and improved distribution of benefits of economic growth to poor regions</p>	<p>Improved economic growth in regions outside the capital, Male</p> <p>Reduced role and number of state-owned enterprises (SOEs)</p> <p>Increase in number of small- and medium-sized enterprises (SMEs)</p>	<p>Ministry of Finance and Treasury (MOFT) economic statistics and reports</p> <p>National accounts statistics</p> <p>National development plan</p>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Macroeconomic stability</li> <li>• Successful tsunami reconstruction efforts</li> <li>• Government commitment to implement policy reform measures and action plans in support of private sector development (PSD) and SME sector development</li> <li>• Government capacity to adopt and implement agreed-on policy reforms and to implement plans</li> </ul> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>• Unforeseen external shocks</li> <li>• Resistance to reforms</li> </ul>
<p><b>Outcome</b> A comprehensive project design for ADB financing to enhance PSD and strengthen SMEs in the atolls</p>	<p>By the end of the technical assistance (TA), a rigorously designed project with a sequenced and linked reform agenda for PSD and SME development</p> <p>Government and ADB endorsement and acceptance of the design</p>	<p>TA steering committee meetings</p> <p>TA consultant report</p> <p>Stakeholder feedback</p> <p>Tripartite reviews</p> <p>ADB review missions</p>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• Quality outputs delivered on time</li> <li>• Government endorsement of the final design</li> <li>• Continued Government commitment to implement policy reforms</li> </ul> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>• Ability of the Ministry of Finance and Treasury to coordinate effectively with all the agencies involved</li> </ul>
<p><b>Outputs</b> PSD and SME strategy and a time-bound action plan with focus on development in the atolls prepared.</p> <p>BDS and technical support plan for PSD and SME developed</p> <p>Entrepreneurial opportunities for the poor in remote regions identified and measures to enhance skills developed</p> <p>SOE restructuring strategy and a time-bound action plan prepared</p>	<p>Timely fielding of qualified consultants</p> <p>Implementation of stakeholder workshops to finalize and approve strategies and action plans</p> <p>Timely preparation of TA reports of satisfactory quality</p> <p>Completion of activities and milestones on time</p>	<p>TA steering committee meetings</p> <p>TA consultant report</p> <p>Tripartite reviews</p> <p>Stakeholder feed back</p> <p>ADB review missions</p> <p>TA completion report</p>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• The Government will provide adequate counterpart staff</li> <li>• The Government will issue policy to implement recommendations</li> <li>• Political commitment to implement SOE restructuring and privatization plans</li> <li>• Timely feedback from the Government on TA outputs</li> </ul> <p><b>Risks</b></p> <ul style="list-style-type: none"> <li>• Political impediments to SOE reforms and restructuring plans</li> </ul>
<p><b>Activities with Milestones</b> <b>Component 1—Preparation of PSD and SME development strategy</b> 1.1. Assess (i) the policy, legal, and regulatory environment to encourage and strengthen SME initiatives and market access, particularly in the atolls; and (ii) the availability, quality and cost of</p>			<p><b>Inputs</b> ADB \$600,000 for recruiting 14 person-</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>business development services (BDS), financial services, and credit</p> <p>1.2. Suggest and prioritize reforms to encourage PSD and SME development</p> <p><b>Milestones:</b> (i) Assessment and stakeholder workshops by month 2, (ii) submission of draft strategy and action plan to ADB and the Government by month 3, and (iii) submission of final strategy and action plan to ADB and the Government by month 4</p> <p><b>Component 2—Develop BDS and technical support plan for PSD and SME development</b></p> <p>2.1. Assess (i) the demand and supply of BDS services, and SME affordability for BDS services, (ii) approaches to SME financing and associated costs, (iii) risks associated with SME financing and risk mitigation measures, and (iv) feasibility of establishing an SME venture fund</p> <p>2.2. Develop a regional SME business incubation support network</p> <p>2.3. Develop and pilot a plan for linking business associations, BDS service providers, and the financial sector to support business mentoring and enable access to affordable basic BDS</p> <p>2.4. Develop viable and cost-effective ways to improve access to affordable financial services and credit to SMEs, particularly for those in the atolls</p> <p>2.5. Design a public awareness campaign to promote sustainable SME support networks and support services developed under the TA</p> <p>2.6. Develop a website as a one-stop resource for SME entrepreneurs</p> <p><b>Milestones:</b> (i) Reviews and stakeholder workshops by month 4; (ii) submission of draft approaches, action plans, and designs by month 5; (iii) submission of final action plans and designs to ADB and the Government by month 6; and (iv) complete activities 2.5 and 2.6 during months 7–9</p> <p><b>Component 3—Generate entrepreneurial opportunities for the poor</b></p> <p>3.1. Market surveys to identify and evaluate SME opportunities for poor regions, and review social and labor surveys to determine skill gaps.</p> <p>3.2. Develop an approach and plan to create awareness of the range of SME options and to strengthen the supply of corresponding skills</p> <p>3.3. Develop and pilot a plan to strengthen school curricula to inculcate entrepreneurial thinking</p> <p>3.4. Develop and pilot an approach and plan to institutionalize links between vocational schools and the private sector to support internship and apprenticeship programs</p> <p><b>Milestones:</b> (i) Surveys and assessment by month 5, (ii) submission of draft approaches and action plans by month 6, (iii) submission of final action plans to ADB and the Government by month 7, and (iv) complete pilot activities during months 7–9</p> <p><b>Component 4—Improve opportunities for SMEs by restructuring SOEs</b></p> <p>4.1. Develop an SOE privatization and restructuring strategy and a prioritized time-bound action plan that addresses the Government’s strategic thrust on SOE and public finance reforms</p> <p>4.2. Develop criteria (and weightings) to prioritize the SOEs for privatization and/or restructuring, and prioritize SOEs for (i) privatization, (ii) private-public partnerships/outsourcing, and (iii) strengthening of corporate governance and corporatization</p> <p>4.3. For each prioritized SOE, outline a strategic approach and an indicative timeline for its privatization and/or restructuring, and highlight potential SME opportunities that would emerge after privatization and/or restructuring of the prioritized SOE</p> <p><b>Milestones:</b> (i) Reviews, assessments, and stakeholder workshops by month 5; (ii) submission of draft strategy and action plan by month 6; (iii) submission of final strategy and action plan to ADB and the Government by month 7; (iv) complete activities 4.3 during months 6–10.</p>			<p>months of international and 27 person-months of domestic consulting services, workshops/surveys and procuring equipment</p> <p><b>Government</b> \$120,000 in kind, including counterpart staff, office space, communication facilities, and secretarial services</p>

## INITIAL POVERTY AND SOCIAL SECTOR ANALYSIS

### A. Linkages to the Country Poverty Analysis

<b>Is the sector identified as a national priority in country poverty analysis?</b> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<b>Is the sector identified as a national priority in country poverty partnership agreement?</b> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<p><b>Contribution of the sector or subsector to reducing poverty in the Maldives:</b> The Maldives is a small nation of over 1,190 low-lying coral islands spread across 90,000 square kilometers of the Indian Ocean. It has a population of 300,000 largely young people (41% of the population is below 15 years). Pursuing prudent macroeconomic policies, the Maldives has achieved remarkable progress over the past 30 years. Per capita income rose from less than \$100 in the 1970s to about \$2,500 in 2003. However, as cited in the ADB's Poverty Partnership Agreement with the Government, incomes in Male are generally two and a half times higher than in the atolls. The main objective of the technical assistance (TA) is to support regional economic growth and to strengthen private sector development, particularly of small and medium-sized enterprises (SMEs) in the atolls, which entails focusing on the poor and poverty reduction.</p>	

### B. Poverty Analysis

**Targeting Classification:** General intervention

<p><b>What type of poverty analysis is needed?</b> An analysis of poverty in the country has recently been undertaken with findings presented in <i>Millennium Development Goals: Maldives Country Report 2005</i>.<sup>1</sup></p>
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### C. Participation Process

<b>Is there a stakeholder analysis?</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
While no formal stakeholder analysis has been conducted, stakeholders have been consulted extensively.
<b>Is there a participation strategy?</b> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
A plan for stakeholder participation will be formulated and implemented under the TA and during the ensuing project for SME development in the atolls.

### D. Gender Development

<p><b>Strategy to maximize impacts on women:</b></p> <p>Tourism and fisheries account for more than one third of total gross domestic product and total employment. Typically, men are employed in these sectors or have opportunities to work abroad. The TA targets women as well as the young, who face limited job prospects in the outer atolls and islands.</p>
<b>Has an output been prepared?</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

<sup>1</sup> Ministry of Planning and National Development. 2005. *Millennium Development Goals: Maldives Country Report 2005*. Government of the Maldives

**E. Social Safeguards and Other Social Risks**

<b>Item</b>	<b>Significant/ Not Significant/ None</b>	<b>Strategy to Address Issues</b>	<b>Plan Required</b>
<b>Resettlement</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	No resettlement is expected under the TA or the project.	<input type="checkbox"/> Full <input type="checkbox"/> Short <input checked="" type="checkbox"/> None
<b>Affordability</b>	<input checked="" type="checkbox"/> Significant <input type="checkbox"/> Not significant <input type="checkbox"/> None	The affordability of business development services and financial services for SMEs will be assessed under the TA and is an important design objective to ensure viability and sustainability of service delivery.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None
<b>Labor</b>	<input checked="" type="checkbox"/> Significant <input type="checkbox"/> Not significant <input type="checkbox"/> None	Job opportunities are anticipated to be identified and strengthened under the TA and the project. Labor issues will be examined further if a decision is made to include retrenchment of staff of state-owned enterprises under the project.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None
<b>Indigenous Peoples</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	No negative impacts on indigenous peoples are expected under the TA.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None
<b>Other Risks and/or Vulnerabilities</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	Any social risks and vulnerabilities will be monitored in the course of the TA.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Asian Development Bank Financing<sup>a</sup></b>			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	336.0	0.0	336.0
ii. Domestic Consultants	108.0	0.0	108.0
b. International and Local Travel	56.0	0.0	56.0
c. Reports and Communications	5.0	0.0	5.0
2. Equipment	10.0	0.0	10.0
3. Workshops/Surveys	25.0	0.0	25.0
4. Contingencies	60.0	0.0	60.0
<b>Subtotal (A)</b>	<b>600.0</b>	<b>0.0</b>	<b>600.0</b>
<b>B. Government Financing</b>			
1. Office Accommodation and Communication	0.0	70.0	70.0
2. Transport	0.0	40.0	40.0
3. Contingency	0.0	10.0	10.0
<b>Subtotal (B)</b>	<b>0.0</b>	<b>120.0</b>	<b>120.0</b>
<b>Total</b>	<b>600.0</b>	<b>120.0</b>	<b>720.0</b>

Asian Development Bank (ADB) technical assistance funding program.

Source: ADB estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTING SERVICES

1. The technical assistance (TA) has four components to be implemented in three phases, over 12 months. A team of international and domestic consultants will be recruited with the following specializations and responsibilities.

### A. Team Composition

2. **Private Sector Development (PSD) and Small and Medium-Sized Enterprise (SME) Development Specialist/Team Leader** (international, 5 person-months). The PSD and SME specialist will have postgraduate qualification in business, finance, or related fields, along with up to 10 years of demonstrated broad-based PSD and SME development experience, preferably in the region. The specialist will lead, manage, and coordinate the activities of the TA team and ensure overall quality of reports.

3. **International Specialists.** The team will include an SME financing specialist (3 person-months), an SME business services development specialist (3 person-months), and a state-owned enterprise (SOE) privatization and restructuring specialist (3 person-months). All will have postgraduate qualification and at least 5 years' international experience in their areas.

4. **Domestic Specialists.** The team will include a PSD and SME specialist (3 person-months), an SME financing specialist (3 person-months), a legal specialist (3 person-months), and six SME sector specialists (1 person-month each, for a total of 6 person-months). The SME sector specialists will be recruited for tourism, agriculture, fisheries, trade, manufacturing, and services. In addition, 12 person-months of domestic consulting services will be defined in consultation between the Government of the Maldives (Government) and the Asian Development Bank (ADB) during implementation, depending on the assessment of the scope of SOE restructuring and privatization as part of component 4 (main text, para. 14 [iv]). All domestic specialists will have at least a graduate-level qualification and at least 3 years' experience in their areas of specialization.

### B. Key Activities

#### 1. Phase 1: Inception (1 month)

5. Key activities include (i) review and assessment of the Government's strategy to foster private sector-led growth as outlined in the draft 7th National Development Plan to determine the Government's focus, priorities, and proposed time frame; (ii) review and assessment of the existing situation; (iii) findings and recommendations of studies, reports, and analysis on PSD and SME development undertaken by the Government, academia, and development partners; and (iv) detailed outline of previous as well as ongoing and planned donor-funded activities for PSD and SME development.

#### 2. Phase 2 (10 months)

6. **Component 1.** This focuses on preparing a strategy and time-bound action plan for PSD and SME development in the atolls, based on in depth analytical studies and experience of other island states. The key task and activities include comprehensive assessment of (i) the policies to encourage, incentivize, and strengthen SME initiatives, activities, and market access; (ii) the review of relevant commercial and investment laws and regulations, including accounting standards; (iii) land tenure and property rights; and (iv) the availability and accessibility of

affordable small-scale financing and the constraints on improving access. The strategy and action plan will include realistic and sustainable approaches for the following:

- (i) strengthening the SME policy, legal, regulatory, and accounting framework;
- (ii) building capacity of ministries and agencies involved in implementing the framework;
- (iii) identifying viable SME opportunities that can be targeted, particularly for economically vulnerable segments of the population in the atolls;
- (iv) improving awareness of and accessibility to SME support networks;
- (iv) creating demand and strengthening the supply of affordable BDS; and
- (vi) improving access to affordable finance for SMEs.

7. **Component 2.** This focuses on strengthening business development, technical services, and support networks for SME development. The key activities include the following:

- (i) A comprehensive analysis of the demand for BDS<sup>1</sup> and of the BDS offered, including (a) cost-sharing mechanisms and strategies for strengthening the quality and sustainability of BDS delivery, (b) options for linking BDS to existing and/or future available sources of SME finance, (c) options for partnerships for viable and sustainable BDS service delivery;
- (ii) A comprehensive comparative assessment of SME finance activities and the various implementation approaches used to date—through community associations, cooperatives, through technical ministries, and the Bank of Maldives—to determine viable cost-effective options for delivery of financial services to SME, including (a) the relative demand for financial services by SMEs; (b) the variations in different approaches (proportion of total number of approved applicants and average and total value of financing provided by broadly defined sectors); (c) the repayment rate of each approach; proportion of SMEs in operation 6 months, 1 year, 2 years, and 3 years after approval of financing; and the proportion of SMEs that have applied for additional financing to expand operations; (d) the application and evaluation process required under each approach; (e) the conditions and cost of financing under each approach; (f) the cost of administration of each approach, particularly for the atolls; (g) the overall viability and sustainability of alternative approaches; and (h) financial sector laws and regulation as applicable to SME financing;
- (iii) In-depth analysis of risks associated with lending to SMEs and the identification of measures for their mitigation, including (a) examining possible credit enhancement mechanisms for SMEs, such as a credit guarantee scheme targeting SMEs; and (b) examining options to develop a framework for secured transactions such as establishing a movable-assets registry; and
- (iv) Assessment of the demand and feasibility of establishing a SME venture capital fund and preparation of alternative proposals for its structuring and viable and sustainable operation.

8. Based on the above, develop the following:

- (i) Piloted approach and plan for a sustainable regional SME business incubation support network, to enable the identification, assessment, and mentoring of SME business ventures through (a) strengthened linkages to business associations,

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<sup>1</sup> Including financial, marketing, and skills development services.

- (b) improved access to BDS and affordable financing, and (c) access to a directory of potential domestic markets/wholesalers/retailers;
- (ii) A comprehensive medium-term development strategy and prioritized action plan to enhance access to affordable financial services in the atoll;
- (iii) A public awareness campaign to promote SME support networks and support services developed under the TA; and
- (iv) A website (in English and Dhivehi) for the Ministry of Economic Development and Trade, in close cooperation with the Ministry of Atolls Development, to serve as a one-stop resource facility for potential SME entrepreneurs to (a) obtain general information on required procedures (and forms) to register a business, (b) access a directory of BDS offered in the Maldives, and (c) access a referral for specific licensing requirements and technical support services provided by the sector ministries.

9. **Component 3.** This focuses on generating entrepreneurial and job opportunities for economically vulnerable people in the atolls. Key activities include the following:

- (i) Focused market surveys to identify and evaluate SME opportunities and determine their potential viability and appropriateness for the economically vulnerable people including minorities and indigenous population in the atolls, considering resource and capacity constraints; and
- (ii) Review and assess labor surveys under way or recently completed (within the last 3 years), including those conducted under an ADB project,<sup>2</sup> to identify critical gaps in market demand and supply for skilled labor.

10. Based on the above, develop the following giving special consideration to vulnerable sections including minorities and indigenous population, if any:

- (i) An approach and plan for (a) creating a broader awareness of the full range of SME options particularly to support development in the atolls, and (b) strengthening the supply of skills demanded by the market;
- (ii) An approach and plan to involve the Ministry of Higher Education and Employment in strengthening the school curriculum to (a) raise student awareness of the full range of vocational options and student interest in entrepreneurship as a career option, and (b) include components in the curriculum to cultivate entrepreneurial thinking and the development of basic entrepreneurial skills; and
- (iii) An approach and plan to support sustainable linkages between the Ministry of Higher Education and Employment and business associations and the private sector to enable a broad range of internship and apprenticeship programs.

11. **Component 4.** This focuses on developing a strategy and time-bound action plan for SOE privatization and restructuring and, in the context of SOE reforms, identifying and prioritizing emerging opportunities for SME development. The following will be done:

- (i) Develop an SOE privatization and restructuring strategy and prioritized time-bound action plan that addresses the Government's strategic thrust on SOE and public finance reforms, and includes an assessment of Government policies that

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<sup>2</sup> ADB. 2003. *Report and Recommendation of the President on a Proposed Loan to Maldives for the Employment Skills Training Project*. Manila (Loan 2028-MLD, approved on 02 December 2003).

- subsidize SOEs and support their profitability (e.g., monopoly privileges, land/rent policies, loan guarantees, and guaranteed government market);
- (ii) For each of the 19 SOEs, collect data (and annual reports/financial statements) and prepare a summary description of their objective, market position, legal status, ownership structure, staff levels, financial performance, and contributions to the budget (5-year historical and 3-year forecast), including an assessment of their contingent liabilities. Assess the accuracy of the financial statements and the potential impact of any hidden liabilities on the budget;
  - (iii) Develop criteria (and weightings) to prioritize the SOEs for privatization and/or restructuring under the following categories: (a) targeted for privatization, (b) targeted for restructuring to facilitate private–public partnerships/outsourcing, and (c) targeted for strengthening of corporate governance and corporatization;
  - (iv) Based on criteria defined in (iii), broadly estimate the costs of restructuring and privatization, and prepare a prioritized matrix that presents a summary outcome of the prioritization process for each SOE;
  - (v) For each prioritized SOE, outline a strategic approach an indicative timeline for its privatization and/or restructuring, and highlight potential opportunities for SMEs resulting from the privatization and/or restructuring; and
  - (vi) Prepare terms of reference for SOE privatization teams/specialists to undertake feasibility studies and develop strategies for privatization and/or restructuring for at least (a) three SOEs prioritized for private–public partnerships/outsourcing of commercial activities, (b) two SOEs prioritized for privatization, and (c) three SOEs prioritized for strengthening of corporate governance and corporatization.

### 3. Phase 3 (1 month)

12. The study, analysis, and documentation undertaken during phases 1 and 2 will be consolidated to develop the scope of a proposed project to be considered for ADB financing and to complete the documentation in ADB format.

### C. Outputs

13. The TA consultant will prepare (i) an inception report, including a detailed work program, to be submitted within 30 days after the TA starts; (ii) quarterly progress reports corresponding to all components for reporting overall work progress during the period under review, the work program for the next quarter, and any outstanding issues; (iii) an interim report, presenting draft outputs to be submitted within 5 months after the TA starts; (iv) a draft final report compiling all TA activities and recommendations, to be submitted at least 1 month before TA completion; and (v) a final report at TA completion.