



Country Operations Business Plan

May 2011

Maldives
2011–2013

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 31 March 2011)

Currency Unit	–	rufiyaa (Rf)
Rf1.00	=	\$0.078125
\$1.00	=	Rf12.8

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CPS	–	country partnership strategy
ERP	–	Economic Recovery Program
GDP	–	gross domestic production
MEA	–	Maldives Energy Authority
MSMED	–	Inclusive Micro- Small- and Medium-Sized Enterprise Development Project
PSOD	–	Private Sector Operations Department
SMEs	–	small and medium-sized enterprises
SREP	–	Scaling-Up Renewable Energy Program in Low Income Countries
TA	–	technical assistance
TPRM	–	Tripartite Portfolio Review Meeting

NOTES

- (i) The fiscal year (FY) of the government and its agencies ends on 31 December.
- (ii) In this report, “\$” refers to US dollars.

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I. CONSISTENCY OF THE BUSINESS PLAN WITH THE COUNTRY PARTNERSHIP STRATEGY

1. The Maldives country partnership strategy (CPS), 2007–2011 took a sequential approach.¹ It stipulated that the Asian Development Bank (ADB) concentrate first on providing much-needed capacity development assistance, with the objective of helping the government build institutional capacity to manage public expenditures efficiently (phase 1). ADB will move to its second phase assistance to resume investment lending in the identified CPS priority sectors of energy, transport, and small and medium-sized enterprises development when the following readiness criteria are secured: (i) reduction in the government's ratio of external debt to gross domestic production, (ii) an increase in the ratio of disbursements to outstanding commitments of ADB assistance, and (iii) progress made in developing a medium-term fiscal framework.

2. An ongoing technical assistance (TA) loan² and TA grant³ are enhancing the government's capacity to accomplish the policy and institutional reforms supported by the Economic Recovery Program (ERP).⁴ The government established the Office of Programs and Projects under the Ministry of Finance and Treasury in March 2010 to review implementation and management of all government projects and programs. ADB and the government started semiannual Tripartite Portfolio Review Meetings (TPRMs) in March 2010. The second TPRM in September 2010 reviewed the progress of action plans prepared at the first TPRM, and noted good progress, but identified outstanding issues and measures to address those. Another action plan for the next 6 months was agreed for review during the third TPRM to be held in March 2011.

3. The status of the CPS readiness criteria shows signs of improvement. While the public external debt increased to 41.0% of gross domestic product in 2010 from 32.4% in 2006, the 2011 budget plans to contain the ratio at 40.5% in 2011 and gradually decrease to 39.8% in 2013. The ratio of disbursements to outstanding commitments of ADB assistance has improved. It increased to 41.8% (or 33.3% excluding program loan) in September 2010 from 13.1% at the end of March 2010 and 17.3% at the end of 2009. The medium-term fiscal framework was also introduced since the revised 2009 budget. Given the progress in these readiness criteria, ADB is preparing for investment projects in the pipeline 2011–2013. As stated in the CPS, ADB will combine investment support with measures to improve sector policy and build the capacity of core sector agencies. Projects will also ensure gender mainstreaming, good governance, and environmental sustainability. Approval of investment projects is subject to confirmation of actual decrease in public external debt.

II. INDICATIVE RESOURCE PARAMETERS

4. The indicative Asian Development Fund (ADF) resource allocated for ADB public sector lending operation during 2011–2012 is \$9.99 million, of which \$4.44 million will be in the form of a grant, and the balance of \$5.55 million will be for loans.

III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

5. **Small and medium-sized enterprises development.** The Inclusive Micro- Small and Medium-Sized Enterprise Development Project (MSMED) was included in the lending pipeline as standby for 2011 and firm in 2012. The project will be phase 2 of the ongoing Private Sector

¹ ADB. 2007. *Country Partnership Strategy: Maldives, 2007–2011*. Manila.

² Capacity Development for Economic Recovery Project, TA loan attached to ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan, Technical Assistance Loan, and Technical Assistance Grant to the Republic of the Maldives for Economic Recovery Program*. Manila.

³ Institutional Strengthening for Economic Management, TA grant attached to ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan, Technical Assistance Loan, and Technical Assistance Grant to the Republic of the Maldives for Economic Recovery Program*. Manila.

⁴ ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan, Technical Assistance Loan, and Technical Assistance Grant to the Republic of the Maldives for the Economic Recovery Program*. Manila.

Development Project⁵. All of the indicative ADF allocation for 2011–2012 will be utilized for the MSMED. The project has components for (i) strengthening business development service centers activities, (ii) enhancing access to credit, (iii) strengthening access to the credit information, (iv) bolstering the legal and institutional framework for micro-, small, and medium-sized enterprise development, and (v) enhancing the capacity of women micro- and small entrepreneurs. The ADF grant is considered for supporting implementation of the ADF loan and for enhancing capacity building for related stakeholders. Approval of the MSMED in 2011 is contingent on full compliance with the second tranche policy actions of the ERP and the progress of the ongoing Private Sector Development Project implementation. Slow progress in fiscal reforms⁶ is a risk factor for timely implementation of the ERP.

6. **Energy sector.** The government has committed to become carbon neutral by 2020 and is developing a carbon neutral master plan toward meeting this objective. It is also seeking investment in renewable energy projects (wind, solar, and other sources) through various modalities including the private sector and public–private partnerships. Scaling-Up Renewable Energy Program in Low Income Countries, a program under the Strategic Climate Fund (a multidonor trust fund within the Climate Investment Funds), will support investment in the Maldives for renewable energy including solar, wind, and other sources. A lending project for renewable energy development is thus included in the indicative 2013 lending pipeline. Components of the project will be worked out based on development of the carbon neutral master plan and the available amount of concessional funds or grants (e.g., Scaling-Up Renewable Energy in Low Income Countries).

7. The role of Maldives Energy Authority (MEA), the energy sector regulatory agency, is expected to be strengthened through the adoption of the Electricity Act by the Parliament in early 2011. While a well-defined and predictable regulatory framework is a prerequisite for long-term investment decision making, the MEA has been functioning with limited financial and human resources. Capacity development TA for the MEA⁷ is included in the 2011 nonlending pipeline to develop a business plan and strengthen the capacity of the MEA, and support development of important regulations and codes for the sector.

8. **Transport sector.** ADB's assistance to revisit the transport master plan⁸ is included in the nonlending pipeline for 2011. The revised plan will integrate, among other things, (i) a multimodal approach, (ii) necessary regulatory framework improvements to encourage private sector participation, (iii) carbon neutrality and use of renewable energies, and (iv) national as well as regional aspects. A lending project to support transport sector reforms is tentatively included in 2013 with project preparatory TA in 2012. Details of the project will be identified based on the outcome of the new Transport Master Plan.

9. **Private sector operations.** ADB's Private Sector Operations Department (PSOD) is active in the Maldives. For 2011, PSOD sees opportunities in telecoms infrastructure as well as smaller projects in the renewable energy and waste-to-energy subsectors, consistent with ADB's energy sector strategy in the CPS. For 2012 and beyond, the government is considering the development of the Thilafushi port on a public–private partnership basis, as an alternative to the existing Malé port. This project would complement the ongoing Domestic Maritime Transport Project. PSOD would consider supporting this project provided it is well-structured and upon successful award of the concession on acceptable terms and as the culmination of a fair and transparent tendering process.

⁵ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Technical Assistance Loan to the Republic of the Maldives for Private Sector Development Project*. Manila.

⁶ The International Monetary Fund (IMF) announced in November 2010 that the IMF did not complete its second review under its standby arrangements because of fiscal slippages of the Government of Maldives.

⁷ ADB provided previous support through Institutional Improvements in the Maldives Electricity Authority, TA grant attached to ADB. 1991. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Republic of the Maldives for Second Power System Development Project*. Manila.

⁸ ADB provided support for the current Transport Master Plan through ADB. 2002. *Technical Assistance to the Republic of the Maldives for the Transport Sector Master Plan*. Manila.

UPDATED COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

(Board endorsement of the CPS: 2007; COBP April 2011)

Country Development Goals				Changes from CPS
<ol style="list-style-type: none"> Promote enhanced economic activities outside of Malé by developing infrastructure facilities in various sectors, establishing SMEs on the atolls, facilitating private sector development beyond the tourism sector, and enhancing capacity across the entire process of managing development. Improve physical and economic access, develop multimodal infrastructure on identified high-priority atolls, facilitate employment, and foster national cohesion. Improve economic management, transparency, and accountability. 				No change
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Five-Year Resource Allocation and Thematic Priorities	Changes from CPS or Last COBP
1. Energy (Strategy 2020 Core Area: Infrastructure and Environment)				
<p>Reliable power supplies are required to broaden and diversify economic activities on the atolls.</p> <p>Provide 12 hours or more of electricity to 100% of the population.</p>	<p>Outcome 1: Improved quality and reliability of electricity supply</p> <p>Indicator 1: Increased renewable energy share in the total energy mix from 2% to 12% by 2011</p> <p>Indicator 2: Electricity supply on underserved islands to be increased from 6–8 hours in 2006 to 24 hours by 2011, including pilot trials of renewable energy generation</p>	<p>Solar energy</p> <p>Policy and regulation</p>	<p>Amount of projects are subject to TA and SREP resource allocation</p>	No change
2. Industry and Trade (Strategy 2020 Core Area: Finance Sector Development)				
<p>Making Maldivian businesses more competitive by supporting small entrepreneurs</p>	<p>Outcome 1: Developed and expanded private SME subsector</p> <p>Indicator 1: 2–3 self-sustaining SME development centers become operational by 2011</p> <p>Indicator 2: Credit information bureau established and includes coverage of SMEs</p> <p>Indicator 3: Innovative SME financing modalities</p>	<p>SME development and policies</p> <p>SME finance</p>	<p>\$7.28 million for 2011–2013, 16.4% of total CPS envelope, of which: PSD – 100%</p>	No change

Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Five-Year Resource Allocation and Thematic Priorities	Changes from CPS or Last COBP
	(guarantees, etc.) established on two atolls and operated by 2011 Indicator 4: Branding system introduced by 2010			
3. Transport (Strategy 2020 Core Area: Infrastructure)				
Improving access to essential social services by improving transport facilities and services is central to improving the quality of life of the poor and the vulnerable on the remote atolls of the Maldives.	<p>Outcome 1: Lower transport cost from remote islands to Malé as a result of improvements in the overall transport network</p> <p>Indicator 1: Construction of quay wall and ancillary civil works, provision of cargo handling equipment, and construction of a temporary transit area for goods and passengers completed and operational by end February 2009</p> <p>Indicator 2: Preparation of a multimodal transport master plan by 2010</p> <p>Indicator 3: Identification of a set of priority harbors and jetties for upgrading under phase 2 of the multimodal transport sector support by 2010</p> <p>Indicator 4: Launch of a system for maritime asset management and maintenance by 2011</p>	Port facilities Sector-wide management and reforms	Amount of projects is subject to ADF allocation for 2013-2014, of which: ENV – 100% PSD – 100%	No change

Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Five-Year Resource Allocation and Thematic Priorities	Changes from CPS or Last COBP
4. Public Sector Management (Strategy 2020 Core Area: Finance Sector Development)				
<p>Ensuring fiscal responsibility by having a balanced budget by the end of 2011</p> <p>Reducing public borrowing to gradually reduce external debt to below 40% of GDP</p> <p>Promoting transparent accountable and efficient public administration</p> <p>Maximizing the potential of PPPs with a view to increasing private investment in the national economy</p>	<p>Outcome 1: Moderate-to-balanced fiscal stance</p> <p>Indicator 1: Primary budget deficit under 5% of GDP by 2010</p> <p>Indicator 2: Public debt-to-GDP below 50% by 2010</p> <p>Indicator 3: PPP assessment undertaken by MOFT and MED by 2009</p>	<p>Reforms and restructuring</p> <p>Macroeconomic management</p> <p>Privatization</p> <p>Aid effectiveness and aid coordination</p> <p>Public expenditure and fiscal management</p> <p>Revenue mobilization</p> <p>Accounting and auditing</p> <p>Civil service reforms and management</p>	<p>No project planned in 2011–2013</p>	<p>No major change. Core PMUs will be established in 2 key ministries instead of 4 to 5.</p>

ADB = Asian Development Bank, ADF = Asian Development Fund, CPS = country partnership strategy, COBP = country operations business plan, ENV = environmental sustainability, GDP = gross domestic product, MED = Ministry of Economic Development, MOFT = Ministry of Finance and Treasury, PMU = project management unit, PPP = public–private partnership, PSD = private sector development, SMEs = small and medium-sized enterprises, SREP = Scaling-Up Renewable Energy Program in Low Income Countries, TA = technical assistance.

Source: Asian Development Bank.

INDICATIVE ASSISTANCE PIPELINE

Table A2.1: Indicative Assistance Pipeline for Lending Products, 2011–2013

Project/Program Name	Sector	Targeting Classification	Primary Theme	Division	Year of PPTA	Cost (\$ million)						
						Total	OCR	ADB		Total	Gov't	Co-finance
								ADF				
								Loans	Grants			
2011 Standby												
Inclusive Micro- Small and Medium-Sized Enterprise Development Project	Industry and Trade	GI	GRO/ PSD	SAPF	2010	9.99	0.00	5.55	4.44	9.99	tbd	tbd
Total						9.99	0.00	5.55	4.44	9.99	tbd	tbd
2012 Firm												
Inclusive Micro- Small and Medium-Sized Enterprise Development Project	Industry and Trade	GI	GRO/ PSD	SAPF	2010	9.99	0.00	5.55	4.44	9.99	tbd	tbd
Total						9.99	0.00	5.55	4.44	9.99	tbd	tbd
2012 Standby												
Renewable Energy Project linked to SREP	Energy	GI	GRO/ ENV	SAEN	2012	tbd	0.00	0.00	0.00	0.00	tbd	tbd
Total						tbd	0.00	0.00	0.00	0.00	tbd	(SREP) tbd
2013 Firm												
Transport Project	Transport	GI	GRO	SATC	2012	tbd	0.00	tbd	tbd	tbd	tbd	tbd
Renewable Energy Project linked to SREP	Energy	GI	GRO/ ENV	SAEN	2012	tbd	0.00	0.00	0.00	0.00	tbd	tbd
Total						tbd	0.00	tbd	tbd	tbd	tbd	(SREP) tbd

ADB = Asian Development Bank; ADF = Asian Development Fund; ENV = environmental sustainability; GI = general intervention; Gov't = government; GRO = economic growth; OCR = ordinary capital resources; PSD = private sector development; SAEN = Energy Division; SAPF = Public Management, Financial Sector and Trade Division; SATC = Transport and Communications Division; SREP = Scaling-Up Renewable Energy in Low Income Countries, PPTA = project preparatory technical assistance; tbd = to be determined.

Source: Asian Development Bank.

Table A2.2: Indicative Assistance Pipeline for Nonlending Products and Services, 2011–2013

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				
				ADB		Others		Total (\$'000)
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2011								
Capacity Development for Maldives Energy Authority	Energy	SAEN	CDTA	TASF	300.00		0.00	300.00
Transport Master Plan Update	Transport	SATC	PATA	TASF	500.00		0.00	500.00
Developing a Tax Administration Management Information System	Finance	SAPF	CDTA	tbd	500.00		0.00	500.00
Total					1300.00		0.00	1300.00
2012								
PPTA for Preparing Transport Project	Transport	SATC	PPTA	TASF	400.00		0.00	400.00
PPTA for Renewable Energy Project linked to SREP	Energy	SAEN	PPTA	TASF	400.00		0.00	400.00
Total					800.00		0.00	800.00

ADB = Asian Development Bank, CDTA = capacity development technical assistance, PATA = policy advisory technical assistance, PPTA = project preparatory technical assistance, SAEN = Energy Division, SATC = Transport and Communications Division, SREP = Scaling-Up Renewable Energy in Low Income Countries, TASF = Technical Assistance Special Fund.

Source: Asian Development Bank.

ASSISTANCE PROGRAM FOR 2010

Table A3: Indicative Assistance Pipeline for Nonlending Products and Services, 2010

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				Total (\$'000)
				ADB		Others		
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2010								
PPTA for Inclusive Micro, Small, and Medium-Sized Enterprises Development Project	Finance	SAPF	PPTA	TASF	650.00		0.00	650.00
Total					650.00		0.00	650.00

ADB = Asian Development Bank; CDTA = capacity development technical assistance; PPTA = project preparatory technical assistance; SAPF= Public Management, Financial Sector and Trade Division; TASF = Technical Assistance Special Fund.

Note: There was no lending assistance in 2010, since the lending resource for 2010 was used for the Economic Recovery Program in 2009.

Source: Asian Development Bank.