



# Project Administration Manual

Project Number: P43566  
October 2016

Proposed Project Loan and Grant

Republic of the Maldives: Inclusive Micro, Small, and  
Medium-sized Enterprise Development Project

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### **Project Administration Manual Purpose and Process**

The project administration manual (PAM) describes the essential administrative and management requirements to implement the project on time, within budget, and in accordance with Government and Asian Development Bank (ADB) policies and procedures. The PAM should include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM.

The Ministry of Finance and Treasury (MOFT) as executing agency (EA) and the Ministry of Economic Development (MED), Bank of Maldives (BML), and Maldives Monetary Authority (MMA) as the implementing agencies (IA) are wholly responsible for the implementation of ADB financed projects, as agreed jointly between the borrower and ADB, and in accordance with Government and ADB's policies and procedures. ADB staff is responsible to support implementation including compliance by MOFT, MED, BML, and MMA of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At Loan Negotiations the borrower and ADB shall agree to the PAM and ensure consistency with the Loan agreement. Such agreement shall be reflected in the minutes of the Loan Negotiations. In the event of any discrepancy or contradiction between the PAM and the Loan Agreement, the provisions of the Loan Agreement shall prevail.

After ADB Board approval of the project's report and recommendations of the President (RRP) changes in implementation arrangements are subject to agreement and approval pursuant to relevant Government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval they will be subsequently incorporated in the PAM.

## Currency Equivalents

(as of 9 March 2012)

Currency Unit	–	rufiyaa (Rf)
Rf1.00	=	\$0.0653
\$1.00	=	Rf15.31

## Abbreviations

ADB	=	Asian Development Bank
BDS	=	business development services
BDSC	=	business development service centers
BML	=	Bank of Maldives
CGF	=	credit guarantee fund
CGS	=	credit guarantee scheme
CIB	=	credit information bureau
CPS	=	country partnership strategy
CSC	=	citizen services centers
CSF	=	cost-sharing facility
EA	=	executing agency
GDP	=	gross domestic product
IA	=	implementing agency
IDB	=	Islamic Development Bank
IFRS	=	International financial reporting standards
LCF	=	line of credit facility
MDB	=	multilateral development banks
MED	=	Ministry of Economic Development
MMA	=	Maldives Monetary Authority
MNCCI	=	Maldives National Chamber of Commerce and Industry
MSME	=	micro, small, and medium-sized enterprise
MSMEDP	=	micro- small and medium-sized enterprise development project
MOFT	=	Ministry of Finance and Treasury
PMU	=	project management unit
PPP	=	public–private partnership
PSC	=	project steering committee
PSDP	=	Private Sector Development Project
RIA	=	regulatory impact statement
SAP	=	Strategic Action Plan
STR	=	secured transaction registry
TA	=	technical assistance
TOR	=	terms of reference
UNDP	=	United Nations Development Programme
WEA	=	women entrepreneurs association



## **I. PROJECT DESCRIPTION**

### **A. Rationale, Location, and Beneficiaries**

1. The Maldives has faced a number of important challenges over the past 10 years which has had a severe impact on the economy. In December 2004, the Maldives faced the ravages of the tsunami which destroyed, in relative terms, a higher share of natural infrastructure than any of the other stricken economies. In 2007, the country was mired in its own fiscal crisis linked to excessive spending and acute structural distortions in the economy which was further compounded by the slowdown in tourism following the global crisis. In 2008, the country managed a successful transition from over 30 years of former presidency to a parliamentary democracy which, in the interim and given the resulting uncertainty, led to capital outflow and limited investment in the economy.

2. While much effort has focused on rebuilding the economy, the government's effort is now more concentrated on the pursuit of more inclusive growth that addresses some more pressing shortcomings. These include the lack of economic opportunities outside of Male and the skewed concentration of "enclave" economic activity centered in the tourism resorts industry. Political, administrative, and economic decentralization has been pursued by the government to address these shortcomings. Greater availability of credit is an important platform to promote financial inclusion and more inclusive growth for engendering economic and employment opportunities.

3. The Maldives has an overall unemployment level of 14.5% (146th among 200 countries), and the level of youth unemployment is even higher at around 25%.<sup>1</sup> Income disparities between Malé and the atolls are large and increasing. The Gini coefficient for the Maldives has remained almost constant over time at around 0.4, which is notably higher than those in neighboring countries. Over time inequality between Malé and the atolls has continued to increase. MSME development of MSMEs has been clearly identified as one of the key solutions towards fostering greater economic inclusion.

4. Access to finance has been continuously raised as the most significant issue preventing the promotion and development of MSMEs. Important building blocks were introduced with ADB's support including the establishment of a credit information bureau, and a line of credit facility. In line with these achievements, there is a need for setting up a secured transactions registry as well as putting in place insolvency and electronic commerce laws. Supporting legislation for enforcement of commercial contracts also required strengthening. As part of ADB's earlier efforts by ADB to support inclusive growth through private sector development, a Technical Assistance Project Loan for the Private Sector Development Project (PSDP) was approved in 2008 to develop and expand the MSME sector in the Maldives.<sup>2</sup>

### **B. Impact and Outcomes**

5. The intended impact of the project is more inclusive and broad-based MSME sector. The outcome of the project will be further expansion and strengthening of the MSME sector. For this purpose, the project will focus on enhancing the business environment and support infrastructure for doing business with better knowledge, greater access to financing, and expanded business opportunities for MSMEs.

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<sup>1</sup> Central Intelligence Agency (CIA). 2011. *CIA World Factbook in 2011*. Washington, D.C.

<sup>2</sup> ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Technical Assistance Loan to Republic of the Maldives for Private Sector Development Project*. Manila (Loan 2427-MLD).

6. The outcomes<sup>3</sup> of the project will include (i) building business support infrastructure capacity through strengthening and augmenting the business support infrastructure, a business incubator program, and creation of a better enabling environment for the promotion and development of MSMEs through development of the legal framework; (ii) enhanced access to finance through an additional line of credit facility (LCF) funds, strengthening the Credit Information Bureau and implementing a Secured Transaction Registry; and (iii) enhanced access to information through a comprehensive MSME portal and establishment of citizen service centres.

## **C. Components and Outputs**

### **(i) Component 1: Business Support Infrastructure Built**

7. This component will increase MSME access to business development services (BDS) and support institutional capacity building for business development service centers (BDSCs) by (i) expanding BDSCs' geographical coverage to all seven provinces within the country; (ii) introducing new BDS including business incubator programs offered by the BDSCs including institutionalized support in creating and enforcing market linkages; (iii) strengthening the institutional, operational, infrastructural, and human resource capacity of an expanded network of BDSCs to better support BDS demand needs of MSMEs; and (iv) transitioning the BDSCs under a corporate governance development plan into a viable, sustainable, and privately managed national BDS delivery network.<sup>4</sup> This component will also support energy sector linkages to value chain business opportunities having potential for MSME participation. The component shall also focus to ensure continuity of facilities or services established under the PSDP and shall be implemented in close coordination with various efforts carried out by the government targeted to the MSME sector. The specific outputs are as follows.

8. **Output 1: Program implementation capacity strengthened and enabling environment for MSME development improved (to be financed by ADB).** As noted in ADB's 2007 country partnership strategy, capacity constraints severely affect the optimization of all externally-assisted projects. Due to lack of project specific project implementation units and relevant experience, projects are completed 3-4 years late, undermining their development effectiveness. Appropriate project management processes play an integral part in the successful implementation of all projects in the government. Against this background, necessary project management mechanisms were set up in the Ministry of Economic Development (MED) for the smooth implementation of the PSDP. The performance of the project management unit (PMU) has been satisfactory and the MED has now put in place the position of a full-time Project Director to head the projects being managed by the MED. In line with past experience, a PMU will be set up at the MED for the managing the MSMEDP. PMUs will be also set up at the Maldives Monetary Authority (MMA) and Bank of Maldives (BML), respectively.

9. One component of this loan will be capacity building of the PMUs at MED, MMA, and BML. The PMU will be responsible for the overall coordination of the different project components, supervision of contract agencies, procurement of goods and services, financial management and accounting, including timely submission of withdrawal and replenishment of applications. The

<sup>3</sup> The IDB will provide parallel cofinancing of \$10.3 million equivalent under Istisna loan terms, which will be used for operation of LCF and LCF related capacity building (training for BML and Maldives Islamic Bank); and cost sharing facility.

<sup>4</sup> This will require adoption of a sustainability plan that, over time, achieves sufficient revenue growth to support institutional program and financial viability, and develops functional working relationships and linkages with other public and private BDS partner providers.



PMU at MED will be headed by the Project Director who will be assisted by a group of individual international and national consultants. The consultants will also be providing baseline study and evaluation in order to have realistic targets that can be assessed during periodic review. A certified, reputed local auditing firm will be hired to undertake the annual financial audit of the project and submit reports to ADB and Islamic Development Bank (IDB). The audit firm will be responsible for checking financial statements and other related statements (accounts and utilization certificate) of the project. The PMU at MMA will be assisted by consultants recruited under the Component 2 (Improving Access to Finance), and the PMU at BML will be provided a capacity building.

10. This output will create a better enabling environment for the promotion and development of MSMEs through development of the legal framework for (i) enhancing access to finance, (ii) enforcement of commercial contracts, and (iii) commercial laws pertaining to MSMEs including new e-commerce and data protection laws. It will help strengthen the commercial laws through (i) review of all new proposed acts to assess their impact on MSMEs and drafting required amendments, (ii) design of a regulatory impact assessment framework for new commercial legislation relevant to MSMEs, and (iii) drafting of new electronic commerce and data protection laws. The specific areas of intervention will include development of legal and regulatory framework to support access to finance such as drafting of (i) a new Credit Information Bureau (CIB) Act, which will provide the legislative basis for the CIB, enable finance providers to contribute customer information, deal with data protection issues, and facilitate eventual privatization of the CIB; (ii) regulations for the proposed secured transactions registry (STR) legislation and any related changes required to existing laws; (iii) a new non-bank financial institutions act to facilitate a wide range of financing options for MSMEs, such as finance leases, factoring arrangements and loans from finance companies; and (iv) listing rules for asset backed securities and any required legislation.<sup>5</sup> The output will also include support for commercial contract enforcement through (i) assessment and revision of the draft Civil Procedure Code in alignment with international good practices, (ii) drafting of personal and corporate insolvency laws including the supervisory structure and the structure for administration of bankrupt estates, (iii) establishment of an online judicial debt database to provide a central repository for all judgment on debts, and (iv) design and implementation of a program to build judicial capacity on commercial disputes.

11. **Output 2: Business development service centers (to be financed by ADB) and business incubator program (to be financed by IDB) strengthened.** A network of BDSCs started was under PSDP which included a central BDSC and two regional BDSCs – one in north and south. The government has added two more BDSCs from its own funds and plans to further expand this network to cover each of the seven provinces to support MSMEs countrywide. The project will (i) support institutional strengthening and capacity building of the BDSC network by supporting initiatives that broaden the range of BDS products and services offered, (ii) improve capacity of BDSCs to better serve business needs of MSMEs, (iii) support BDS market growth and enhance linkages with other BDS providers, and (iv) increase BDSC operational performance and business profitability. The activity will support in (i) increasing revenue streams to improve long term sustainability, (ii) transitioning towards a better corporate governance structure for BDSC management and enhancing BDS capacity, and (iii) new value added service offerings by BDSCs.

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<sup>5</sup> Asset-backed securities (ABS) are created when financial assets are pooled together and claims to that pool are sold in the market. The most common types of assets used for this purpose are mortgages, credit card receivables, automobile loans, consumer loans and equipment leases.

12. This activity will also support establishing two BDSC-operated business incubator facilities, one situated in the north and the other in the south to work with a selected group of 30 MSMEs under business partnership agreements. Its objective is to make MSMEs more market oriented and profitable, through improved linkages in each of the product value-chains identified. Key focus under the business incubator program will include (i) product development to support the development of innovative products associated with identified priority sector, (ii) quality control to improve product quality standards, (iii) business management support to develop skills through on-the-job business and customized training modules, and (iv) market research and development to support forward and backward linkages for identified value chain business opportunities.

13. **Output 3: Credit guarantee scheme initiated (to be financed by ADB).** A consultancy will be provided for (i) support design and making credit guarantee scheme (CGS) operational towards reducing the collateral requirement for MSMEs, (ii) initiating a credit guarantee fund (CGF) for diminishing the risk incurred by lenders and facilitate access to credit for MSMEs without sufficient collaterals to meet the bank's requirements; and (ii) undertaking a public awareness campaign to explain the key features of CGF. Following a preparatory consultancy, the CGF will start with the capital contributed by the government, and a new entity will be established for managing CGF. A very preliminary design of CGS has been developed and presented to the MED, the MOFT, and all banks and financial institutions interested in the project to validate the initial assumptions used. The government is prepared to commit up to 75% (Rf. 74.3 million or local currency equivalent to \$5.2 million, which is lower) of the CGF's capital estimated at approximately local currency equivalent to \$7.0 million or Rf. 100 million, which is lower, over 4 years. The CGS will start with the capital contributed by the government. There will be an option for banks and financial institutions to contribute 25% of the capital or approximately Rf. 25.7 million or local currency equivalent to \$1.8 million, which is lower, during the course of implementation. The CGS will guarantee up to 80% of principal of loans given by the participating banks to MSMEs, in defined sectors. Over 5 years, CGF of this size with a conservative leverage multiple of 3 to 5 times the capital, should produce incremental financings in the order of \$50 million (Rf.800 million over 5 years). The output under this activity shall include (i) a technical assistance study to assist the government in finalization of design and making the CGS operational towards reducing the collateral requirement for the MSMEs, including design and specifications of a system that would help analyze the default records; and (ii) undertaking a public awareness campaign to explain the key features of CGS.

14. **Cost sharing facility (to be financed by IDB).** The CSF was established under the PSDP to serve as a capacity building tool to support BDS market enhancement.<sup>6</sup> Under the MSMEDP support for the CSF will continue its support through an investment of \$2.0 million by the IDB as part of the parallel co-financing to support about 200 BDS user grants and up to 40 BDSC program grants.<sup>7</sup>

<sup>6</sup> Under PSDP, \$1.0 million was allocated for CSF pilot implementation to (i) provide consulting services for business planning, (ii) service the purpose of the CSF which was to enable the BDSCs to initially offer services to MSME clients in targeted regions and sectors at a discounted price while at the same time supporting the BDSCs in developing service products and generating income by charging for services provided.

<sup>7</sup> (i) BDSC program grants support BDS market capacity-building and facilitate the development of priority sector value chains (20% of the CSF will be allocated). (ii) BDS user grants will enable MSMEs on a cost-sharing basis to access needed technology, training, market information, business planning and other services needed to grow their businesses. 80% of the CSF is recommended to be earmarked. Under 80:20 cost sharing basis, beneficiary contributions of 20% can be made either "in-cash" or "in-kind" (e.g. land, equipment, and time of MSMEs). The focus of the CSF is recommended to (i) support research and development, pilot testing and technical training activities associated with MSME business incubator projects; (ii) assist BDSCs to undertake program activities that contribute to BDS market capacity building and development of priority sector value-chains; (iii) duplicate successful projects and spread the successful business models that were developed in PSDP; and (iv) enable MSMEs to access needed

## (ii) Component 2: Access to Finance Improved

15. This component will improve MSMEs' access to finance through (i) additional LCF to meet with a credit demand from MSME sector, (ii) extension of CIB to improve information quality and reduce credit risk, and (iii) establishment of STR providing database information on fixed and movable assets. The specific outputs are as follows:

### 16. **Output 1: Line of credit facility expanded (to be financed by ADB and IDB in parallel).**

A LCF was set-up as a pilot facility under the PSDP to promote a culture of lending to MSMEs with less restrictive collateral requirements and cash-flow-based financing.<sup>8</sup> Under this activity, \$8.5 million of additional LCF will be built in-line with the existing pilot model. The government will borrow from ADB and bear the foreign exchange risk of the loan. Under this facility, the Ministry of Finance and Treasury (MOFT), on behalf of the Republic of the Maldives, will relend the loan to the BML and enter into a subsidiary loan agreement with BML. The loan term will not exceed 15 years, including 3 year grace period, with the government retaining the right to close the LCF. The MOFT will advance the LCF funds to BML based on the projected loan processing amount over the future 6 months. BML has comprehensive experience with development banking and staffing to administer the LCF, in consultation with BDSCs, which has been proved based on the implementation of the pilot phase. The procedure for applications for sub-loans and credit risk assessment will be the same as the existing framework under the pilot.<sup>9</sup> BML is expected to provide around new 200 MSMEs with sub-loans under LCF. Any deviation will be subject to ADB's prior approval. LCF guidelines including lending eligibility criteria have been prepared. The key activities include (i) launch, promotion, and operationalization of the LCF scheme as per the guidelines; (ii) invitation of application and appraisal of the same; and (iii) creation of an enabling environment for the enhanced access to credit for the MSME sector through the creation of a credit guarantee scheme to facilitate access to finance for MSME without adequate collaterals as a risk transfer mechanism for lenders. The activity shall also support capacity development of BML on effective lending process, adequate risk assessment, and appropriate MSME lending techniques.

17. **Output 2: Credit information bureau enhanced (to be financed by ADB).** The CIB is a central repository of credit histories (positive and negative) of borrowers. Maldives Monetary Authority (MMA) is currently the implementation agency facilitating the exchange of information among member banks which are users as well as information providers for the system. The output will (i) focus on expanding the CIB membership;<sup>10</sup> (ii) developing new reporting and credit scoring products, including customized products to meet individual member's information needs; (iii) raising public awareness about the need for building and maintaining a credit track record, explaining the role of the CIB in banks' lending decisions, and emphasizing the importance of developing a positive "credit reputation", and (iv) investigating the possibility of decoupling CIB and MMA, towards the end on this phase of technical support.

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BDS to grow their businesses on a 80:20 cost sharing basis. The CSF management will be as per procedures defined in the CSF manual which was developed under the PSDP. PMU/BDSC will act as the CSF management unit before screening and recommendations by the Steering Committee and the Tendering Evaluation Committee. These committees need to complete their recommendations within 7 working days. The Steering Committee comprises representatives from BML, Credit Bureau, MMA, MOFT, MNCCI, and WEA. The recommendations will be submitted to Tendering Evaluation Committee comprising representatives from staff of related ministries.

<sup>8</sup> During the pilot LCF, more than 100 applications were submitted from across the country. Based on the expected demand across the country and financing gap estimated from the pilot, at least \$5 million is required during the second phase of LCF operations.

<sup>9</sup> The maximum sub-loan size for applicants will be \$80,000 and the anticipated average sub-loan size is \$40,000.

<sup>10</sup> New members will include the telecommunications companies; the utilities companies; and other non-bank credit providers, including the insurance companies, student loan providers, and other public and private credit providers.

18. **Output 3: Secured transaction registry established (to be financed by ADB).** This component had been originally mooted under the PSDP as the central management asset registry, and is now being included as STR in conformity with global best practices. STR will provide a credible mechanism for securing the interests of lenders on borrowers' assets provided as security for a loan. It will help MSMEs with sound business financials to secure credit against its movable assets and thus facilitate access to finance for such enterprises even when they do not have adequate collateral. A preliminary feasibility study for setting up an STR and the necessary legal infrastructure for implementing it was carried out under the PSDP and two separate systems for immovable and movable assets was recommended. The output under this activity will include (i) as-is and requirement analysis and technical specification based on internationally acceptable best practices; and (ii) establishment of an online and publicly accessible STR registering the interests of financiers in assets, enabling credit providers who wish to take security over movable property, finding out pre-existing charges against any asset and the respective priority position of multiple charges on any asset.

**(iii) Component 3: Technologies for MSME Development Established (Market Development)**

19. This component will facilitate and enable (i) use of information and communication technology (ICT) technologies to promote information and knowledge sharing between MSMEs and with the government; (ii) implementation of a pilot ICT project in order to (a) demonstrate the use of ICT and viability of solar energy as a cost effective energy option; (b) creation of a platform for delivery of e-governance services such as e-commerce, e-payment, online submission of government taxes through citizen service centers; and (c) create revenue stream for BDSCs through a PPP model; and (iii) provide support to the MSMEs from the ICT and information technology enabled services industry, with a view to grow their economic contribution to the gross domestic product. In order to ensure the feasibility of the proposed CSC, an initial study will be carried out at the proposed location and methodology.

20. **Output 1: MSME portal and judgment debt database created.** This output will improve access to information and knowledge sharing for the MSME sector through a MSME portal. This portal will include (i) a MSME registry containing the names and details of all MSME's registered with MED, list of priority sectors defined by the government, etc.; (ii) information on all legal and statutory aspects of establishing and running a MSME in Maldives, such as government legislation and rules pertaining to business registration, licensing, permits and taxation (tourism goods and service tax (T-GST) and business profit tax (BPT)); (iii) details of current government schemes, programs, and projects which aim at improving access to finance to MSMEs; (iv) information about BDSCs—their role and specific services offered by them, etc.; and (v) MSME feedback system, through which MSMEs will be able to lodge complaints and grievances on any problems faced by them and seek information on any aspect related to MSME development.

21. Commercial banks and potential foreign investors need to have a fair assessment of the financial health of MSMEs who apply for financing support. For this, the banks need to know if there are any confirmed or contingent liabilities for the applying MSME. While the CIB and STR will provide information about the assets and loan liabilities for the MSME, judgment debts against MSME, awarded by the courts, need to be captured in a central database so as to give a true financial picture to the banks. Currently, the judgment debt records are kept manually and there is no central database for the records. This in effect means that the courts are unable to check whether somebody has a judgment debt, or not. Further, the Constitution stipulates that whenever there is an election, persons who has put forth their candidacy should have a clear record (not be

in default of any judgment debt, if any), and the Elections Commission always refers this component to the civil court, which needs a computerized and centralized judgment debt database to respond). Hence, the judgment debt database will provide a central repository of all judgment debts.

22. **Output 2: Citizen service centers established.** There is a strong need to make BDSCs financially sustainable and less dependent on government and donor funding. One of the options for achieving this is to augment the current BDSCs to also serve as citizen services centers (CSC). Under this output, the BDSCs shall provide the office space and ICT infrastructure within the BDSCs office, to a local entrepreneur who shall be selected to maintain and run the CSC. This CSC shall provide information on all e-government services (for examples, filing of government returns for taxes, downloading and sending applications and forms, etc) and also operate like a cyber café, which will be critical for ensuring sustainable revenue generation post project implementation. The CSC will also be used for conducting short-term training programs for ICT certification courses. The entrepreneur in return shall enter into a fee sharing arrangement with the BDSC. The CSCs shall also have dedicated touch-screen based CSC kiosks through which MSMEs can access information on government schemes, projects, and programs. At a later stage, these kiosks may also be used for conducting e-commerce and e-banking transactions. Consideration shall be given to the CSCs being powered using solar energy sources, in order to demonstrate the use of renewable sources of energy, and provide a low cost energy source for BDSC and CSCs, providing cost saving and enhancing their revenue stream.

## II. IMPLEMENTATION PLANS

### A. Project Readiness Activities

Indicative activities	Months									Responsible
	1	2	3	4	5	6	7	8	9	
Advance contracting actions			AN		S1		S2	S3	S4	PMU
Retroactive financing actions			x							MOFT/ADB Up to 180 days in advance
Establish project implementation arrangements				x						MOFT
ADB Board Approval		x								ADB
Loan signing			x							MOFT/ADB
Government legal opinion provided				x						MOFT
Loan effectiveness				x						

ADB = Asian Development Bank, AN = announcement, MOFT = Ministry of Finance and Treasury, PMC = project management consultant, PMU = project management unit, S1 = short listing of consulting firms and requests for proposals, S2 = evaluation of technical proposals, S3 = financial proposals, evaluation and overall ranking of proposals, S4 = draft negotiated contracts.

#### Note 1: Project Readiness for Recruitment of Consultants

Once the consultancy packages are confirmed by the Government during the loan negotiations, Invitations for Expression of Interest (EOI) will be posted in the website which can give more advanced time for recruitment (i) Program Management Unit Consultants; (ii) SME Development Consultant; (iii) Access to Finance Consultants; (iv) Procurement of vendor for Credit Information Bureau Reconfiguration; (v) Procurement of vendor for Secured Transaction Registry; (vi) MIS and PPP consultants; and (vii) Procurement of vendor for Common Service Centers, MSME Portal, and Judgment Debt Database



<p>Evaluation Framework</p> <p>Market demand gap survey and analysis</p> <p>Procurement of a vendor for project management and quality assurance</p> <p>Study to design the model for CGS</p> <p>Design the rules of business for the CGS</p> <p>Set up a pilot desk within the MED for operationalization of the CGS</p> <p>Capacity development of MSMEs and BDS staff</p>	
<p><b>Component 2: Access to Finance Improved</b></p> <p>Developing of new products such as credit scores</p> <p>Explore the feasibility of inclusion of retailers</p> <p>Public awareness campaign on CIB</p> <p>Feasibility study for the setting up of an STR</p> <p>Convening of a steering committee to oversee project</p> <p>Prepare RFP for selecting a vendor</p> <p>Awareness &amp; capacity building on the functionalities and use of the STR</p> <p>Capacity development training for BML and MIB</p>	
<p><b>Component 3: Technologies for MSME Development Established</b></p> <p>Development of content of MSME Portal and Judicial Debt Database</p> <p>Awareness campaign about MSME portal and Judicial Debt Database</p> <p>Procure vendor MSME Portal and Judicial Debt Database</p> <p>Establishing MED portal</p>	
<p><b>D. Project Loan</b></p> <p><b>Component 1: Business Support Infrastructure Built</b></p>	



Establish, equip and staff two Business Incubator Facilities  
 30 new BDS products and services  
 Identify, register and develop 25 new/expanded BDS providers  
 Select priority sector value chains  
 Finalization of services to be offered through CSC  
 Prepare bidding documents for procurement  
 Prepare PPP framework and partnership agreement for CSC operators  
 Set up 7 CSCs - Equipment Contract for establishing 7 Service Center

**Component 2:  
Access to Finance  
Improved**

Completion of on lending agreement between Government and BML  
 Announcement of LCF scheme (Financed by ADB and IDB in parallel)  
 Processing of applications  
 Disbursal of LCF and monitoring and follow-up of the disbursed loans (Financed by ADB and IDB in parallel)  
 Expansion of the CIB member group and reconfiguration of the system  
 Float RFP, selection of vendor and contracting with vendor  
 Arrangement for premises  
 Launch of STR

**Component 3:  
Technologies for  
MSME Development  
Established**

Equipment Contract for desktop, printer and internet connectivity for each of the 7 BDSCs, Web Server and Domain Registration for Website

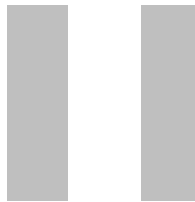
Equipment Contract  
for computer  
equipment for  
running the database  
system

Establishing  
Judgment Debt  
database

#### **E. Reporting**

PMU quarterly  
reports

ADB monitoring and  
review missions



Note \* Project Preparation

Ongoing

Intermittent

ADB = Asian Development Bank, BDS = business development services, BDSC = business development services center, BML = Bank of Maldives, CGS= credit guarantee scheme, CIB = credit information bureau, CSC= Citizen Service Centers, LCF = line of credit facility, MED= Ministry of Economic Development, MMA = Maldives Monetary Authority, MSME = micro, small, and medium-sized enterprise, PMU = project management unit, PPP = public-private partnership, RFB = request for bid, STR = secured transaction registry  
Sources: Asian Development Bank and Republic of the Maldives

### III. PROJECT MANAGEMENT ARRANGEMENTS

#### A. Project Implementation Organizations – Roles and Responsibilities

Project Implementation Organizations	Management Roles and Responsibilities
<ul style="list-style-type: none"> <li>MOFT (executing agency)</li> </ul>	<ul style="list-style-type: none"> <li>(i) guides and supports the overall project implementation</li> <li>(ii) (Secretary) chairs the PSC</li> <li>(iii) makes key policy level decisions to facilitate project implementation</li> <li>(iv) ensures adequate counterpart funding</li> <li>(v) establish and maintain FGIA for BML LCF</li> <li>(vi) liaise with MED and MMA on matters</li> </ul>
<ul style="list-style-type: none"> <li>MED, MMA, and BML (implementing agencies- IAs)</li> </ul>	<ul style="list-style-type: none"> <li>(i) coordinates and manages project implementation</li> <li>(ii) coordinates all project activities</li> <li>(iii) serves as point of contact with ADB</li> <li>(iv) MED and MMA establish and maintain two FGIAs respectively</li> <li>(v) BML establishes and maintains a SGIA for LCF</li> </ul>
<ul style="list-style-type: none"> <li>Three Project Management Units (in MED, MMA and BML, respectively)<sup>11</sup></li> </ul>	<ul style="list-style-type: none"> <li>(i) engages project management consultant (PMC)</li> <li>(ii) submits withdrawal applications and retention of supporting documents</li> <li>(iii) assists the provincial councils and local authorities in implementing the capacity development trainings</li> <li>(iv) submits audited project accounts and financial statements annually within 6 months after the end of each fiscal year</li> </ul>
<ul style="list-style-type: none"> <li>Project Steering Committee (PSC)</li> </ul>	<p>A PSC will be chaired by the MED deputy minister and comprise the executive directors from MOFT (including Director General of ERMD, MOFT), MED, 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. All members will have an alternative member in case the member is otherwise engaged. The project coordinator under PMU 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. The reports generated through the participatory planning, monitoring, and evaluation system will be presented to the PSC on a biannual basis. It will oversee the project at the national level, and guide the project on strategic policy issues.</p>
<ul style="list-style-type: none"> <li>ADB</li> </ul>	<p>Supervises the overall project implementation; reviews procurement and disbursement documents and acts; and undertakes project review</p>

ADB = Asian Development Bank, BML = Bank of Maldives, ERMD = External Relationship Management Department, FGIA = First Generation Imprest Account, LCF = a line of credit facility, MMA = Maldives Monetary Authority, MED= Ministry of Economic development, MSME = micro, small, and medium-sized enterprise, PMC = project management consultants, PMU= project monitoring unit, PSC = project steering committee, SGIA = Second Generation Imprest Account

<sup>11</sup> The IAs are (i) MED for Component 1 and 3; (ii) BML for Component 2, Output 1, and (iii) MMA for Component 2, Outputs 2 and 3. In line with PSDP lessons, PMU will be set up at the MED for the managing the project. PMUs will support the coordination of all the project components, and its smooth implementation. The PMUs will support strengthening the internal capacity relating to project management within the IAs through a knowledge transfer process and ensure that it promotes capacity development. The Project Director (PD) at MED will be assisted by a group of consultants such as National Project Manager, National BDSC Coordinator, two Economic Associates, Local Audit Firm, International Gender Expert, National Gender Expert, International M&E Expert, National M&E Expert, two International Legal Experts, Local Legal Firm, and Credit Guarantee Scheme Expert.

## B. Key Persons Involved in Implementation

Names	Institutions	Position	Address	Telephone/Fax/Email
<b>ADB</b>				
Bruno Carrasco	ADB	Director, SAPF	6 ADB Avenue Mandaluyong Philippines	T-632-632 5929 F-632-636 2337 bcarrasco@adb.org
Kyung-Nam Shin	ADB	Senior Financial Sector Economist	6 ADB Avenue Mandaluyong Philippines	T-632-632 5424 F-632-636 2337 kshin@adb.org
<b>Government</b>				
Aminath Ali Manik	MOFT	Director General	Ameenee Magu, Male, Republic of the Maldives	T-960 7786 905 F- 960 334 9223 aminath.ali@finance.gov.mv
Nuha Riza	MED	Project Director	Ameenee Magu, Male, Republic of the Maldives	T-960 7772 047 nuha.riza@trade.gov.mv
Neeza Imad	MMA	Executive Director	Male, Republic of the Maldives	T-960 7791 495 neeza.imad@mma.gov.mv
Fathimath Manike	BML	Senior Manager	Boduthakurufaanu Magu, Male, Republic of the Maldives	T-960 7744 740 F- 960 333 0186 fathimathmanike@bml.com.mv

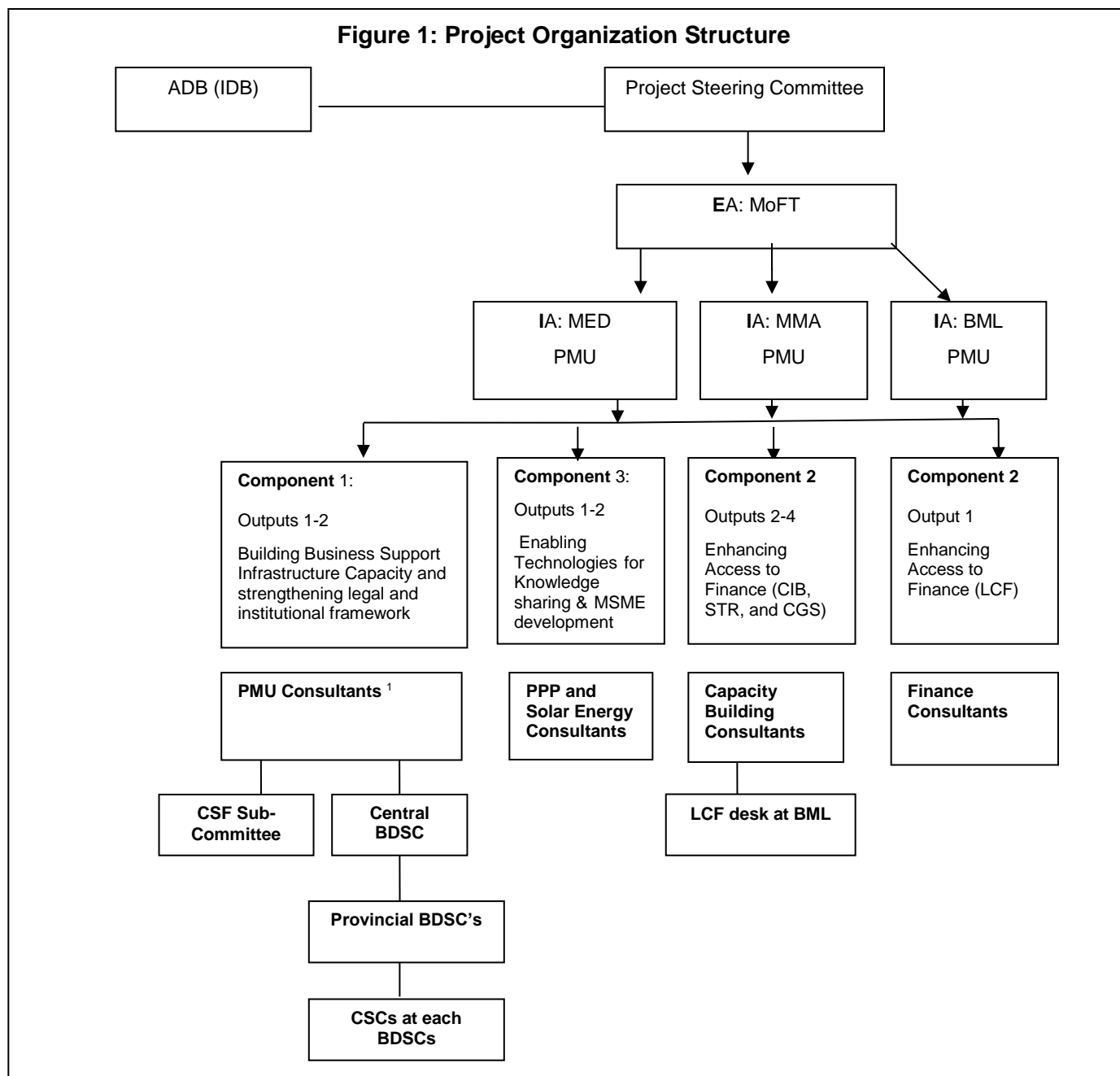
ADB = Asian Development Bank, BML = Bank of Maldives, MED = Ministry of Economic Development, MMA = Maldives Monetary Authority, MOFT = Ministry of Finance and Treasury

## C. Project Organization Structure

23. The implementation arrangements will follow those established and proven effective under the MOFT and other implementing agencies (IAs) such as MED, MMA, and BML in line with successful implementation under the previous project loan, Private Sector Development Project (PSDP). The PMU experts will be established under the IAs, and they will manage project implementation, supported by the project management consultant. There are three components such as (i) building business support infrastructure, (ii) enhanced access to finance, and (iii) enabling technologies for knowledge sharing and MSME development. MED will be the IAs for the implementation of components 1 and 3. The component 1 implementation will be supported by central BDSC and provincial BDSCs which will be located in all seven provinces. The MMA will be the IA in charge of component 2 except the implementation of LCF. BML will be the IA of the LCF administration.

24. A Project Steering Committee (PSC) will be chaired by the MED deputy minister and comprise the executive directors from MOFT (including Director General of ERMD, MOFT), MED, 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. All members will have an alternative member in case the member is otherwise engaged. The project coordinator under PMU 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 structure is shown below.



ADB = Asian Development Bank, BML = Bank of Maldives, BDSC = business development services centers, CIB = credit information bureau, CSC = Citizen Service Centre, CSF = cost-sharing facility, EA = Executing Agency, IA = Implementing Agency, IDB = Islamic Development Bank, LCF = line of credit facility, MMA = Maldives Monetary Authority, MED = Ministry of Economic Development, MSME = micro, small, and medium-sized enterprise, PMU= project monitoring unit, STR = secured transaction registry

Footnote<sup>1</sup>: PMU consultants include an international BDSC Coordinator, an international Monitoring &Evaluation Expert, two national MSME specialists, an International Gender Expert, a National Gender Expert, and an Audit firm

## D. Implementation Arrangements

25. MOFT will be the executing agency (EA) responsible for carrying out the project and coordinating the activities of all IAs. MOFT will liaise with ADB and IDB on all project administration matters in general. The IAs will be (i) MED for Component 1; (ii) BML for Component 2, Output 1, and (iii) MMA for Component 2, Outputs 2 and 3. Each IA will be responsible for the day-to-day implementation of project components within their respective mandates. PMUs will be established in the MED, MMA, and BML that will be headed by project directors. The project directors will be responsible for coordinating the project activities, overseeing logistical arrangements, and performing other assignments necessary for project implementation.

**Table 1: Implementation Arrangements**

Aspects	Arrangements		
Implementation period	1 July 2012– 30 June 2016		
Estimated completion date	30 June 2016		
Management			
(i) Oversight body	PSC with MED deputy minister (chair), executive directors from MOFT and MHE, a senior executive director of MMA, a general manager of BML, and PMU project director (members). One representative each from MNCCI and WEA as observers.		
(ii) Executing agency	MOFT		
(iii) Implementing agencies	MED, MMA and BML		
(iv) Implementation unit	PMU in MED for MSMEDP in general including 4 core consultants (BDSC coordinator, M&E expert, and two national consultants), gender specialists, legal specialists and 3 government staff; PMU in MMA (for CIB, STR, and CGS), and PMU in BML (for LCF)		
Procurement	National competitive bidding	2 contracts	\$ 0.55 million (total) plus contingency
Consulting services	QCBS, Individual selection, and capacity building	332 person-months (total) <ul style="list-style-type: none"><li>• 89 person-months</li><li>• 243 person-months</li></ul>	\$3.6 million (total) plus contingency
	QCBS	3 contracts (for system development turnkey)	\$3.35 million (total) plus contingency
Retroactive financing and/or advance contracting	Advance contracting is proposed for the recruitment of PMC under PMU at MED and consultants at BDSCs. Retroactive financing will apply for the recruitment of PMC, and BDSC consultants.		
Disbursement <sup>a</sup>	The loan proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook (2007, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, BDSC = business development services center, BML = Bank of Maldives, CGS = credit guarantee scheme, CIB = credit information bureau, LCF = line of credit facility, M&E = Monitoring and Evaluation, MED = Ministry of Economic Development, MHE = Ministry of Housing and Environment, MMA = Maldives Monetary Authority, MNCCI = Maldives National Chamber of Commerce and Industry, PMU = project management unit, PSC = project steering committee, STR = secured transactions registry, WEA = Women Entrepreneurs Association

<sup>a</sup> For guidance, refer to the [Loan Disbursement Handbook](#)

Source: Asian Development Bank, and the Government of the Maldives

#### IV. COST ESTIMATES AND FINANCING PLAN

26. To support reform initiatives, the government has requested a loan of \$5.57 million equivalent and a grant not exceeding \$4.45 million from ADB Special Funds resources. The government has also requested for \$10.3 million equivalent from Islamic Development Bank (IDB) fund resources to finance a cost sharing facility, finance a line of credit facility, and finance capacity building relating to a line of credit facility.

27. ADB's \$5.57 million loan equivalent 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 such other terms and conditions set forth in the draft financing agreement. ADB will also provide \$4.45 million grant. The project ADF loan and grant will be disbursed in accordance with financing agreement and the provision of ADB's Loan Disbursement Handbook (2007, as amended from time to time).<sup>12</sup> The government will be providing \$0.7 million equivalent which will be used for paying taxes and duties of the equipments to be procured. Similarly IDB's financing will be in accordance with its financing agreement, procurement guidelines and procedures. MSMEDP will provide for retroactive financing up to 5% of the total ADB grant amount for eligible expenditures incurred up to 180 days prior to loan and grant effectiveness. ADB will retain the right to audit the use of the loan and grant proceeds and to verify the accuracy or the withdrawal application certification.

**Table 2: Project Investment Plan**  
(\$ million)

Item	
<b>A. Base Cost<sup>a</sup></b>	
Component 1: Business Support Infrastructure Built	5.15
Component 2: Access to Finance Improved	11.48
Component 3: Technologies for MSME Development Established	1.55
<b>Subtotal (A)</b>	<b>18.18</b>
B. Contingencies <sup>b</sup>	1.88
C. Interest Charges <sup>c</sup>	0.26
D. Taxes and Duties <sup>d</sup>	0.70
<b>Total (A+B+C+D)</b>	<b>21.02</b>

<sup>a</sup> In mid-2011 prices.

<sup>b</sup> All contingencies are computed at 10.0-11.0% of the total items. Physical contingencies computed at around 7% for equipment procurement; and around 7% for field research and development, and training. Price contingencies computed at around 3% on foreign exchange costs and around 3% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>c</sup> Includes interest. Interest for ADB ADF loan has been computed at 1 % per annum.

<sup>d</sup> Taxes and duties of \$0.7 million will be financed from government resources.

Source: Asian Development Bank.

**Table 3: Financing Plan**  
(\$ million)

Source	Amount	Share of Total (%)
Asian Development Bank	10.02	47.7
Loan	5.57	
Grant	4.45	
Islamic Development Bank	10.30	49.0
Government	0.7	3.3
<b>Total</b>	<b>21.02</b>	<b>100.0</b>

Source: Asian Development Bank.

<sup>12</sup> Available at: [http://www.adb.org/Documents/Handbooks/Loan Disbursement/loan-disbursement-final.pdf](http://www.adb.org/Documents/Handbooks/Loan%20Disbursement/loan-disbursement-final.pdf).

**A. Detailed Cost Estimates by Expenditure Category**

SI No	Item	(US\$)						% of Base Cost
		ADB Foreign Currency	ADB Local Currency	IDB Foreign Currency	IDB Local Currency	Government	Total Cost	
<b>A</b>	<b>Investment Cost</b>							
1	Equipment	550,000	-	-			550,000	3%
2	Consultants	6,950,000		180,000			7,130,000	34%
	a. Project Management	3,440,000					3,440,000	16%
	b. System Development Consultancy	3,350,000					3,350,000	16%
	b. Capacity Development	160,000	-	180,000			340,000	2%
3	Cost Sharing Facility	-	-	2,000,000			2,000,000	10%
4	a Line of Credit Facility	1,500,000		7,000,000			8,500,000	40%
	<b>Sub-Total (A)</b>	<b>9,000,000</b>	<b>-</b>	<b>9,180,000</b>			<b>18,180,000</b>	<b>86%</b>
<b>B</b>	<b>Contingency</b>							
1	Physical Contingency	480,000	-	460,000			940,000	4%
2	Price Contingency	480,000	-	460,000			940,000	4%
	<b>Sub-Total (B)</b>	<b>960,000</b>	<b>-</b>	<b>920,000</b>			<b>1,880,000</b>	<b>9%</b>
<b>C</b>	<b>Financial charges during implementation</b>							
1	Interest during implementation	60,000	-	200,000			260,000	1%
2	Commitment charges							
	<b>Sub-Total (C)</b>	<b>60,000</b>	<b>-</b>	<b>200,000</b>			<b>260,000</b>	<b>1%</b>
<b>D</b>	<b>Taxes &amp; Duties</b>					<b>700,000</b>	<b>700,000</b>	<b>3%</b>
<b>E</b>	<b>Total Project Cost (A + B + C+D)</b>	<b>10,020,000</b>	<b>-</b>	<b>10,300,000</b>		<b>700,000</b>	<b>21,020,000</b>	<b>100%</b>

Notes:

- Cost based on mid 2011 prices
- All contingencies are computed at 10.0-11.0% of the total items. Physical contingencies computed at around 7% for equipment procurement; and around 7% for field research and development, and training. Price contingencies computed at around 3% on foreign exchange costs and around 3% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.
- Includes interest. Interest for ADB ADF loan has been computed at 1 % per annum.
- Taxes and duties of \$0.7 million will be financed from government resources.

Note: Source of government funding is from budget allocation.

Source: Asian Development Bank



## B. Allocation and Withdrawal of Loan and Grant Proceeds

### B1. Allocation and Withdrawal of ADB ADF Loan Proceeds

B1: Allocation and Withdrawal of ADB ADF Loan Proceeds				
Category				ADB financing basis
SI No	Item	Total amount allocated for ADB financing (SDR) [US\$]		Percentage and basis for withdrawal from the loan account
		Category	Subcategory	
1	Equipment		150,000	100% of total expenditure claimed*
2	Consulting Services		3,350,000	
2A	System Development Consultancy (CIB, STR)**		2,100,000	100% of total expenditure claimed*
2B	System Development Consultancy (MSME Technologies)		1,250,000	100% of total expenditure claimed*
3	Line of Credit Facility***		1,500,000	100% of total expenditure claimed
4	Contingency		510,000	100% of total expenditure claimed
5	Interest / Financing Charges		60,000	100% of total amount due
6	Total		5,570,000	

\* Exclusive of all duties and taxes imposed within the territory of the Borrower.

\*\* No withdrawals shall be made from the Loan Account, until the MMA Subsidiary Financing Agreement, in form and substance satisfactory to ADB, shall have been executed by the Beneficiary and MMA

\*\*\* No withdrawals shall be made from the Loan Account, (i) for LCF activities under Component 2, subcomponent (i), until the BML Subsidiary Loan Agreement, in form and substance satisfactory to ADB, shall have been executed by the Beneficiary and BML, and (ii) for LCF activities under Component 2, subcomponent (i), until at least 2 of the Onlending Agreements, in form and substance satisfactory to ADB, shall have been executed by BML and a Qualified Enterprise.

### B2. Allocation and Withdrawal of ADB ADF Grant Proceeds

Disbursement and Withdrawal of ADB ADF Grant Proceeds				ADB financing basis
SI No	Item	Category		Percentage and basis for withdrawal from the grant account
		Category	Subcategory	
1	Equipment	400,000		100% of total expenditure claimed*
2	Consulting Services	3,440,000		
2A	Project Management (Project Management Unit Consultancy)		2,600,000	100% of total expenditure claimed*
2B	Access to Finance (CIB, STR and CGS)**		700,000	100% of total expenditure claimed*
2C	MSME Technologies		300,000	100% of total expenditure claimed*
2D	Capacity Development	160,000		100% of total expenditure claimed*
4	Contingency **	450,000		100% of total amount due
5	Total	4,450,000		

\* Exclusive of all duties and taxes imposed within the territory of the Borrower.

\*\* No withdrawals shall be made from the Loan Account, until the MMA Subsidiary Financing Agreement, in form and substance satisfactory to ADB, shall have been executed by the Beneficiary and MMA.

### C. Detailed Cost Estimates by Financier

		(US\$)								
SI No	Item	ADB ADF Loan	% of Cost Category	ADB ADF Grant	% of Cost Category	IDB Loan	% of Cost Category	GoM Amount	% of Cost Category	Total Cost
<b>A</b>	<b>Investment Cost</b>									
1	Equipment	150,000	27%	400,000	73%	0	0%	0	0%	550,000
2	Consultants	3,350,000	47%	3,600,000	50%	180,000	3%			7,130,000
2	A. Project Management	0	0	3,440,000	100%	0	0%	0	0%	3,440,000
	B. System Development Consultancy	3,350,000	100%		0%	0	0%	0	0%	3,350,000
	C. Capacity Development			160,000	47%	180,000	53%	0	0%	340,000
3	Cost Sharing Facility	0	0%	0	0%	2,000,000	100%	0	0%	2,000,000
2	A Line of Credit Facility	1,500,000	18%	0	0%	7,000,000	82%	0	0%	8,500,000
	<b>Sub-Total (A)</b>	<b>5,000,000</b>	<b>28%</b>	<b>4,000,000</b>	<b>22%</b>	<b>9,180,000</b>	<b>50%</b>	<b>-</b>	<b>0%</b>	<b>18,180,000</b>
<b>B</b>	<b>Contingency</b>	<b>510,000</b>	<b>27%</b>	<b>450,000</b>	<b>24%</b>	<b>920,000</b>	<b>49%</b>	<b>0</b>	<b>0%</b>	<b>1,880,000</b>
	<b>Financial charges during the implementation</b>									
<b>C</b>		<b>60,000</b>	<b>23%</b>	<b>0</b>	<b>0%</b>	<b>200,000</b>	<b>77%</b>	<b>0</b>	<b>0%</b>	<b>260,000</b>
<b>D</b>	<b>Taxes &amp; Duties</b>		<b>0%</b>	<b>0</b>		<b>0</b>		<b>700,000</b>	<b>100%</b>	<b>700,000</b>
<b>E</b>	<b>Total Project Cost (A + B + C+ D)</b>	<b>5,570,000</b>	<b>26%</b>	<b>4,450,000</b>	<b>21%</b>	<b>10,300,000</b>	<b>49%</b>	<b>700,000</b>	<b>3%</b>	<b>21,020,000</b>
	<b>% of Total Cost</b>		<b>26%</b>		<b>21%</b>		<b>49%</b>		<b>3%</b>	<b>100%</b>

Notes:

1. Cost based on mid 2011 prices
2. All contingencies are computed at 10.0-11.0% of the total items. Physical contingencies computed at around 7% for equipment procurement; and around 7% for field research and development, and training. Price contingencies computed at around 3% on foreign exchange costs and around 3% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.
3. Includes interest. Interest for ADB ADF loan has been computed at 1 % per annum.
4. Taxes and duties of \$0.7 million will be financed from government resources.
5. LCF: Item is financed by ADF loan and IDB loan. ADF loan (\$1.5 million) will be implemented upfront and IDB loan (\$7.0 million) will be implemented subsequently.

Note: Source of government funding is from budget allocation.

Source: Asian Development Bank

## D. Detailed Cost Estimates by Outputs/Components

SI No	Item	Total Cost	Component A		Component B		Component C	
			Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category
<b>A</b>	<b>Investment Cost</b>							
1	Equipment	550,000	550,000	100%				
2	Consultants							
	Project Management	3,440,000	2,440,000	71%	700,000	21%	300,000	9%
	System Development Consultancy	3,350,000			2,100,000	63%	1,250,000	37%
	Capacity Development	340,000	160,000	47%	180,000	53%		
3	Cost Sharing	2,000,000	2,000,000	100%				
4	Line of Credit	8,500,000			8,500,000	100%		
	<b>Sub-Total (A)</b>	<b>18,180,000</b>	<b>5,150,000</b>	<b>28%</b>	<b>11,480,000</b>	<b>63%</b>	<b>1,550,000</b>	<b>9%</b>
<b>B</b>	<b>Contingency</b>							
1	Physical Contingency	940,000	266,481	28%	593,315	63%	80,204	9%
2	Price Contingency	940,000	266,481	28%	593,315	63%	80,204	9%
	<b>Sub-Total (B)</b>	<b>1,880,000</b>	<b>532,962</b>	<b>28%</b>	<b>1,186,630</b>	<b>63%</b>	<b>160,408</b>	<b>9%</b>
<b>C</b>	<b>Financial charges during implementation</b>							
1	Interest during implementation	260,000	46,042	18%	191,389	73%	22,569	9%
	<b>Sub-Total (C)</b>	<b>260,000</b>	<b>46,042</b>	<b>18%</b>	<b>191,389</b>	<b>73%</b>	<b>22,569</b>	<b>9%</b>
<b>D</b>	<b>Taxes and Duties</b>	<b>700,000</b>	<b>98,718</b>	<b>14%</b>	<b>376,923</b>	<b>54%</b>	<b>224,359</b>	<b>32%</b>
<b>E</b>	<b>Total Project Cost (A + B + C+ D)</b>	<b>21,020,000</b>	<b>5,827,721</b>	<b>28%</b>	<b>13,234,942</b>	<b>63%</b>	<b>1,957,336</b>	<b>9%</b>

Notes:

1. Cost based on mid 2011 prices
2. All contingencies are computed at 10.0-11.0% of the total items. Physical contingencies computed at around 7% for equipment procurement; and around 7% for field research and development, and training. Price contingencies computed at around 3% on foreign exchange costs and around 3% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.
3. Includes interest. Interest for ADB ADF loan has been computed at 1 % per annum.
4. Taxes and duties of \$0.7 million will be financed from government resources.

Note: Source of government funding is from budget allocation.

Source: Asian Development Bank

### E. Detailed Cost Estimates by Year

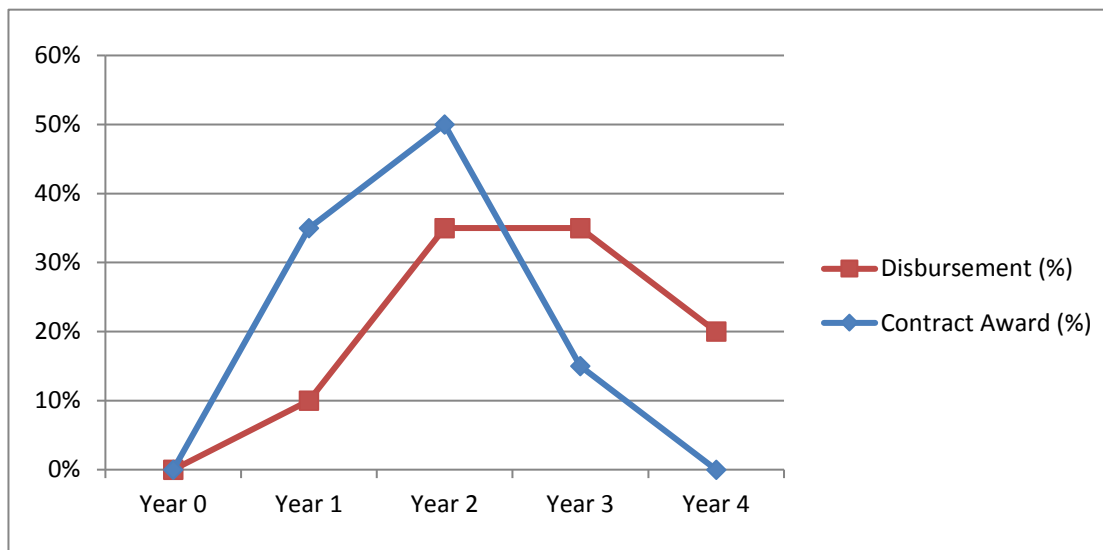
SI No	Item	Total Amount	(US \$ Million)			
			Year 1	Year 2	Year 3	Year 4
<b>A</b>	<b>Investment Cost</b>					
1	Equipment	550,000	55,000	192,500	192,500	110,000
2	Consultants	7,130,000	713,000	2,495,500	2,495,500	1,426,000
	Project Management	3,440,000	344,000	120,400	1,204,000	688,000
	System Development Consultancy	3,350,000	335,000	117,250	1,172,500	670,000
	Capacity Development	340,000	34,000	11,900	119,000	68,000
3	Cost Sharing Facility	2,000,000	200,000	700,000	700,000	400,000
4	Line of Credit Facility	8,500,000	850,000	2,975,000	2,975,000	1,700,000
	<b>Sub-Total (A)</b>	<b>18,180,000</b>	<b>1,818,000</b>	<b>6,363,000</b>	<b>6,363,000</b>	<b>3,636,000</b>
<b>B</b>	<b>Contingency</b>	<b>1,880,000</b>	<b>188,000</b>	<b>658,000</b>	<b>658,000</b>	<b>376,000</b>
<b>C</b>	<b>Financial charges during implementation</b>	<b>260,000</b>	<b>26,000</b>	<b>91,000</b>	<b>91,000</b>	<b>52,000</b>
<b>D</b>	<b>Taxes and Duties</b>	<b>700,000</b>	<b>70,000</b>	<b>245,000</b>	<b>245,000</b>	<b>140,000</b>
<b>E</b>	<b>Total Project Cost (A + B + C+ D)</b>	<b>21,020,000</b>	<b>2,102,000</b>	<b>7,357,000</b>	<b>7,357,000</b>	<b>4,204,000</b>

Notes:

1. Cost based on mid 2011 prices
2. All contingencies are computed at 10.0-11.0% of the total items. Physical contingencies computed at around 7% for equipment procurement; and around 7% for field research and development, and training. Price contingencies computed at around 3% on foreign exchange costs and around 3% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.
3. Includes interest. Interest for ADB ADF loan has been computed at 1 % per annum.
4. Taxes and duties of \$0.7 million will be financed from government resources.

Note: Source of government funding is from budget allocation.

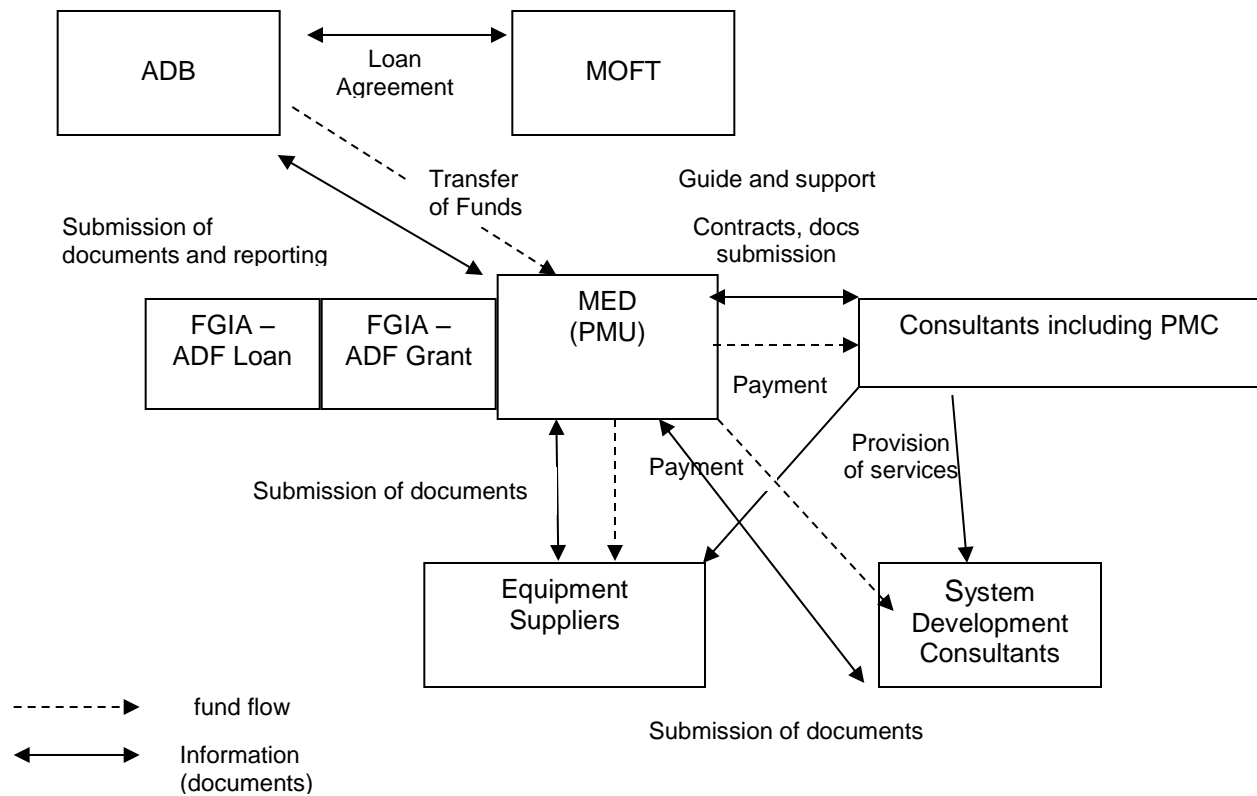
Source: Asian Development Bank

**F. Contract and Disbursement S-Curve**

Notes: The indicative schedule will be adjusted subject to future project implementation.

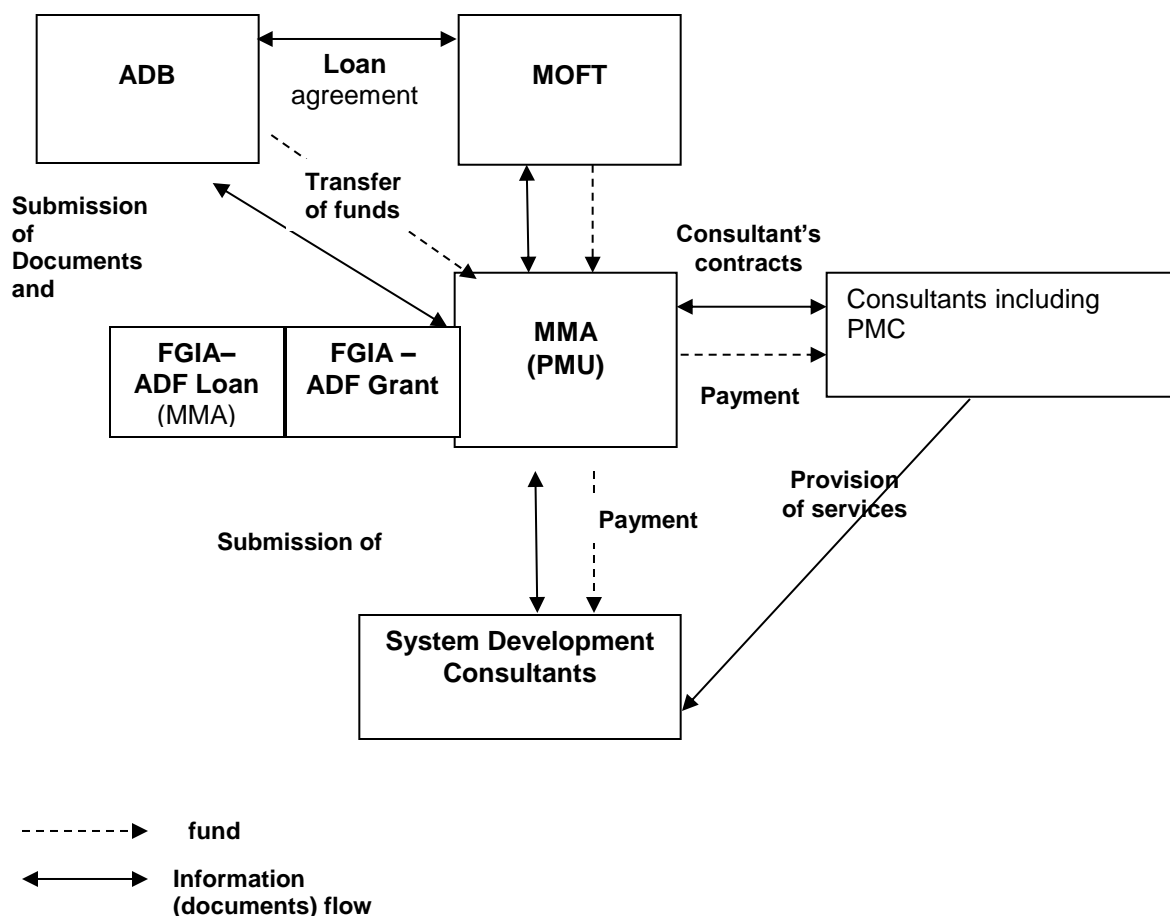
## G. Fund Flow Diagram

**G1. MED Imprest Accounts Fund Flow Diagram**



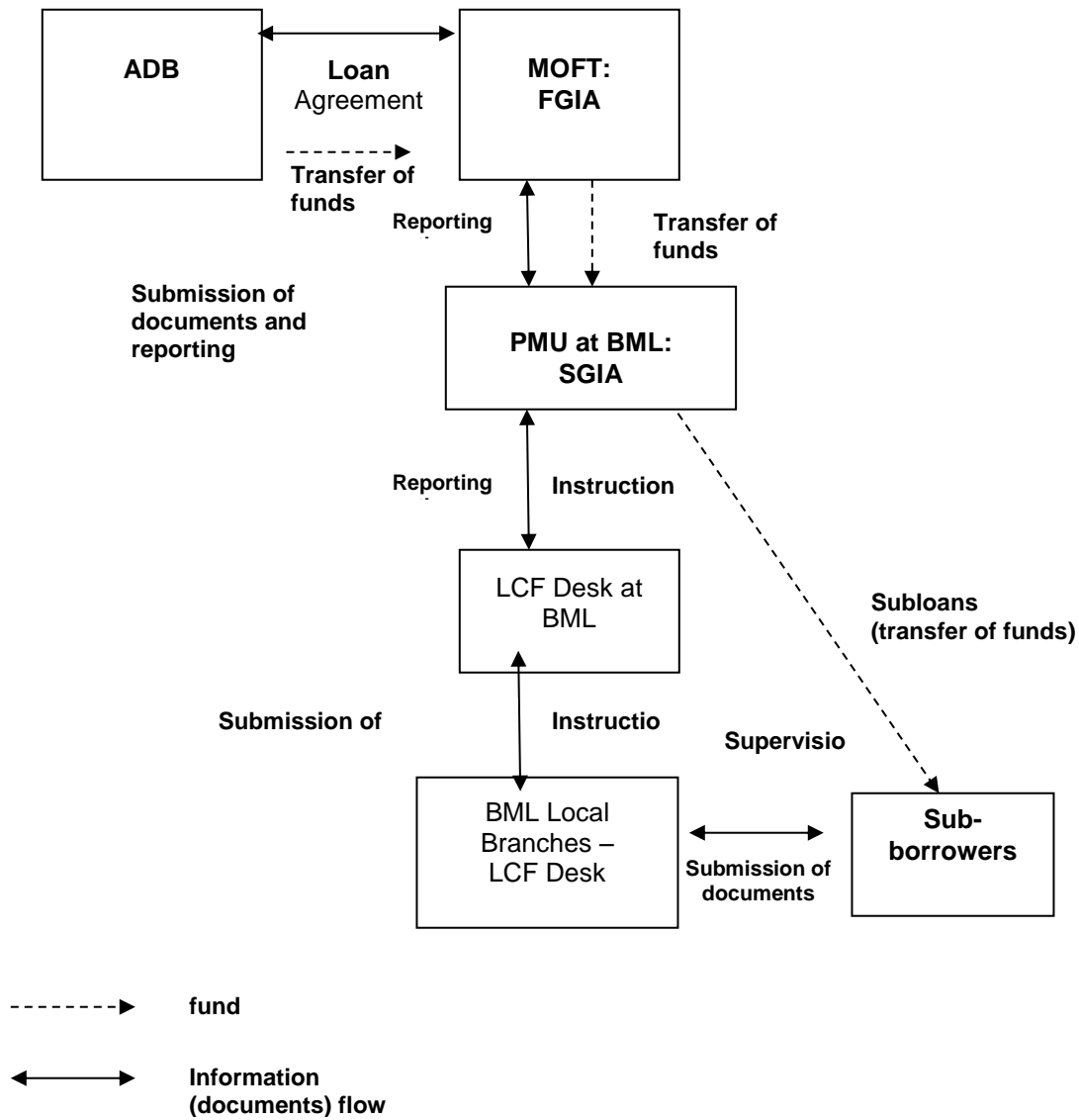
ADB = Asian Development Bank, ADF = Asian Development Fund, CSF = cost sharing facility, FGIA = First Generation Imprest Account, MED = Ministry of Economic Development, MOFT = Ministry of Finance and Treasury, PMC = project management consultants, PMU = project management unit

## G2. MMA Imprest Accounts Fund Flow Diagram



ADB = Asian Development Bank, ADF = Asian Development Fund, FGIA = First Generation Imprest Account, MMA = Maldives Monetary Authority, MOFT = Ministry of Finance and Treasury, PMC = project management consultants

### G3. BML Imprest Account Fund Flow Diagram

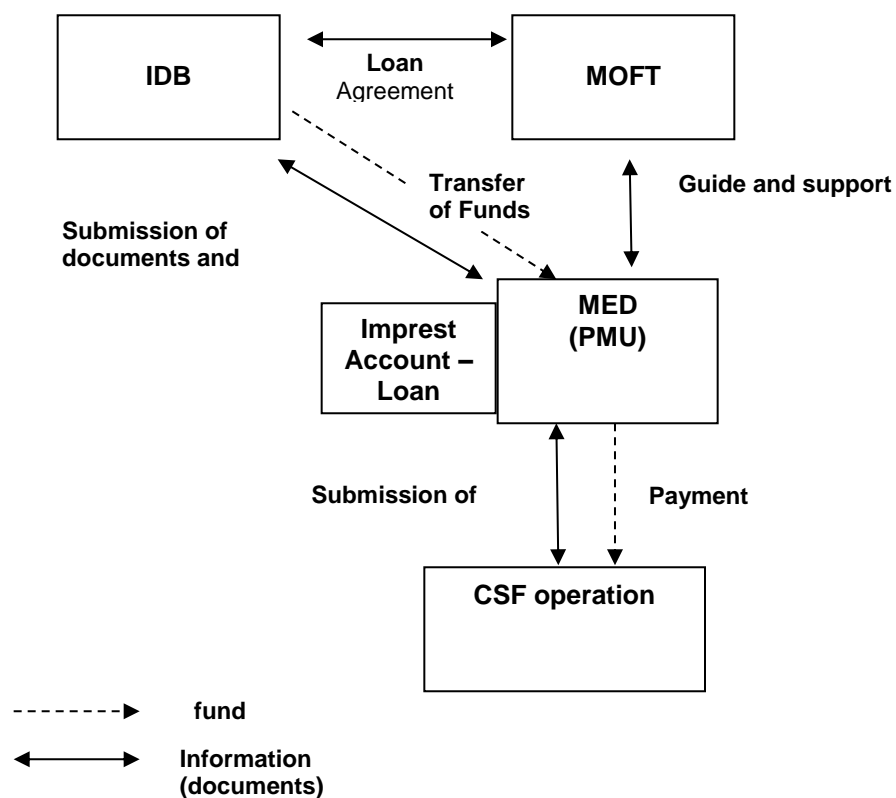


ADB = Asian Development Bank, BML = Bank of Maldives, FGIA = First Generation Imprest Account, LCF = Line of Credit Facility, MMA = Maldives Monetary Authority, PMU = project management unit, SGIA = Second Generation Imprest Account

Note: FGIA will be a dollar currency account while SGIA will be a Rufiyaa account (MOFT will be responsible for foreign exchange risk)



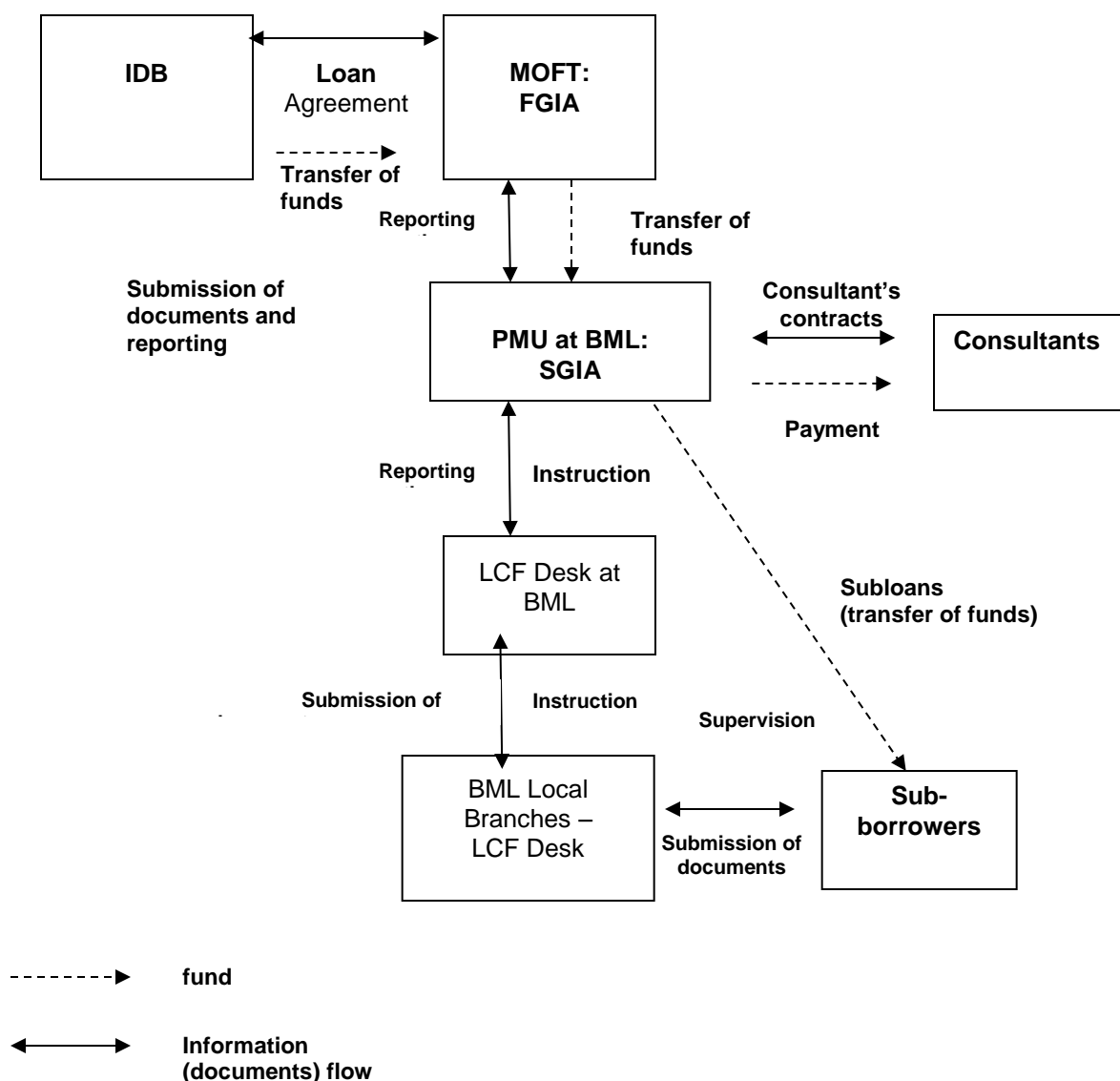
#### G4. MED Imprest Account Fund Flow Diagram (from IDB Fund)



IDB = Islamic Development Bank, CSF = cost sharing facility, MED = Ministry of Economic Development, MOFT = Ministry of Finance and Treasury, PMU = project management unit

Note: The fund must be implemented separately and not mixed with ADB imprest accounts. More detailed operation mechanism will be further elaborated by IDB before ADB's loan negotiations with the Government of Maldives.

### G5. BML Imprest Account Fund Flow Diagram (from IDB Fund)



IDB = Islamic Development Bank, BML = Bank of Maldives, FGIA = First Generation Imprest Account, LCF = Line of Credit Facility, MMA = Maldives Monetary Authority, PMU = project management unit, SGIA = Second Generation Imprest Account

Note: FGIA will be a dollar currency account while SGIA will be a Rufiyaa account (MOFT will be responsible for foreign exchange risk. The fund must not be mixed with ADB imprest accounts. More detailed operation mechanism will be further elaborated by IDB before ADB's loan negotiations.

## V. FINANCIAL MANAGEMENT

### A. Financial Management Assessment

28. Key findings of the financial management assessment undertaken for the Ministry of Finance and Treasury and other implementing agencies during project preparation in October 2011 are listed in Table 4.

**Table 4: Findings of the financial management assessment**

Area of Assessment	Findings
Executing and Implementing Agencies	The executing agency is the Ministry of Finance and Treasury. Implementation is supported by the Ministry of Economic Development, Maldives Monetary Authority, and Bank of Maldives.
Major Experiences of Managing Externally-financed Projects	MOFT is currently implementing Loan 2427-MLDI: Loan to the Republic of the Maldives for Private Sector Development Project
Fund Flow Arrangements	All the consultants will be engaged by the PMU in the implementing agencies such as MED, MMA and BML under the guidance of MOFT, and the payment will be made by the IAs to the consultants.
Organization and Staffing	There is a section for financial administration and accounting/procurement under the MOFT, MED, MMA and BML. Each section has one chief accountant and 2 supporting accounts officers for payments and procurement respectively. The present staff is qualified and experienced in ADB procedures.
Accounting Policy and Procedures	MOFT and other implementing agencies follow the government accounting system (cash accounting) that is regulated by financial regulation, standards, and pronouncements and procurement guidelines.
Segregation of Duties	All the financial accounting functions are appropriately segregated before receipt and payment.
Budgeting System	A budget is prepared for all significant activities in details; financial targets are derived from physical targets. The budget is prepared in advance and is compared with actual expenditure.
Policies/Procedures	The accounting is on a cash basis.
Internal Audit	There is an internal audit unit (IAU). Headed by an Accountant, the IAU reports direct to the Minister of MOFT.
External Audit	The financial statement is audited by Auditor General's Department annually based on the National Accounting Standard.
Reporting and Monitoring	The financial and procurement reports are prepared according to the accounting standard of the government, which is consistent with International Accounting Standards. The reporting of the financial statement is on a monthly basis. The report provides information on the financial statement as well as physical progress.
Information System	The financial management and procurement system (Public Accounting System) are partly computerized which has been established by the World Bank.

ADB = Asian Development Bank, BML = Bank of Maldives, MED = Ministry of Economic Development, MMA = Maldives Monetary Authority, MOFT = Ministry of Finance and Treasury, PMU = project management unit.

29. Actions required to be taken by the MOFT are as follows:

- (i) PMU financial staff at IAs must undergo trainings on ADB financial management procedures to further strengthen its capacity, and
- (ii) close coordination is required between the MOFT and IAs (MED, MMA and BML).

## B. Disbursement<sup>13</sup>

30. The loan and grant proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook (2007, as amended from time to time),<sup>14</sup> and detailed arrangements agreed upon between the government and ADB.

31. Pursuant to ADB's Safeguard Policy Statement 2009 (SPS),<sup>15</sup> ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the SPS. All financial institutions will ensure that their investments are in compliance with applicable national laws and regulations and will apply the prohibited investment activities list (Appendix 5) to subprojects financed by ADB.

32. PMU will be responsible for (i) preparing disbursement projections, (ii) requesting budgetary allocations for counterpart funds, (iii) collecting supporting documents, and (iv) preparing and sending withdrawal applications to ADB.

33. To ensure the timely release of loan and grant proceeds and to expedite project implementation, immediately after loan effectiveness, five "first generation imprest accounts" (hereinafter as imprest accounts) will be established at the Maldives Monetary Authority (MMA) of Republic of the Maldives for MSMEDP. The first two imprest accounts for MSMEDP (MED)- ADF loan and grant will finance all activities under component 1 and component 3. The second two imprest accounts for MSMEDP (MMA)- ADF loan and grant will finance all activities under outputs 2-4 of component 2. The third imprest account for MSMEDP (MOFT)- ADF loan will finance all activities under output 1 (a line of credit facility). MOFT, MED, and MMA will be responsible for managing and administering the imprest accounts.

34. The aggregated maximum ceiling of the imprest accounts will not at any time exceed the estimated ADB financed expenditures to be paid from the imprest accounts for the next 6 months or 10% of the respective loan and grant amount, whichever will be lower. The currency of these imprest accounts will be the dollar. The request for initial advance to the imprest accounts should be accompanied by an estimate of expenditure sheet<sup>16</sup> setting out the estimated expenditures for the first 6 months of project implementation, and submission of evidence satisfactory to ADB that these imprest accounts has been duly opened. For every liquidation and replenishment request of these accounts, the borrower will furnish to ADB (i) statement of account (bank statement) where the imprest account is maintained, and (ii) the imprest account reconciliation statement (IARS) reconciling the above mentioned bank statement against the MSMEDP's records.<sup>17</sup>

35. The project loan and grant proceeds will be disbursed using the statement of expenditure procedure to reimburse eligible expenditures and to liquidate advances to FGIA for individual payments not exceeding \$100,000, in accordance with ADB's *Loan Disbursement and Handbook* (2007, as amended from time to time).

<sup>13</sup> The disbursement is relating to ADF loan and grant. With respect to IDB disbursement, IDB's financing agreement, procurement guidelines and procedures will apply.

<sup>14</sup> Available at: [http://www.adb.org/Documents/Handbooks/Loan\\_Disbursement/loan-disbursement-final.pdf](http://www.adb.org/Documents/Handbooks/Loan_Disbursement/loan-disbursement-final.pdf)

<sup>15</sup> Available at: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>. The LCF guidelines will include an eligibility criteria to ensure that the qualified MSME subproject shall be for activities that (i) are not included in the list of prohibited investment activities set out in Appendix 5 of the SPS, and (ii) have minimal or no adverse environmental impacts in accordance with ADB's SPS, and in compliance with the laws and regulations of the Maldives.

<sup>16</sup> Available in Appendix 29 of the *Loan Disbursement Handbook*.

<sup>17</sup> Follow the format provided in Appendix 30 of the *Loan Disbursement Handbook*.

36. Except as ADB may otherwise agree, BML will establish a second-generation imprest account (SGIA) at MMA. The currency of the second-generation imprest account will be the rufiyaa. It will be subject to the subsidiary loan agreement in place between BML and the MOFT. The maximum ceiling of the second generation imprest account will be the lower of the estimated ADB financed expenditures for the next 6 months or \$150,000 of the respective loan. The request for initial advance to the SGIA should be accompanied by an estimate of expenditure sheet setting out the estimated expenditures for the first 6 months of project implementation. For every liquidation and replenishment request of the account, the BML will furnish to MOFT (i) statement of sub-borrowing where the second-generation imprest account is maintained, and (ii) the second-generation imprest account reconciliation statement (IARS) reconciling the above mentioned bank statement against the project's records. Around \$1.5 million of a line of credit will be provided by ADB ADF loan under output 1 of component 2 while \$7 million is provided by the IDB Loan. ADB proceeds will be first utilized upfront which will be followed by IDB proceeds disbursement in line with respective guidelines and procedures of ADB or IDB in consultation with the government.

37. **Relending.** Under a subsidiary loan agreement with BML, the Government will relend \$1.5 million equivalent from ADB fund (and \$7.0 million equivalent from IDB fund) in local currency to BML to develop an LCF on terms and conditions satisfactory to ADB and IDB respectively. 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 and grant agreement with MMA,<sup>18</sup> the Government will relend the fund to MMA for the setting up of the extended CIB, establishment of STR, and a feasibility study and preparation of CGS, on terms and conditions satisfactory to ADB. The Government has indicated that the terms of the loans to BML and MMA will not exceed 15 years, including a 3-year grace period. These loans and grant will be disbursed over 3 years, subject to a midterm review after 18 months to review disbursement progress and refine the arrangements as needed. BML will be required to satisfy, and remain in compliance with, the eligibility criteria throughout the project period. ADB should require BML to undertake these in the agreements as an assurance (covenant) to meet all eligibility criteria for financial intermediaries. Given the successful implementation of LCF under PSDP loan, and sufficient capacity building of LCF desk and local branches involved in LCF operation, ADB and IDB will continue to support enhancing capacity building in undertaking development-oriented financing, which is the key objective of LCF.

38. In order to participate in the LCF, BML shall upon commencement of LCF activities and throughout implementation thereof, comply with the eligibility criteria set out in the PAM, which shall include, at a minimum, demonstration at BML of:

- (i) financial soundness as evidenced by adequate capital, asset quality, liquidity, and profitability;
- (ii) adequate credit and risk management policies, operating systems, and procedures;
- (iii) compliance with prudential regulations, including exposure limits
- (iv) acceptable corporate and financial governance and management practices including transparent financial disclosure policies and practices;
- (v) sound business objectives and strategy and/or plan;
- (vi) autonomy in lending and pricing decisions; and
- (vii) adequate policies, systems, and procedures to assess and monitor the economic, social, and environmental impact of Qualified Projects in accordance with parameters established by ADB for this purpose.

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<sup>18</sup> The subsidiary loan agreement between MOFT and MMA has been made in line with government policy and arrangement mechanisms in the Maldives.

39. ADB reserves the right to disallow disbursements from the LCF in the event of non-compliance by BML with any of the above criteria applicable to it until such time as BML is able to satisfy the criteria. BML shall be required to remedy any non-compliance with the eligibility criteria within 6 months of the event of non-compliance and in any event, within the disbursement period of the LCF to be financed by proceeds of the Loan.

40. **Onlending.** The maximum subloan size for individual applicants will be the Rf. Equivalent to \$80,000, based upon the MMA reference rate (rate of exchange). 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. The disbursement procedures relating to LCF under output 1 of component 2 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 as well as IDB. With respect to the free limit, the maximum loan size for individual applicants permitted under the loan agreement will be the Rf. equivalent to \$80,000, based upon the MMA reference rate.<sup>19</sup> The foreign exchange risk will be borne by the MOFT. SOE procedure will also be used to reimburse eligible expenditure and liquidate advances to SGIA for individual payments not exceeding \$150,000.

41. The beneficiary shall cause BML to, and BML shall submit to ADB for review and approval the form of Onlending Agreement to be utilized in subloans to Qualified Enterprises, and (b) provide to ADB at least the first two executed Onlending Agreements with Qualified Enterprises, prior to requesting disbursement of any Loan proceeds for LCF activities under subcomponent (i) of Component 2. Before the submission of the first withdrawal application, the borrower should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the borrower, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is \$100,000, unless otherwise approved by ADB. The MOFT, MED, and MMA are to consolidate claims to meet this limit for reimbursement and FGIA and SGIA claims. Withdrawal applications and supporting documents will demonstrate, among other things that the goods, and/or services were produced in or from ADB members, and are eligible for ADB financing.

### C. Accounting

42. The PMUs will maintain separate project accounts and records by funding source for all expenditures incurred on the MSMEDP. Project accounts will follow international accounting principles and practices.

### D. Auditing

43. The MOFT and IAs (Project Management Units) will cause the detailed consolidated project accounts to be audited in accordance with International Accounting Standards on Auditing and/or in accordance with the government's audit regulations by an auditor acceptable to ADB. The

<sup>19</sup> Checklist for SOE procedures and formats are available at:

[http://www.adb.org/documents/handbooks/loan\\_disbursement/chap-09.pdf](http://www.adb.org/documents/handbooks/loan_disbursement/chap-09.pdf)

[http://www.adb.org/documents/handbooks/loan\\_disbursement/SOE-Contracts-100-Below.xls](http://www.adb.org/documents/handbooks/loan_disbursement/SOE-Contracts-100-Below.xls)

[http://www.adb.org/documents/handbooks/loan\\_disbursement/SOE-Contracts-Over-100.xls](http://www.adb.org/documents/handbooks/loan_disbursement/SOE-Contracts-Over-100.xls)

[http://www.adb.org/documents/handbooks/loan\\_disbursement/SOE-Operating-Costs.xls](http://www.adb.org/documents/handbooks/loan_disbursement/SOE-Operating-Costs.xls)

[http://www.adb.org/documents/handbooks/loan\\_disbursement/SOE-Free-Format.xls](http://www.adb.org/documents/handbooks/loan_disbursement/SOE-Free-Format.xls)

audited accounts will be submitted in the English language to ADB within 6 months of the end of the fiscal year by the MOFT. The annual audit report will include a separate audit opinion on the use of the FGIAs, the SGIAs, and the SOE procedures. The annual audit of BML and of MMA shall be carried out by an external independent auditor to BML and MMA, respectively, in each case approved by the Auditor General. The MOFT, MMA, and the BML have been made aware of ADB's policy on delayed submission, and the requirements for satisfactory and acceptable quality of the audited accounts. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures. For revenue generating projects only, ADB requires audited financial statements (AFS) for each executing and/or implementation agency associated with the project.

## VI. PROCUREMENT AND CONSULTING SERVICES

### A. Advance Contracting and Retroactive Financing

44. All advance contracting and retroactive financing will be undertaken in conformity with ADB's Procurement Guidelines (April 2010, as amended from time to time)<sup>20</sup> and ADB's Guidelines on the Use of Consultants (April 2010, as amended from time to time).<sup>21</sup> The issuance of invitations to bid under advance contracting and retroactive financing will be subject to ADB approval. The borrower, MOFT has been advised that approval of advance contracting and retroactive financing does not commit ADB to finance the project.

45. **Advance contracting.** The government has requested ADB's approval of advance contracting for the recruitment of PMC under PMU at MED and consultants at BDSCs for supporting the implementation of the MSMEDP.

46. **Retroactive financing.** The government has requested ADB's approval of retroactive financing for the recruitment of PMC under PMU at MED, and consultants at BDSCs. Retroactive financing will be up to 5% of the total ADB grant amount for eligible expenditures incurred prior to loan effectiveness, but not earlier than 180 days prior to the signing of the loan agreement.

### B. Procurement of Goods, Works and Consulting Services

47. All procurement of goods and works will be undertaken in accordance with ADB's Procurement Guidelines. International competitive bidding (ICB) procedures are to be used for procurement of goods costing \$0.5 million or more, and procurement of works, supply, and install contracts costing \$1 million or more. National competitive bidding (NCB) procedures shall be used for the procurement of goods below \$0.5 million, and procurement of works, supply, and install contracts below \$1 million. Shopping will be used for contracts for procurement of works and equipment worth less than \$100,000. Before the start of any NCB procurement, ADB and the government will review the public procurement law and related regulations of the government to ensure consistency with ADB's Procurement Guidelines.

48. All consultants will be recruited according to ADB's Guidelines on the Use of Consultants.<sup>22</sup> The terms of reference for all consulting services are detailed in Section D. An estimated 230 person-months (106 international, 124 national) of consulting services, including 24 person-,month

<sup>20</sup> Available at: <http://www.adb.org/Documents/Guidelines/Procurement/Guidelines-Procurement.pdf>

<sup>21</sup> Available at: <http://www.adb.org/Documents/Guidelines/Consulting/Guidelines-Consultants.pdf>

<sup>22</sup> Checklists for actions required to contract consultants by method available in e-Handbook on Project Implementation at: <http://www.adb.org/documents/handbooks/project-implementation/>.

individual consultants (12 international, 12 national), are required to facilitate project management and implementation. Consulting firms will be engaged using the quality- and cost-based selection (QCBS) method with a standard quality: cost ratio of 80:20. Individual consultants shall be recruited using ADB's Guidelines on the Use of Consulting. The consultancy packages will be used for MSME portal, Judgment Debt Database, and CSC operators under component 3. For the efficient implementation of consultancy under ADB grant, the government has requested ADB to undertake selection of the project consultants and to administer the implementation of the consultancy in consultation with the government.

### C. Procurement Plan

49. A procurement plan indicating threshold and review procedures, goods, works, and consulting service contract packages and NCB guidelines has been prepared as Appendix 4.

### D. Consultant's Terms of Reference

50. The terms of reference for all consultant contracts have been prepared as Appendix 5.

## VII. SAFEGUARDS

51. MSMEDP is categorized as "FI treated as C" for environment, involuntary resettlement, and indigenous peoples. MSMEDP is unlikely to have any adverse environmental impact. Rather it would include exploring the possibilities of use of non-conventional energy sources for MSME to reduce their carbon footprints. The component to be funded from the LCF is unlikely to have any adverse environmental impacts as well. MSME subprojects or activities under the LCF will only be for subprojects or activities that (a) are not included in the list of prohibited investment activities set out in Appendix 5 of the Safeguard Policy Statement (SPS) (2009) (attached); and (b) have minimal or no adverse environmental impacts in accordance with ADB's SPS, and in compliance with the applicable environmental laws and regulations of the Republic of the Maldives.<sup>23</sup> No involuntary resettlement and indigenous people's impacts are anticipated.

52. **Social safeguards (Involuntary resettlement and Indigenous peoples).** The PMU will be staffed with a social safeguards staff to support the project director in addressing project social safeguards issues. The PMU under the MED will be supported by project management consultants which will include an international gender specialist and a national gender specialist. The MED PMU will do overall monitoring of social safeguards implementation, if necessary.

#### ADB PROHIBITED INVESTMENT ACTIVITIES LIST

The following do not qualify for Asian Development Bank financing:

- (i) production or activities involving harmful or exploitative forms of forced labor<sup>24</sup> or child labor;<sup>25</sup>
- (ii) production of or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements or subject to international phaseouts or

<sup>23</sup> The LCF Guidelines will include a set of eligibility criteria. The eligibility criteria and screening checklist will be developed by PMC, and training for relevant safeguard capacity development will be provided to staff at MED and bankers at BML. It will be included in the subsidiary loan agreement between the government and BML.

<sup>24</sup> Forced labor means all work or services not voluntarily performed, that is, extracted from individuals under threat of force or penalty.

<sup>25</sup> Child labor means the employment of children whose age is below the host country's statutory minimum age of employment or employment of children in contravention of International Labor Organization Convention No. 138 "Minimum Age Convention" ([www.ilo.org](http://www.ilo.org)).



bans, such as (a) pharmaceuticals,<sup>26</sup> pesticides, and herbicides,<sup>27</sup> (b) ozone-depleting substances,<sup>28</sup> (c) polychlorinated biphenyls<sup>29</sup> and other hazardous chemicals,<sup>30</sup> (d) wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora,<sup>31</sup> and (e) transboundary trade in waste or waste products;<sup>32</sup>

- (iii) production of or trade in weapons and munitions, including paramilitary materials;
- (iv) production of or trade in alcoholic beverages, excluding beer and wine;<sup>33</sup>
- (v) production of or trade in tobacco;<sup>10</sup>
- (vi) gambling, casinos, and equivalent enterprises;<sup>10</sup>
- (vii) production of or trade in radioactive materials,<sup>34</sup> including nuclear reactors and components thereof;
- (viii) production of, trade in, or use of unbonded asbestos fibers;<sup>35</sup>
- (ix) commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests; and
- (x) marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to marine biodiversity and habitats.

## VIII. GENDER AND SOCIAL DIMENSIONS

53. The summary poverty reduction and social strategy is prepared for the project. The project will focus support to the less developed areas where poverty is high and basic infrastructure services are lacking, and support capacity development of financially weak local authorities for performing mandated services more efficiently and effectively. It aims to provide direct benefits through access to quality business development infrastructure and services; and create a stronger investment climate to accelerate economic growth in backward areas.

54. Gender action plan is prepared for the project, as shown in the table 3 below. Broad strategies for entrepreneurship promotion and micro, small and medium-sized enterprise (MSME) development among women and youth shall be in the areas of (i) communications and education, (ii) research and studies, (iii) business development services, (iv) capacity development, (v) community mobilization, and (vi) networking and linkages. The PMU under the MED will ensure the implementation of the action plan. In order to address the affordability issues, poor and vulnerable families are allowed to pay water connection charges in installments.

<sup>26</sup> A list of pharmaceutical products subject to phaseouts or bans is available at <http://www.who.int>.

<sup>27</sup> A list of pesticides and herbicides subject to phaseouts or bans is available at <http://www.pic.int>.

<sup>28</sup> A list of the chemical compounds that react with and deplete stratospheric ozone resulting in the widely publicized ozone holes is listed in the Montreal Protocol, together with target reduction and phaseout dates. Information is available at <http://www.unep.org/ozone/montreal.shtml>.

<sup>29</sup> A group of highly toxic chemicals, polychlorinated biphenyls are likely to be found in oil-filled electrical transformers, capacitors, and switchgear dating from 1950 to 1985.

<sup>30</sup> A list of hazardous chemicals is available at <http://www.pic.int>.

<sup>31</sup> A list is available at <http://www.cites.org>.

<sup>32</sup> As defined by the Basel Convention; see <http://www.basel.int>.

<sup>33</sup> This does not apply to project sponsors who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to a project sponsor's primary operations.

<sup>34</sup> This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment for which ADB considers the radioactive source to be trivial and adequately shielded.

<sup>35</sup> This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

**Table 6: Gender Action Plan**

<b>Project Output and Performance Targets</b>	<b>Actions Proposed</b>
<b>Component 1. Business Support Infrastructure Built</b>	
<p>1.1. Drafted new Credit Information Bureau Act, regulations for proposed security transactions register legislation, new Non-Bank Financial Institutions Act; civil procedure code assessed based on best practice, personal and corporate insolvency laws; and new electronic commerce and data protection laws</p> <p>1.2. Established online judicial debt database, and designed judicial capacity on commercial disputes program</p> <p>1.4. Completed review of all new proposed acts to assess their impact on MSMEs and drafting required amendments</p> <p>1.5 Strengthened BDS</p> <p>1.5.1 BDSC operations established in seven provinces to provide enhanced BDS to MSMEs</p> <p>1.5.2 Increased number of MSMEs (1,000) availing of BDS</p> <p>1.5.3. 30 newly developed BDS products and services offered by BDSCs</p> <p>1.5.4. 500 training programs for about 5,000 beneficiaries on business, entrepreneurship and vocational skills, including women and youth entrepreneurs</p>	<p>In consultation and with the participation of relevant stakeholders including the gender focal points and the Department of Gender and Family, the international gender and MSME expert reviews draft bills from a gender perspective and provide inputs to promote gender equality.</p> <p>The PMU will ensure public dissemination of such new laws reach women and youth potential and existing entrepreneurs.</p> <p>The MED will commission a national entity to conduct an impact study of the MSME Act on women and youth participation in MSMEs that may feed into a MSME development strategy.</p> <p><u>Communications and education:</u> In partnership with relevant stakeholders, the MED will lead in fostering an entrepreneurial culture among women and youth by:</p> <ul style="list-style-type: none"> <li>➤ promoting awareness and a positive image of entrepreneurship of women and youth by featuring successful stories of women and youth MSME entrepreneurs in various forms of media, in BDSC promotional materials, in public forums.</li> <li>➤ supporting entrepreneurship education by formal educational institutions such as the Maldives National University and Polytechnic Maldives by integrating entrepreneurship in selected curricula, as appropriate, and in apprenticeship program, highlighting women and youth role in MSMEs and encouraging young females to become entrepreneurs.</li> <li>➤ disseminating information on BDSC services, financial services such as the LCF, market opportunities including domestic and international trade opportunities in Male' and especially in outer atolls.</li> </ul> <p><u>Research and studies:</u> In coordination with relevant ministries and other donor-assisted projects with an entrepreneurship development focus, the PMU will:</p> <ul style="list-style-type: none"> <li>➤ conduct resource and business scanning in selected islands/atolls (priority to designated bazaar islands) and identify opportunities for high-income, less-saturated business activities for women and youth; also, value chain analysis of non-stereotypical business for women (e.g., ICT, decorative plants production and marketing, cultural performances) and others identified in the business scanning</li> </ul>

Project Output and Performance Targets	Actions Proposed
<p>1.6. Two Business Incubator facilities</p> <p>- 30 MSME partnership businesses participating under business incubator program</p>	<ul style="list-style-type: none"> <li>➤ contract a national entities to conduct an impact study of BDSC services on women and youth participation in MSMEs from the perspective of economic growth and women and youth empowerment with technical guidance by the international gender and MSME expert</li> <li>➤ work with the international gender and MSME expert in assisting the MED in improving the MSME registration system for the purpose of generating a sex-disaggregated database and utilization of such database for program planning and policy reform</li> </ul> <p><u>Business development services:</u> Priority will be given to vulnerable women, specifically young women, female heads of households, and victims of gender-based violence (GBV) in access to BDSs.</p> <p>The PMU will ensure that the BDSCs will:</p> <ul style="list-style-type: none"> <li>➤ strengthen MSMEs owned by women and youth through the provision of timely and appropriate BDSs in partnership with the private sector, educational institutions, and NGOs</li> <li>➤ facilitate linkages between women and youth entrepreneurs and service providers of appropriate technologies. Access to technologies is aimed at improving production (i.e., increasing volume and improving quality) and improving health, sanitation and safety conditions in traditional (such as agriculture/food processing, fisheries, and arts &amp; crafts) and non-traditional (such as renewable energy and information technology) sectors and setting up of businesses in these sectors</li> <li>➤ give priority to vulnerable women (female heads of households, victims of GBV) in the access to business incubation services</li> <li>➤ work closely with TA experts, and provide technical support to business associations, in organizing conferences, trade fairs, interactive forums among actors in same value chains, and other activities, as requested</li> <li>➤ coordinate with national community mobilization expert and local atoll/island non-government organizations in outreach to potential and existing women and youth entrepreneurs</li> </ul> <p>The MED ensures that among 30 MSME partnership businesses, at least 15% of these given to female and young MSMEs; also, that priority is given to vulnerable women, female heads of households, and victims of gender based violence (GBV)</p>
<b>Component 2. Access to Finance Improved</b>	
<p>2.1. Line of Credit Facility (LCF)</p> <p>2.1.1. Around 200 new loans granted to MSMEs</p> <p>2.1.2. 30% reduced turnaround time for processing MSME loan applications through improved LCF procedures for loan appraisal and approval</p>	<p>PMU ensures that at least 30% of new loans are granted to women and/or youth-owned MSMEs</p> <p>BDSCs assist women and youth entrepreneurs in availing of loans from the LCF</p>

Project Output and Performance Targets	Actions Proposed
<b>Component 3. Technologies for MSME Development Established</b>	
3.1. MSME portal and Judgment debt database established	BDSCs link women and youth potential and existing entrepreneurs interested in solar energy and ICT –based enterprises to relevant technological training institutes BDSCs build entrepreneurial capacity of women and youth in solar energy and ICT PMU facilitates women- or youth-owned MSMEs in the ICT sector benefit from LCF
3.2. Seven solar powered citizen service centers established	
3.3. 5% of the LCF is to be earmarked for MSMEs in the ICT sector	
<b>Activities that cut across all outputs</b>	
(i) <b>Capacity development:</b> This will be carried out mainly by the TA experts working with and through the BDSCs and with technical support of the Department of Gender and Family:	
➤ <b>Business associations on women and youth in MSME development:</b> this would include strengthening the governance systems, membership recruitment and services, strategic planning and project implementation skills of the WEA, JCIM, youth and women’s cooperatives; (ii) business management training of boards of women-dominated cooperatives and other collectives; (iii) training on cooperative development and management; (iv) training on value chain analysis and development from a gender perspective; (v) training on gender analysis of laws and policies affecting MSMEs.	
➤ <b>MED PMU and BDSCs on effective service delivery to women and youth in MSMEs:</b> include: (i) basic gender sensitization training in the context of MSMEs for staff; (ii) technical support in the development of more gender-sensitive communication materials and training manuals; (iii) gender-sensitive project M&E systems; (iv) training on value chain analysis and development from a gender perspective; (v) gender analysis of laws and policies affecting MSMEs.	
➤ <b>NGOs on entrepreneurship development among women and youth:</b> this would include training on: (i) gender sensitization training in the context of MSMEs for management and staff; (ii) basic entrepreneurship development; (iii) gender analysis of laws and policies affecting MSMEs; (iv) cooperative development and management for the purpose of creating a cadre of cooperative mobilizers/promoters in the Maldives, strengthen the governance structure and systems of cooperatives, business management, networking and linkages.	
(ii) <b>Community mobilization:</b> This will be led by the national community mobilization/gender expert (entity) who will:	
➤ select one NGO per atoll (or 19 NGOs) by using TA grant that will be given capacity development inputs based on the NGOs’ interest in promoting entrepreneurship among women and youth. More detailed selection criteria will be developed jointly by the national expert and the PMU with input from the BDSCs. From among these NGOs, seven NGOs will be selected to undertake community mobilization to assist the BDSCs in promoting its services and programs to the communities, recruit clients for the BDSCs and undertake monitoring work to facilitate women and youth clients’ access to BDSC services. Each NGO will enter into contract with one BDSC.	
➤ train selected NGOs on community mobilization, entrepreneurship promotion, and monitoring.	
(iii) <b>Networking and Linkages:</b> The PMU will lead in the organizing and coordination of:	
➤ regular meetings with relevant ministries including the Department of Gender and other development partners to discuss common issues related to women and youth participation in MSMEs	
➤ exposure visits to other South Asian countries of women and youth entrepreneurs for purposes of learning effective business models and promote business linkages.	

BDS = business development services, BDSC = business development services centers, ICT = information and communications technology, JCIM = Junior Chamber International Maldives, M&E = monitoring and evaluation, MSME = micro, small and medium-sized enterprise, PMU = project management unit, WEA = women entrepreneurs association,

## IX. PERFORMANCE MONITORING, EVALUATION, REPORTING AND COMMUNICATION

### A. Project Design and Monitoring Framework

55. The Design Monitoring Framework (DMF) has been provided in Appendix 1 of the RRP.

### B. Monitoring

56. **Project performance monitoring.** The PMU will monitor a project performance including the targets, indicators, assumptions, and risks in the DMF. The baseline data corresponding to indicators and targets set out in the DMF will be gathered during the detailed design stage, as appropriate. After the initial baseline survey, the PMU will conduct monitoring using the same indicators and submit the reports to ADB through quarterly progress reports throughout project implementation. Results of a comprehensive completion survey will be included in the project completion report. These quarterly reports will provide information necessary to update ADB's project performance reporting system.<sup>36</sup>

57. **Compliance monitoring.** Status of compliance with loan covenants will be reviewed at each ADB review mission. All non-compliance issues, if any, will be updated in quarterly progress reports together with remedial actions.

58. **Safeguards monitoring.** The PMU with assistance from PMC will consolidate periodic monitoring reports and submit annual monitoring reports to ADB. Safeguards staff at MED will design works and facilitate preparation of all required safeguard documents, if necessary.

59. **Gender and social dimensions monitoring.** The PMU with assistance from gender specialists consolidate in the quarterly progress reports the status of the implementation of gender action plan. This will be discussed at each ADB review mission.

### C. Evaluation

60. The government and ADB will jointly review the project at least twice a year. This includes (i) the performance of the PMUs, consultants, and contractors; (ii) physical progress of each component projects; (iii) performance of implementation of reform plans; (iv) effectiveness of capacity building programs for stakeholders and progress of reform agenda; (v) inclusion of women and vulnerable groups including the poor in the project planning and implementation; (vi) compliance with loan covenants; and (vii) assessment of project sustainability in technical and financial terms. In addition to the regular reviews, the government and ADB will undertake a comprehensive midterm review in the third year of project implementation to identify problems and constraints encountered and suggest measures to address them.

61. Specific items for review include (i) appropriateness of scope, design, implementation arrangements, and schedule of activities; (ii) assessment of implementation achievements against project indicators; (iii) effectiveness of capacity building programs for government officials, and related stakeholders; (iv) compliance with safeguard measures; (v) extent to which the gender action plan is being followed; (vi) achievement of reforms in business development service centers; (vii) needs for additional support for the operation and maintenance of the facilities established under the project to ensure operational sustainability; (viii) lessons learned, good practices, and

<sup>36</sup> ADB's project performance reporting system is available at <http://www.adb.org/Documents/Slideshows/PPMS/default.asp?p=evaltool>

potential for replication; and (ix) changes recommended. Within 6 months of physical completion of the project, the MOFT will submit a project completion report to ADB.<sup>37</sup>

#### **D. Reporting**

62. The MOFT will provide ADB with (i) quarterly progress reports in a format consistent with ADB's project performance reporting system; (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions, (c) updated procurement plan, and (d) updated implementation plan for next 12 months; and (iii) a project completion report within 6 months of physical completion of the project. To ensure projects continue to be both viable and sustainable, project accounts and the executing agency audited financial statements (AFS), together with the associated auditor's report, should be adequately reviewed.

#### **E. Stakeholder Communication Strategy**

63. The project intends to maximize transparency by communicating relevant project information to stakeholders in various means. The PMU will establish an website within 6 months from the loan effectiveness and disclose all key project-related information, including the scope, cost, and financial and institutional arrangements of the project, procurement plan, and project progress such as procurement, contract award and disbursement. Each PMU will also fully disclose relevant project-related information—such as project name and cost, information on bidding, contractor's name, contract price, and implementation progress—through public briefings and bulletin boards.

### **X. ANTICORRUPTION POLICY**

64. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the project.<sup>38</sup> All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all Project contractors, suppliers, consultants and other service providers. Individuals/entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the project.<sup>39</sup> To support these efforts, relevant provisions are included in the loan agreement and the bidding documents for the Project.

65. Furthermore, the project intends to maximize transparency, as described in Section IX. E above. Full information disclosure and participatory monitoring are expected to be effective in reducing the risk of corruption and improving governance at the implementation level.

66. The PMU will prepare a grievance redress mechanism during the project period, in consultation with ADB, and ensure that there is an appointed officer, with the requisite capacity, in each PMU to receive, resolve or act upon, both independently and expeditiously, complaints or grievances or reports from stakeholders on misuse of funds and other irregularities relating to the project or the specific subprojects in each provincial council, including but not limited to grievances due to resettlement. Each PMU shall inform stakeholders of their right to submit complaints or grievances relating to the project.

<sup>37</sup> Project completion report format is available at: <http://www.adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>

<sup>38</sup> Available at: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>

<sup>39</sup> ADB's Integrity Office web site is available at: <http://www.adb.org/integrity/unit.asp>

## XI. ACCOUNTABILITY MECHANISM

67. People who are, or may in the future be, adversely affected by the project may address complaints to ADB, or request the review of ADB's compliance under the accountability mechanism.<sup>40</sup>

## XII. RECORD OF PAM CHANGES

68. The first draft of Project Administration Manual (PAM) has been prepared at the loan fact-finding in October 2011. All revisions and updates during course of implementation should be retained in this Section to provide a chronological history of changes to implemented arrangements recorded in the PAM.

### July 2013

**Procurement Plan updated and uploaded** with the following changes

- Repackaged MED – Component 1 consultancy, for 4 individuals for a total of \$.59 million to be advertised in both national and international consultants; included a project management consultancy package for QCBS for \$1.9 million
- Changed in MED – Component 1, change from international legal expert into an SME banking specialist
- Component 2 CIB system reconfiguration reduction in amount from \$1.1 million to \$.30 million and change in selection method to Single Source Selection of Dunn & Bradstreet for the development of the CIB enhancement
- Carve out a Audit Firm Package from the PMC Consultancy package for \$.10 million by Least Cost Selection

### August 2013

**Minor change approved for a change in scope and cancellation of surplus funds:**

- Cancellation of \$2.65 million SDR equivalent SDR 1,744,098) under L2867
- Reallocation of loan / grant proceeds (see table below)

### GRANT 0290 (USD)

GFIS Code	Item	Allocation (original)	Uncommitted Amount	Amount Reallocated	Revised Allocation	ADB financing basis
3601	Equipment (net of tax)	400,000	400,000	(400,000.00)	-	100% of total expenditure claimed*
	Consulting Services		-		-	
	Cnsltng Svcs-Project					100% of total expenditure claimed*
3101	Management Unit (net tax)	2,440,000	2,440,000	(1,849,600.00)	590,400.00	100% of total expenditure claimed*
	Cnsltng Svcs-BDSC Institutional &					100% of total expenditure claimed*
3102	Legal Infra (net tax)	-	-	1,432,277.00	1,432,277.00	100% of total expenditure claimed*
	Cnsltng Svcs- Strengthening LIB					100% of total expenditure claimed*
3103	& STR	700,000	700,000	40,000.00	740,000.00	100% of total expenditure claimed*
	Cnsltng Svcs-MSME portal, Judgement debt database & Citizen service centers (net tax)	300,000	300,000	1,075,000.00	1,375,000.00	100% of total expenditure claimed*
3501	Training, Capacity Development (net of tax)	160,000	160,000	46,000.00	206,000.00	100% of total expenditure claimed*
4301	Contingency/ Unallocated	450,000	450,000	(343,677.00)	106,323.00	100% of total expenditure claimed*
	Imprest Account	-	-	-	-	
	<b>Total</b>	<b>4,450,000</b>	<b>4,450,000</b>	<b>-</b>	<b>4,450,000.00</b>	

<sup>40</sup> For further information see: <http://compliance.adb.org/>.

## LOAN2867 (SDR)

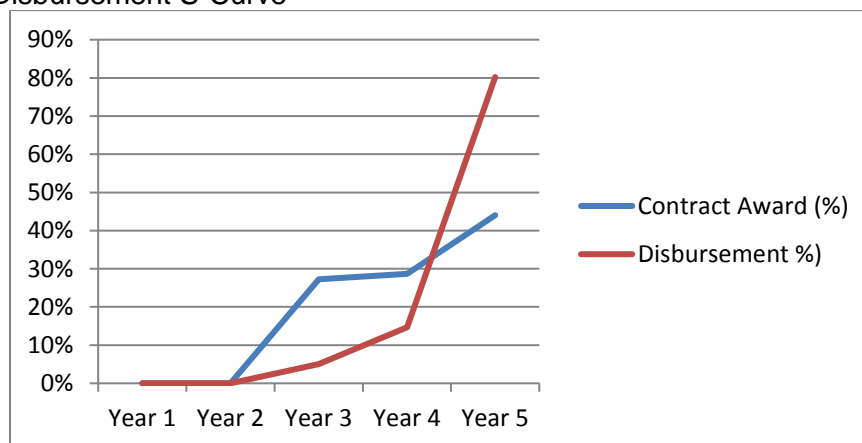
	Category	SDR				
	Item	Allocation (original)	Uncommitted Amount	Amount Reallocated	Revised Allocation	ADB financing basis
LFIS CODES						Percentage and basis for withdrawals from the loan account
	1501 Equipment (net of tax)	98,000	98,000	217,914.18	315,914.18	100% of total expenditure
	Consulting Services		0	-		
	Cnsltng Svcs-CIB STR Vendor	1,365,000	1,365,000	(917,454.92)	447,545.08	100% of total expenditure claimed*
	2101 (net tax)					
	Cnsltng Svcs-System Devt	813,000	813,000	(813,000.00)	-	100% of total expenditure claimed*
	2102 MSME Technologies (net tax)					
	2401 Training, Capacity Devt (net of tax)	0	0	32,907.73	32,907.73	100% of total expenditure
	7901 Line of Credit Facility***	975,000	975,000	12,231.80	987,231.80	100% of total expenditure
	6901 Interest Charge/ Financing Charge	39,000	39,000	(17,939.05)	21,060.95	100% of total amount due
9301 Contingency/ Unallocated	332,000	332,000	(258,758.08)	73,241.92	100% of total expenditure	
9901 Imprest Account	0	0	-	-		
	Total	3,622,000.00	3,622,000.00	(1,744,098.35)	1,877,901.65	

## November 2013

## Contract awards and Disbursement Projections revised

Baseline Projections – Project Level Grant 0290 / Loan 2867 MLD ADF REVISED NOV13 (Project Effectiveness)										
	Contract Awards (in USD million)					Disbursements (in USD million)				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
2012	-	-	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-	-	-
2014	210,000	60,000	250,000	1,480,000	2,000,000	-	-	186,000	186,000	372,000
2015	150,000	454,000	1,350,000	150,000	2,104,000	198,500	198,500	237,500	443,500	1,078,000
2016	150,000	150,000	150,000	2,778,973	3,228,973	813,500	813,500	813,500	3,442,473	5,882,973
	Total Contract Awards					Total Disbursements				
	7,332,973					3,322,973				

## Contract and Disbursement S-Curve





**Baseline Projections – Product Level**  
**Grant 0290 MLD ADF**  
**REVISED NOV13 (Project Effectiveness)**

	Contract Awards (in USD million)					Disbursements (in USD million)				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
2012	-	-	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-	-	-
2014	210,000	60,000	100,000	1,330,000	1,700,000	-	-	36,000	36,000	72,000
2015	-	304,000	1,200,000	-	1,504,000	48,500	48,500	87,500	293,500	478,000
2016	-	-	-	1,246,000	1,246,000	663,500	663,500	663,500	1,909,500	3,900,000
	Total Contract Awards				4,450,000	Total Disbursements				4,450,000

**Baseline Projections – Product Level**  
**Loan 2867 MLD ADF**  
**REVISED NOV13 (Project Effectiveness)**

	Contract Awards (in USD million)					Disbursements (in USD million)				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
2012	-	-	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-	-	-
2014	-	-	150,000	150,000	300,000	-	-	150,000	150,000	300,000
2015	150,000	150,000	150,000	150,000	600,000	150,000	150,000	150,000	150,000	600,000
2016	150,000	150,000	150,000	1,532,973	1,982,973	150,000	150,000	150,000	1,532,973	1,982,973
	Total Contract Awards				2,882,973	Total Disbursements				2,882,973

## February 2014

**Increase in imprest account ceiling for financing of Line of Credit Facility** activities under subcomponent (i) of Component 2 from \$150,000 to \$750,000 for the following imprest accounts:

- The first generation imprest account at MMA in the name of MOFT (in USD)
- The second generation imprest account at MMA in the name of BML (in Rufiyaa)

## April 2014

**Change in consultant recruitment and reallocation of grant proceeds.** Allocation table for Grant 0290 revised and Procurement Plan revised and uploaded with the following changes:

- Splitting of Citizen Service Center consultancy package (\$1.375m) into (i) consulting: expansion of MED's BOLI software and rollout in citizen service centers and citizen helpdesk/call center for \$550,000, QCBS; and (ii) procurement– equipment / hardware (computer, tables, office equipment for: PMU for \$100,000, BOLI enhancement for \$50,000, new BDSCs for \$100,000 and expansion of business incubator program for \$280,000.
- Splitting of program management consultants for Access to Finance into: one international operational credit information bureau specialist for \$70,000 and a program management consulting firm for establishment of the central registry for movable assets

GRANT 0290 (USD) REALLOCATION (April 2014)					ADB FINANCING	
CATEGORY		PREVIOUS ALLOCATION	PROPOSED REALLOCATION	Total Amount Allocated for ADB		Percentage and Basis for Withdrawal from the Grant
Number	Item					
	Consulting Services			3,595,000		
3101	Consulting Services – PMU (net of tax)	590,400	(140,400)		450,000	100% of total expenditure claimed
3102	Consulting Services – BDSC (Institutional & Legal Infrastructure) – net of tax	1,432,277	127,723		1,560,000	100% of total expenditure claimed
3103	Consulting Services – Strengthening CIB & STR – net of tax	740,000	-		740,000	100% of total expenditure claimed
3104	Consulting Services – MSME Portal, Judge Debt DB, Citizen SC – net of tax	1,375,000	(530,000)		845,000	100% of total expenditure claimed
3601	Equipment		530,000	530,000		100% of total expenditure claimed
3501	Training, Capacity Development (net of tax)	206,000	-	206,000		100% of total expenditure claimed
4901	Contingency/ Unallocated	106,323	12,677	119,000		
	<b>TOTAL</b>	<b>4,450,000</b>		<b>4,450,000</b>		

### September 2014

**Additional budget line item for Miscellaneous Administrative and Support Costs and reallocation of \$400,000 from project contingencies to said new support cost line item.** A new budget line item was created to support various administrative support costs, with funding reallocated from project contingencies.

- Grant 0290 allocation table was revised.

### GRANT 0290 (USD) REALLOCATION (September 2014)

						ADB FINANCING	
Category	Item	Previous Allocation	Contracts	Uncontracted Grant	Reallocation	Total Amount Allocated for ADB	Percentage and Basis for Withdrawal from the Grant
	Consulting Services						
3101	2A Consulting Services – Project	450,000.00	467,766.73	(17,766.73)	–	450,000.00	100% of total expenditure claimed
3102	2B Consulting Services – BDSC Institutional and Legal Infrastructure	1,560,000.00	100,000.00	1,460,000.00	–	1,560,000.00	100% of total expenditure claimed
3103	2C Consulting Services – Strengthening CIB	740,000.00	142,968.00	597,032.00	–	740,000.00	100% of total expenditure claimed
3104	2D Consulting Services – MSME Portal, Judge Debt Database, Citizen Service Centers	845,000.00	–	845,000.00	–	845,000.00	100% of total expenditure claimed
3501	3 Training, Capacity Development (Net of Tax)	206,000.00	–	206,000.00	–	206,000.00	100% of total expenditure claimed
3601	1 Equipment (Net of Tax)	530,000.00	7,571.41	522,428.59	–	530,000.00	100% of total expenditure claimed
3901	4 Miscellaneous Admin and Support Costs			–	40,000.00	40,000.00	100% of total expenditure claimed
4901	5 Unallocated	119,000.00	–	119,000.00	(60,000.00)	59,000.00	
	<b>TOTAL</b>	<b>4,450,000.00</b>	<b>718,306.14</b>	<b>3,731,693.86</b>		<b>4,430,000.00</b>	

### November 2014

**Post-facto approval provided on the financing for the Line of Credit Facility (LCF) activities under Component 2 subcomponent (i) under Loan 2867.** Changes consist of:

- the change in location of the second generation imprest account (SGIA) established by the Bank of Maldives (BML) from the Maldives Monetary Authority (MMA) to BML
- the financing of the said SGIA shall be through the first generation imprest account (FGIA) at MMA in the name of Ministry of Finance and Treasury (MOFT) what was established for financing said LCF activities

### December 2014

**Change in implementation arrangements for the recruitment for the BOLI development package as requested by MED.** As had been NCIT's practice in similar outsourced IT work for other projects, three national software developers will be recruited individually instead of a firm.

### March 2015

**Change in accounts.** As requested by MOFT, for simplification of project implementation, the following changes under Loan 2867 were approved:

- the FGIA at MMA in the name of MED will be the source of funding for the LCF SGIA located in BML in BML's name
- closing of the two accounts located in MMA (i) FGIA in the name of MOFT and (ii) the SGIA in the name of BML

### July 2015

**Change in implementation arrangements regarding ceiling of imprest account under the grant managed by MED and in the Procurement Package G08A under MMA.**

- Imprest account ceiling changed, from the lower of 6 months estimated project expenditure or 10% of the grant amount to \$700,000
- Change in consulting package G08A-MMA Component 2 Programme Management Consultants for Access to Finance (Establishment of Central Registry of Moveable Assets): "STR Operational Specialist" and "STR Legal Specialist" were replaced with "Doman Expert" and "System Developer", respectively, and change in package name from "Programme Management Consultants for Access to Finance" to "Establishment of Secured Transaction Registry".

### September 2016

**Project extension and minor change in implementation arrangements:**

- Project completion extension from 31 December 2016 to 31 December 2017
- Reallocation of grant proceeds to accommodate 1-year project extension
- Assignment of Maldives Inland Authority as an additional implementing agency for the management of the IT record keeping consultancy.
- Updating of the design and monitoring framework to reflect changes in some of the targets at the output level.

**Increase in imprest account ceiling for financing of Grant Component 2, subcomponents (i) and (ii):**

- Increase in imprest account ceiling for financing of Grant Component 2, subcomponents (i) and (ii), managed by the Maldives Monetary Authority, to the estimated expenditure for the forthcoming 6 months of project implementation.

### Grant 0290 (USD) Reallocation (September 2016)

CATEGORY					ADB FINANCING	
Number	Item	Previous Allocation	Proposed Reallocation	Total Amount Allocated for ADB		Percentage and Basis for Withdrawal from the Grant
				Category	Subcategory	
	Consulting Services			3,823,000.00		
3101	2A Consulting Services – Project Management Unit	450,000.00	22,000.00		472,000.00	100% of total expenditure claimed
3102	2B Consulting Services – BDSC Institutional and Legal Infrastructure	1,560,000.00	640,000.00		2,200,000.00	100% of total expenditure claimed
3103	2C Consulting Services – Strengthening CIB and STR	740,000.00	149,000.00		889,000.00	100% of total expenditure claimed
3104	2D Consulting Services – MSME Portal, Judge Debt Database, Citizen Service Centers	845,000.00	(583,000.00)		262,000.00	100% of total expenditure claimed
3501	3 Training, Capacity Development (Net of Tax)	206,000.00	(153,000.00)	53,000.00		100% of total expenditure claimed
3601	1 Equipment (Net of Tax)	530,000.00	(292,100.00)	237,900.00		100% of total expenditure claimed
3901	4 Miscellaneous Admin and Support Costs (Net of Tax)	40,000.00	20,000.00	60,000.00		100% of total expenditure claimed
4901	5 Unallocated	79,000.00	197,100.00	276,100.00		
	<b>TOTAL</b>	<b>4,450,000.00</b>		<b>4,450,000.00</b>		

### DESIGN AND MONITORING FRAMEWORK (Revised)

Impact the Project is Aligned with: More inclusive and broad-based MSME sector achieved (Project defined)			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
<b>Outcome</b> MSME sector further expanded and strengthened	By end 2017: a. MSME registration in the MED registry system increased by 20% (2011 baseline: 180 MSMEs)  b. BDS capacity enhanced and client-fee based BDS provided to 1,500 MSMEs (2011 baseline: none)  c. 100% increase in MSME access to credit through LCF (2011 baseline: 60 MSMEs)	For all indicators: Reports from MED and minutes of meetings of the project steering committee and MSME council.  Subsequent World Bank investment climate assessment studies  Project progress reports.	Limited size of the market and narrow activity base
<b>Outputs</b> 1. Business support infrastructure built	By end 2017: 1a. 20% increase in number of women and youth-owned and engaged businesses (2011 estimated baseline: 1,500)  1b. SME Act Amendment drafted (2011 baseline: NA)  1c. Proposed amendments include measures to promote women in MSMEs (2011 baseline: none)  1d. Two additional BC established to cover all seven provinces (2011 baseline: 5)  1e. 30 developed BDS products and services offered by BCs (2011 baseline: 10)  1f. 4,000 beneficiaries trained under 300 training programs (2011 baseline: 3,500 beneficiaries under 150 trainings)  1g. 20 MSME businesses established under business incubator program (2011 baseline: none)	For all indicators:  MED reports  Project progress reports  Subsequent World Bank investment climate assessment reports	Developed BDS capacity cannot be sustained, and not enough demand for the CSF  Political transition and changes in the composition of the senior counterparts  Lack of capacity in the judiciary to enforce legal reforms coupled with absence of political will to implement the required legal reforms

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	1h. Credit Guarantee Unit set up in MMA (2011 baseline: not applicable)		
2. Access to finance improved for private sector MSMEs.	<p>2a. 40 new loans through ADB's LCF and 160 new loans from IDB with mandatory 15% for women MSMEs) (2011 baseline for MSMEs: 100, no mandatory allocation)</p> <p>2b. Turnaround time for processing MSME loan applications reduced by 30% (2011 baseline: 6 months for 100 loans)</p> <p>2c. CIB membership expanded (2011 baseline: only banks included) and CIB system provides new reporting and credit scoring services (2011 baseline: none)</p> <p>2d. CIB generates more than 2500 CIB reports per annum (2011 baseline: 400 reports during February–October)</p> <p>2e. Implementation plan and regulatory framework for establishing STR completed (2011 baseline: none)</p>	<p>For all indicators:</p> <p>BML reports on performance of loans under LCF</p> <p>Project progress reports</p> <p>Ministry of Justice legislation gazette</p>	<p>Nonperformance of loans disbursed during the Private Sector Development Project pilot phase</p> <p>Political transition and changes in the composition of the senior counterparts</p>
3. Technologies for MSME development established	MSME portal established and fully functioning (2011 baseline: none)	<p>MED database</p> <p>Project progress reports</p>	

#### Key Activities with Milestones

##### 1. Business support infrastructure built

- 1.1 Establish BDSC consultants and procure office equipment (by month 6)
- 1.2 Design BDSC network monitoring and evaluation framework (by month 8)
- 1.3 Conduct market demand gap survey and analysis to determine MSME growth opportunities (by month 8)
- 1.4 Select priority sector value chains and MSME partnership businesses under business incubator program (by month 12)
- 1.5 Carry out a study to design the CGS model covering shortfall in collateral related to viable business entities and rules of CGS business (by month 4)
- 1.6 Set up a desk within the MED for the CGS operationalization (by month 12)

##### 2. Access to finance improved for private sector MSMEs.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
2.1 Complete onlending agreement between government and BML and finalization of the subloan eligibility conditions (by month 3)			
2.2 Process applications to determine eligible applicants under the program and complete internal procedures (by month 6)			
2.3 Expand the CIB member group by including Maldives Islamic Bank, insurance companies, telecom, and utilities companies (by month 24)			
2.4 Develop new products such as credit scores from the CIB (by month 24)			
2.5 Create public awareness to disseminate information (whole duration)			
2.6 Carry out a feasibility study for the establishment of an STR (by month 6)			
2.7 Define the functional and technical specifications of the STR and prepare a request for proposal for selecting a vendor for STR (by month 9)			
2.8 Design and implement regulatory review and impact process (by month 18)			
3. Technologies for MSME development established			
3.1 Procure a vendor for the design, bid process management, project management and quality assurance of the CSC package (by month 9)			
3.2 Procure a vendor for design, development, and maintenance of the MSME (by month 20)			
3.3 Establish MED portal (by month 30)			
Inputs			
Item	Amount (\$ million)		
ADB:			
Loan	2.71		
Grant	4.45		
IDB			
Loan	10.30		
Government	0.07		
Total	17.53		
Assumptions for Partner Financing			
Not applicable			

ADB = Asian Development Bank; BC = business center; BDS = business development services; BDSC = business development service center; BML = Bank of Maldives; CIB = credit information bureau; CGS = credit guarantee scheme; CSC = citizen service center; CSF = cost-sharing facility; LCF = line of credit facility; MED = Ministry of Economic Development; MMA = Maldives Monetary Authority; MSME = micro-, small-, and medium-sized enterprises; STR = secured transaction registry.

## APPENDIX 1

### COMPONENT 1: BUSINESS SUPPORT INFRASTRUCTURE BUILT

1. There is a significant need to create a better enabling environment for the promotion and development of MSMEs. One of the strategies for achieving this is through continuing with the initiatives to build better business support infrastructure launched under the PSDP and extending the outreach of BDSCs. This would be supported by creating a strong Project Management Unit (PMU) for ensuring the successful implementation of the project. Simultaneously, the legislative and regulatory framework for promoting MSME development will be addressed under this component as well.

#### **I. Output 1: Program Implementation Capacity Strengthened and Enabling Environment for MSME Development Improved.**

2. **Enhanced Capacity of Project Management Units.** As noted in ADB's 2007 country partnership strategy, capacity constraints severely affect the optimization of all externally-assisted projects. Due to lack of project specific implementation units and relevant experience, completion of some projects have been delayed for more than 3-4 years, undermining their development effectiveness. Appropriate project management processes play an integral part in the successful implementation of all projects in the government. Against this background, necessary project management mechanisms were set up at MED for the smooth implementation of the PSDP. The performance of the PMU has been satisfactory and the MED has now put in place the position of a full-time Project Director (PD) to head the projects being managed by the MED. In line with past experience, a PMU will be set up at the MED for the managing the MSMEDP. PMUs will be also set up at MMA and BML.

3. **Legal Regime to Enhance Access to Finance.** This output will also include strengthening the legal and regulatory enablers for MSME development. There is a significant need to create a better enabling environment for the promotion and development of MSMEs through (i) development of the legal regime to enhance access to finance; (ii) facilitating the enforcement of commercial contracts; and (iii) developing the legislative regime for commercial laws pertaining to MSMEs, including new e-commerce and data protection laws. The focus areas and the rationale in the context of MSME development are given below. The following should be drafted (i) a new Credit Information Bureau Act, which will provide the legislative basis for the CIB, enable finance providers to contribute customer information, deal with data protection issues, and facilitate eventual privatization of the CIB; (ii) regulations for the proposed Secured Transactions Registry legislation and any related changes required to existing laws; (iii) a new Non-bank Financial Institutions Act to facilitate a wide range of financing options for MSMEs, such as finance leases, factoring arrangements and loans from finance companies; and (iv) listing rules for asset backed securities.

4. **Commercial Contract Enforcement.** There should be (i) assessment and revision of the draft Civil Procedure Code against international good practices, (ii) drafting of personal and corporate insolvency laws including the supervisory structure and the structure for administration of bankrupt estates; (iii) establishment of an online Judicial Debt Database to provide a central repository for all judgment debts; and (iv) design and implementation of a program to build judicial capacity on commercial disputes.

5. **Commercial laws.** There should be (i) review of all new proposed Acts to assess their impact on MSMEs and drafting required amendments (ii) design of a regulatory impact assessment framework for new commercial legislation relevant to MSMEs; and (iii) drafting of new electronic

commerce and data protection laws. The above recommendations are all proposed to be the subject of Technical Assistance from the ADB. It is also recommended that the Government take early steps to (i) amend the Companies Act to mandate companies to prepare accounts in accordance with the International Financial Reporting Standards (IFRS), including the simplified IFRS which have been developed for SMEs; (ii) have the MMA laws and regulations reviewed to assess whether they should be amended for the purposes of Shariah law principles and for the purpose of considering whether there is a need for a stand-alone Islamic banking law; and (iii) fully implement the new Copyright Act and ensure the early passage, and implementation, of the Industrial Property Bill.

## **A. Legal Regime to Enhance Access to Finance**

6. **Background.** The lack of access to finance has been continuously raised as the most significant issue preventing the promotion and development of MSMEs in the Maldives. This view was also expressed in virtually every stakeholder meeting and in the 2010 SME Mapping Report. There was particular emphasis on the need for small collateral-free loans (less than Rf 50,000) to be made available for the purposes of micro-businesses, which currently have no access to any form of formal credit. It was recognized that such loans should be for a relatively short term, with frequent (e.g. weekly) payments. This position is reflected in the fact that the Maldives ranks 152 out of 183 countries in the process for “Getting Credit”, according to the World Bank/ IFC Ease of Doing Business Survey 2011. The indicator assesses the legal rights of borrowers and lenders with respect to secured transactions and the sharing of credit information. Another telling statistic is that the Maldives ranks 143 out of 188 countries for the stock of domestic credit, according to the Central Intelligence Agency Factbook 2011 on the Maldives. The primary reasons for these poor figures are the absence of a CIB<sup>41</sup> and STR for movable property and the limited protection provided by the current system for registering mortgages over land. Lending to MSMEs is thus highly risky.

7. A further consideration is the narrowness of the banking sector. The only financiers in the Maldives are banks and the Maldives Finance Leasing Company (MFLC). Only BML (with 19 branches) and State Bank of India (with 2 branches) operate outside Malé. BML’s policy is that they will not lend to start-ups, for a loan below Rf.15,000 the borrower must be employed (which rules out all businesses) and for larger loans the borrower must provide at least 120% collateral. These conditions are very difficult to fulfill for the smaller MSMEs and especially for start-ups. Key reasons for lack of access to finance from banks may be summarized under supply side and demand side issues as follows: (i) supply side: lack of a credit information bureau until ADB’s intervention and lack of a comprehensive STR, scattered island geography, high (25%) minimum reserve requirements for banks, serious concerns about enforcement of contracts and securities, and poor approach to savings in banks; and (ii) demand side: onerous collateral rules, lack of access to banking services, relatively high cost of credit and very limited consumer protection rules.

8. **Credit information bureau.** The Maldives has a new Credit Information Bureau (CIB) with the support from ADB. The supporting regulations have recently been gazetted. However, it is understood that they do not deal with all relevant legal issues. It is recommended that enabling legislation for the new CIB should be prepared which, in particular, (i) confirms the powers of the MMA to provide the CIB to banks, non-bank financial institutions, telecommunications companies, utilities and insurance companies; (ii) confirms the powers of all credit providers to provide their customers’ information to the CIB; (iii) deals with data protection issues such as the need for the

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<sup>41</sup> CIB is expected to be operationalized from April 2011 with the support of ADB fund.



customer to consent to the inclusion of their information in the CIB, and the customer's rights of access and correction; (iv) makes provision for the inclusion of information which was in existence when the CIB commenced operations; (v) makes provision for the CIB to eventually be privatized (the current plan is that this should occur within 5 years from when the CIB commenced operations); and (vi) incorporates relevant aspects of the existing CIB Regulations and the Code of Conduct.

9. **Secured Transaction Registry.** Maldives does not have a comprehensive system for the registering of secured transaction in movable and immovable properties. The lack of a clear legislative system for registering security interests in collateral has been cited in the 2006 World Bank publication *Reforming Collateral Laws for Access to Finance* as a major barrier to access to finance. This is because without such a system lenders cannot be sure that their security interests will be recognized or of their priority position and there are uncertainties about the enforcement process. The MMA has drafted a new STR legislation with the support of ADB. The new legislation will need to take into account existing laws, draft Mortgage Bill and Land Bill. Capacity to administer the new legislation will need to be developed. It is recommended that support may be provided for the development of the regulations required for the new STR Act, consequential amendments to other legislation and regulatory capacity building.

10. **Non-bank financial institutions law.** At present the non-bank financial institution (NBFI) sector in the Maldives is very small. It consists of 1 leasing company (MFLC), 4 insurance companies and one housing finance company. The World Bank's Financial Sector Strategy Development (FSSD) report 2011 states that the 4 insurance companies represent less than 1% of financial sector assets and the other 2 NBFIs represent around 2.8% (as of the end 2009).<sup>42</sup> As noted in that report, there are no finance companies which provide stand-alone credit facilities (i.e. do not take deposits), factoring facilities and hire-purchase facilities. The microfinance industry is non-existent. The result is that there is a poor range of finance facilities available to MSMEs and virtually no competition for the banks.<sup>43</sup>

11. A further fundamental concern is the legal difficulty with finance leases in the Maldives because the Civil Court in effect decided in 2007 that finance leases are not enforceable on the basis of Shariah compliant. The Court has also refused to recognise the IFC sponsored regulations for Finance Leasing Companies and Finance Leasing Transactions 2001 (Leasing Regulations). The Court has taken a stand that the Leasing Regulations must be made into a Dhivehi Act of Parliament before they can be enforced. The result is that there is great legal uncertainty as to the enforceability of finance leases in the Maldives. As a result MFLC refuses to enter into long-term finance leases and faces a 30% approximately default rate on existing leases. It is recommended that new legislation be developed for NBFIs which ensures a wide range of financing facilities can be made available to MSMEs (such as finance leases and factoring arrangements as well as loans from finance companies) and provides for the licensing, market conduct and supervision of NBFIs.

12. **Accounting and Auditing Standards.** The current position is that companies in the Maldives are not required to comply with internationally accepted accounting standards in preparing their financial statements and the proposed amendments to the Companies Act do not deal with this issue. The only standard at present is that the accounts must specify the share

<sup>42</sup> Pages 50 and 51 – see Table 9. This position is clearly an impediment to the promotion and development of MSMEs since: "Provided that the relevant laws are in place, asset-based lending such as ... leasing ... can release sizable financing flows even for small and transparent firms".

<sup>43</sup> "Finance for All? Policies and Pitfalls in Expanding Access". A World Bank Policy Research Report. 2008.

capital, the paid up capital, the assets, liabilities and “*information generally expected to be disclosed in relation to the assets and liabilities of the company and the manner in which all immovable properties of the company are valued*” (s. 67 of the Companies Act). This will be the same under proposed amendments to the Companies Act. The lack of a clear standard for the preparation of company accounts makes it difficult for companies (especially MSMEs) to raise finance, whether from the banking system or the capital markets. A related issue is the lack of auditors approved to audit relatively large company accounts. Any company with authorized capital of over Rf.1 million needs to have their accounts audited. Many MSMEs would be in this category. However such an auditor must be approved by the Auditor-General. At present the only approved auditors are three international auditors: PwC, Ernst and Young and KPMG. This is of concern to Maldivian firms and limits the number of auditors available for MSMEs. It is recommended that the Companies Act be amended to require companies to prepare accounts in accordance with the IFRS, including the simplified IFRS which have been developed for SMEs.

13. **Capital Markets.** Maldives has very limited capital market, with the equities of only 5 companies<sup>44</sup> being listed on the Maldives Stock Exchange (MSE). The insurance company Amana Takaful is a very recent listing and has not yet traded any shares. No companies are listed on the 2nd Board of the MSE. Nevertheless, it is considered that there may be potential for the capital markets in the Maldives if MSMEs do indeed develop as planned and given the government’s privatization plans and the new Maldives Retirement Pension Scheme (MRPS). MRPS may have around Rf.1 billion to invest as of 31 December 2011. There are a number of reasons given for why MSMEs do not use capital markets.<sup>45</sup> Steps which might be taken to support the capital markets include review and amendment of all relevant legislation and rules against international good practice<sup>46</sup>, a regional stock exchange partnership, listing rules for asset backed securities, collective investment scheme legislation, a survey of MSMEs to assess capital market needs and a campaign for MSMEs on the rules and benefits of capital markets.<sup>47</sup>

14. **Credit Guarantee Scheme.** It is understood that the structure and functions of the proposed Credit Guarantee Scheme (CGS) for MSMEs are under finalization. This will be done by the MED and MMA for designing a basic model in response to the feedback from participating banks and financial institutions. Subsequent to this, there may be a need for consequential

<sup>44</sup> Five listed companies include State Trading Organization (STO), Bank of Maldives, Maldives Transport and Contracting Co Plc., Maldives Tourism Corporation Plc., and Amana Tekaful Maldives.

<sup>45</sup> The reasons include: (i) onerous initial listing requirements: they are quite onerous ( issued and paid up capital of Rf.1,000,000) and any debenture listing must be secured by collateral or a guarantee; (ii) complexity of Second Board Rules (iii) alternative funding sources; (iv) MSMEs are often small family companies (v) Inconsistency between continuous disclosure rules in the Main and Second Board Rules and in the Securities (Continuing Disclosure Obligations of Issuers) Regulations 2010; and (vi) bond issues have to be rated are for obligations to be secured by collateral or guaranteed.

<sup>46</sup> This would include, for example, the Securities Act and the related Securities (Continuous Disclosure) Regulations 2010, the Main and Second Board and Bond Listing Rules and the Corporate Governance Code.

<sup>47</sup> The World Bank’s FSSD Report expressed support for capital market development, whilst noting that it must be proportionate to the local needs and consideration should be given to establishing partnerships with capital markets in other countries. Generally, it is not considered that there is an urgent need for wide ranging reforms of the capital markets for the purposes of MSMEs. Even if all the above mentioned changes were made, they would not of themselves create viable MSMEs which could realistically be listed or build investor confidence in the finances of listed MSMEs. Other issues need to be addressed for this to occur (such as the enhancement of the business development skills of MSMEs). However, the ability to list Asset Backed Securities (ABS) could be especially helpful to MSMEs who have difficulty obtaining access to finance because they do not have the traditional forms of collateral required by banks. ABS is created when financial assets are pooled together and claims to that pool are sold in the market. The most common types of assets used for this purpose are mortgages, credit card receivables, automobile loans, consumer loans and equipment leases. It is recommended that support be provided for the development of listing rules for asset backed securities, any required legislation and capacity support for the Capital Markets Development Authority.

legislation to be prepared, depending on the final form of the Credit Guarantee Fund (CGF) and to demonstrate the commitment of the government to the CGF. It may be the case that the CGS provisions proposed for inclusion in the MSME Bill would suffice in this regard. However, it is yet to be premature to make any specific recommendations at this stage on legal and regulatory matters in relation to the CGF.

15. **Islamic Banking.** The newly established Maldives Islamic Bank (MIB) is 85% owned by the Islamic Corporation for the Development of the Private Sector (ICD) and 15% by the Government of the Maldives through the MOFT (see <http://www.mib.com.mv/html/About.html>). Issues raised by the MIB include the need for review of prudential regulations<sup>48</sup>, desirability of a stand-alone Islamic banking law and an Islamic bond market, and need for judicial capacity to be developed in relation to the application of classical Sharia compliant principles to modern Islamic banking products. The World Bank's recent FSSD Report also expressed support for development of the Islamic banking regulatory framework.<sup>49</sup> However the MMA is yet to agree on the need for a separate Islamic Banking Act, given the existing Banking Act provides for the provisions on Islamic banking and the related regulations. The draft Maldives Central Bank Bill also provides for the establishment of a new Shariah Council on Islamic Finance. It is recommended that the MMA undertake a systematic review of its laws and regulations on the need to amend the same for the purposes of Islamic banking.

## B. Enforcement of Commercial Contracts

16. **Background.** The court system consists of the Civil Court, which has jurisdiction in criminal, family and civil law cases, the High Court which is the usual appellate court, and the Supreme Court which is primarily responsible for deciding constitutional cases but also has some appellate jurisdiction in relation to decisions of the High Court. There is also an island court in each island which can hear certain criminal matters, and civil matters up to Rf. 5 million. Each island court is presided over by a magistrate, who is likely to service a few island courts. A new Mercantile Court is also the subject of legislation currently before Parliament. A fundamental concern is the limited effectiveness of the system for enforcement of commercial contracts. The Maldives ranks 92 out of 183 countries in enforcing contracts, according to the World Bank / IFC Ease of Doing Business Survey 2011.<sup>50</sup> The relevant indicators are the number of procedures (41), the time between filing a law suit and obtaining payment of the successful claim (665 days) and the cost (16.5% of the claim). Efficient courts are an important component of a healthy investment climate. If contracts cannot be enforced through the courts, businesses are less inclined to make investments or engage in business transactions.<sup>51</sup> This applies to both banks and suppliers which might finance MSMEs, to investors in the capital markets and to MSMEs themselves when considering to set up or expand their businesses.

17. The establishment of the rule of law is not only a political imperative it is also an economic imperative. In order for Maldives to continue attracting local or international investment, investors need to be sure that the contracts they enter into can be protected and enforced in a court of law. This is particularly important to MSME sector, where access to a fair and speedy justice system is

<sup>48</sup> This is bearing in mind, for example, that the ratios used in the MMA Prudential Regulations refer to loans and interest rates, which does not take into account Sharia compliant financing.

<sup>49</sup> The FSSD Report states: *"In moving forward in its transformation, as MMA strengthens and deepen[s] the money market, it has to build a regulatory framework for Islamic banks and develop an Islamic money market. In this regard, due consideration must be given to putting in place an underlying institutional framework that best support an Islamic banking system which co-exist[s] alongside the conventional banking system".*

<sup>50</sup> <http://www.doingbusiness.org/data/exploreeconomies/maldives>

<sup>51</sup> IFC/World Bank Doing Business in Small Island Developing States 2009, page 8

a key prerequisite for the growth of MSMEs. The development of the MSME sector is impeded by delays in enforcing commercial contracts. These issues are relevant to all contractual arrangements i.e. not just in relation to credit arrangements. For example, they would be relevant to MSME contracts and securities relating to arrangements concerning supply of goods and services, acquisitions and disposals of business entities and joint venture and partnership arrangements. Smaller MSMEs are especially likely to be adversely affected by this situation. However a combination of factors has resulted in significant delays in enforcing contracts in the Maldives. These factors are discussed below.

18. **Civil Procedure Code.** A fundamental concern in this context is that there is no Civil Procedure Code in the Maldives. This means, for example, there are no rules as to the evidence which must be supplied in support of a contractual dispute, no summary claims procedure for dealing with situations when the debtor fails to appear, no rules for enforcement of judgment debts or for interest which must be paid on an outstanding judgment, no rules for the sale of secured assets when there is a default and no certainty as to the outcome of a commercial dispute. It is understood that a draft Civil Procedure Code has been prepared by the law firm Suood & Anwar, and it is awaiting consideration by Parliament. However, there has been no consultation on the draft, either with the judiciary or more generally. It is recommended the draft Civil Procedure Code be assessed against international good practice, a consultation process with stakeholders be undertaken and amendments to the Code prepared.

19. **Personal and Corporate Insolvency Laws.** It is noted that a well-functioning insolvency regimes can facilitate access to finance, especially for small and medium-size enterprises, and thereby improve growth in the economy overall.<sup>52</sup> There are no formal personal insolvency laws in the Maldives and limited corporate insolvency laws. Discussions indicate that it is possible to be declared insolvent in Civil Court proceedings<sup>53</sup>. However, these orders are at the discretion of the judge and there are no rules relating to priority of debts and no control over whether the person can be a director of a new company etc. Further, the judge has discretion as to the conditions they impose on the debtor. Numerous stakeholders (including the acting Chief Judge of the Civil Court) stressed the urgent need for updated insolvency laws. There is no doubt that reform of insolvency laws can lead to expedited enforcement proceedings, more efficient winding-up and administration processes and cost savings. All these factors can reduce the risks for creditors and lead to reduced costs for borrowers, including MSMEs. The IFC/World Bank Doing Business Report, 2011 provides various case study examples of the benefits of insolvency law reforms.<sup>54</sup> There are also numerous examples of insolvency reforms being introduced in developing countries in recent years.<sup>55</sup> It is recommended that priority should be given to the drafting of personal and corporate insolvency laws, including the supervisory structure and the administration of bankrupt estates. Their absence is a further barrier to finance being provided to MSMEs.

<sup>52</sup> IFC/World Bank Doing Business Report, 2011, page 82

<sup>53</sup> The process is that first there has to be a judgement debt and then the person will be sent to prison for 2 months if they refuse to pay. The matter will then go back to court and if the debtor again refuses to pay they will be sent to prison for 2 months. The next step is a declaration of insolvency and the judge may order seizure and sale of their assets.

<sup>54</sup> IFC/World Bank Doing Business Report, 2011, page 82. For example: (i) a study of the 2005 bankruptcy law reforms in Brazil found that it led to an average reduction of 22% in the cost of debt for Brazilian companies, a 39% increase in overall credit and a 79% increase in long-term credit in the economy; (ii) after the Korea Debtor Rehabilitation and Bankruptcy Act 2006 was enacted, the number of reorganization filings jumped from 76 in 2006 to 670 in 2009; and (iii) the raising of the expedited bankruptcy procedure ceiling in Spain from €1 million to €10 million is expected to mean that 70% of bankruptcies will be able to take advantage of the simplified, and cheaper, process.

<sup>55</sup> Examples in the IFC/World Bank Doing Business Report, 2011 are from India, Pakistan and Afghanistan, Samoa and Tonga. See also the numerous reforms described in Table 11.2 of the Report.

20. **Judgment Debt Database.** It is recommended that an online (publicly accessible) Judicial Debt Database be established to provide a central repository for all judgment debts.<sup>56</sup>

21. **Judicial Capacity.** The difficulties in enforcing contracts are compounded by poor judicial capacity in commercial matters. There are approximately 35 judges in the Malé Civil Court. They have a mixture of qualifications (e.g. in Shariah or common law), are currently studying law or do not have any legal qualifications. It is understood that there is some lack knowledge of fundamental legal concepts such as privity of contract. Island magistrates are not legally trained (although they undertake a Diploma based course) and yet are required to adjudicate on matters up to Rf. 5 million. Further, there is no on-going training program for the judiciary (including both judges in Malé and island magistrates) once they are qualified. These issues will be exacerbated as MSMEs develop and numbers of commercial cases increase. Against this background, MSMEs, their financiers, investors and business partners can have no certainty as to the quality and consistency of court decisions on commercial disputes. This is a fundamental concern for the growth and development of MSMEs. It is also to be noted that there is no external dispute resolution scheme for financial services in the Maldives. In the long term there could usefully be a detailed assessment of the need for an independent, low cost, financial services ombudsman scheme. However, it would be premature to do so until other recommendations have been implemented and their impacts are assessed. It is recommended that a program to build judicial capacity on commercial disputes be designed and implemented.<sup>57</sup>

### C. Commercial Laws

22. **Background.** The Maldives is a new democracy. The first-ever presidential elections under a multi-candidate, multi-party system were held in October 2008. Prior to this, laws were made by Presidential decree but are now made in a democratic process in the People's Majlis (Parliament). The Government has ensured the continuation of regulations made by the previous Government by validating them under a "Parent Act" which is effective until August, 2012. This background helps explain the speed with which the Government is apparently seeking to enact a large range of legislation. The Government has embarked on a rapid program to pass a series of laws, many of which are relevant to MSMEs. Nevertheless, there are some gaps in the formal legislation that currently exists, concerns about the quality of the legislation in Parliament given the speed with which it was drafted, lack of consultation and the apparent failure to give special attention to the needs of MSMEs.

23. **Legislation Gaps and New Laws.** Currently, there are significant gaps in the Maldives legislation relevant to MSMEs. Specific issues include: (i) the Maldives does not have a number of the fundamental laws necessary to encourage the provision of finance to MSMEs, investment in such enterprises and trust in financial services. In cases, they exist to only a limited extent. Relevant laws include those covering the CIB and the STR, electronic commerce and data protection; (ii) a number of other laws relevant to the financial sector were made under Presidential decree by the previous administration and are very limited in scope, such as laws relating to companies, foreign investments, contracts, exports and imports, consumer protection and co-operatives; and (iii) there has been a court decision to the effect that all Maldivian laws have to be in Dhivehi to be enforceable.<sup>58</sup> For example, the IFC sponsored Regulations for Finance Leasing Companies and Finance Leasing Transactions 2001 are only in English.

<sup>56</sup> For further details, refer to Appendix 3 of PAM.

<sup>57</sup> The program should: (i) be for judges in the Civil Court and in the new Court and for island magistrates; (ii) cover the new Civil Procedure Code and other legislation relevant to commercial disputes; (iii) include components for both initial and on-going training both face to face and online; and (iv) include a "train the trainer" component.

<sup>58</sup> A similar view has also been expressed by the acting Chief Judge of the Civil Court.

24. A number of important regulatory reforms have, however, either been passed by Parliament in the last few years or are currently proposed. Recently passed Acts include a new Banking Act 2010, the Islamic Banking Regulation 2011, the Business Profits Tax Act 2010, the Goods and Services Tax Act 2011 and the Copyright Act. Importantly, the President announced in mid-2011 an expedited program for an “economic package” of legislation to be introduced into the People’s Majlis in July. This includes legislation for a new Mercantile Court, income tax, mortgages, land, foreign investment, companies, business registration, partnerships, arbitration and condominiums. Most of the legislation in the package was drafted in two week period by the Attorney-General’s Department, with assistance from local consultants but no stakeholder consultation. The legislation is expected to be considered in the current sittings of Parliament. Priority has been given to the taxation legislation and approval of the 2012 budget.

25. Other legislation in the pipeline includes the MSME Bill, the Maldives Central Bank Act and the Industrial Property Act. Further, in a project funded by the UNDP, local law firm Suood & Anwar is drafting the regulations for the MSME Bill and new laws relating to competition, sale of goods and services, co-operatives, consumer protection, exports and imports and revenue stamps. This project commenced in late September 2011 and is now finalized. It is recommended that all the above new legislation be reviewed in order to assess its implications for MSMEs and support be provided for regulatory capacity building. Resources need to be allocated for implementation of Copyright Act and ensuring early passage and implementation, of the Industrial Property Bill.<sup>59</sup>

26. **Legislative process and regulatory impact assessments (RIAs).** The MSME Bill relevantly provides for the review of proposed legislation which may have a direct, or a substantial indirect, effect on MSMEs. The requirement is that there must be an economic cost – benefit analysis of the proposed legislation as well as consultation with representative MSMEs and industry bodies. Regulatory impact assessments involve the development of a methodology for designing precise, targeted regulations that achieve policy objectives with a minimum burden on those affected. This process is especially important for smaller because such businesses are not able to take advantage of economies of scale in reducing the relative impact of regulatory burdens. Other considerations include that the RIA process: (i) optimizes the chance of cost-effective, meaningful legislative regimes; (ii) encourages transparency in government; (iii) encourages public-private dialogue because the process requires meaningful consultation; (iv) can be used as a benchmark to assess the effectiveness of the regulatory intervention over time and a means of holding the government to account; (v) can be used as a tool by the private sector to pressure the government for change; and (vi) encourages formalization of the informal economy as the aim is to achieve precise, targeted legislation which achieves legitimate policy aims with the minimum burden on those affected.<sup>60</sup>

27. The RIA process in various forms has been introduced into a number of developing and transition economies. The RIA process for MSMEs in the Maldives will require careful, context specific design and implementation of the required scheme including for the development of the cost-benefit analysis methodology, for extensive stakeholder consultation, for the formulation of the Government unit which is to be responsible for administering the scheme and for extensive

<sup>59</sup> This is important to protect MSME intellectual property rights, to provide a protective framework for “Maldivian” brands which are (and should be) developed by the government in relation to uniquely Maldivian goods and geographic indicators and to enable the Maldives to meet its obligations as a member of the WTO.

<sup>60</sup> “*Introducing Regulatory Impact Assessment in Developing Countries: The Case of Uganda*”, presented by Darren Welch, Principal Consultant and Richard Waddington, Consultant, Babcock Consulting, International Conference on Reforming the Business Environment: Cairo, Egypt, November 2005

capacity building in relevant Government Ministries.<sup>61</sup> The RIA scheme will, of course, need to be cost – effective for the small economy of the Maldives. Support should be provided for the establishment of the regulatory review process for legislation relevant to MSMEs and the required capacity building.

28. **Electronic Commerce and Data Protection Laws.** It is recommended that electronic commerce and data protection laws should be developed. Two fundamental laws which are considered to be required for the purposes of MSMEs are: (i) **Data protection laws.** Data protection (or privacy) is important for the protection of confidential information belonging to MSMEs (as well as other businesses and, of course, individuals). It is noted in this regard that there are basic privacy protections in the draft Consumer Protection Regulation which has been published by the MMA.<sup>62</sup> These protections relate to information which is relevant to transactions with “Financial Institutions” and would seem to apply for the benefit of MSMEs, regardless of their legal form (this is because the draft applies to “Customers” who are defined to include a “natural or legal person or entity”).<sup>63</sup> However the proposed provisions are very limited in scope.<sup>64</sup> Although the global standards apply to personal information about individuals (rather than business information), the line between personal information and business information is, of course, often blurred with MSMEs who are sole traders. Hence, it is recommended that technical assistance be provided for preparing the data protection law and required changes to other relevant laws; and (ii) **Electronic commerce.** The MSME Bill includes a provision upholding electronic transactions with an MSME as valid. However, legislation facilitating electronic commerce, in general, should also be developed. Such legislation could, for example, provide that any legal requirement to give information (whether under a law or a contract) may be fulfilled by providing that information electronically, can provide for the validity of electronic contracts and digital signatures, and the rules as to when an electronic message is taken to have been sent or received.<sup>65</sup>

## II. Output 2: BDSC and Business Incubator Programs Strengthened

### A. BDSC Capacity Building Infrastructure

29. MSME promotion activities supporting business development services (BDS) outreach under PSDP included two Business Development Services Centers (BDSCs) that were to be established under a pilot phase, at the North and the South, to serve as the principal vehicle for delivery of a wide range of business development products and services to MSMEs at cost-based prices. These BDSCs were to be supported by a central BDSC, located at Male, which would be responsible for providing technical support and operational management oversight to the two field BDSCs. Subsequently, two more BDSC offices were opened, serving the Mid-North and Southern regions bringing the total number of BDSCs operating in the country to five as of June 2011. In

<sup>61</sup> For example: Korea, the Philippines, Algeria, Botswana, Tanzania, Jamaica, Mexico, Albania, Lithuania and Romania. See “*Regulatory Impact Assessments in Developing and Transition Economies: A Survey of Current Practice*”, Kirkpatrick C, Parker D and Zhang Y-F, Centre on Regulation and Competition, Institute for Development Policy and Management, University of Manchester, June 2004:

<sup>62</sup> Articles 4 (1)(j) and 14

<sup>63</sup> Article 3(1)

<sup>64</sup> See especially the *OECD Guidelines on the Protection and Privacy and Transborder Flows of Personal Data*, 1980: [http://www.oecd.org/document/18/0,3343,en\\_2649\\_34255\\_1815186\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/18/0,3343,en_2649_34255_1815186_1_1_1_1,00.html). Article 4 (1) (j) only provides a general obligation to protect a customer’s privacy and Article 14 only applies to use of information and third party access. This is in contrast to the global standards on privacy which contain provisions relating to issues such as collection and disclosure (as well as use) of personal information, access rights, security, privacy policies and trans border data flows.

<sup>65</sup> Also note that there are very limited insurance laws in the Maldives and the FSSD Report recommended reforms in this regard. However, they are not considered a priority at this stage for the promotion and development of MSMEs.

addition to training services the BDSCs are providing MSME clients with business counselling and mentoring services. BDSCs are currently providing technical support to producer groups and cooperatives linked to business promotion projects supported by IFAD, UNDP, FAO and the Ministry of Tourism Arts and Culture. BDSCs are also assisting to develop new priority sector value chains with producers and entrepreneurs and helping them organize and register as cooperatives with MED so that they can benefit from economies of scale and qualify to access funding support.

30. **Rationale for Proposed Activities.** BDSCs need to achieve institutional sustainability through a market development approach in the provision of a wide range of BDS to new and existing MSME clients, while at the same time facilitate the growth of other BDS market providers. This will require adoption of a sustainability plan that, over time, achieves sufficient revenue growth to support institutional program and financial viability, and develops functional working relationships and linkages with other public and private BDS partner providers. Lessons learned from PSDP implementation indicate a number of key areas where continued institutional strengthening will be required in order for the BDSCs to achieve long-term business viability. The BDSCs are now pursuing a *Market Development Approach (MDA)* to BDS delivery in the Maldives.<sup>66</sup> The ultimate goal of this BDS approach is to enable MSMEs to buy services of their own choice from a wide array of products offered primarily by unsubsidized private sector suppliers in a competitive and evolving market.

31. **Priority Focus Sectors.** Government policy has placed priority on the accelerated development of the (i) food and agriculture, (ii) fishery and tourism-linked arts, (iii) and crafts sectors as the income and job creating engines of growth within the economy. The usual range of constraints such as transportation costs, product development, quality control, plant management, business skills development, technology transfer, achieving scale, consistency in supply, access to markets and gender equity has kept MSMEs in these sectors from pursuing innovation. The strategic importance of some of these sectors in the context of focusing on them for business development services are given below.

32. **Niche Maldivian Food Subsector.** The Maldivian food industry is nascent and at the first stage of the value-addition to primary products, many of which are imported from neighboring countries. There is substantial potential for increased competitiveness of Maldivian value-added food products through import substitution, since the Maldives has a surplus of some agricultural products, and demand in key domestic and international markets for niche Maldivian value-added products made from these surplus inputs remains unmet.

33. **Value addition to Fishing Industry and Fish products Subsector.** Opportunities exist to introduce new business models in fish processing to produce a range of specialty and niche products for local and export markets using smoking, salt drying, sun drying, pickling, curing with vinegar and oil extraction techniques. Demand for a diversity of high quality fish and marine products is especially strong within the country's domestic tourism resorts. Opportunities also exist for improving quality control, handling and hygiene within the value chain to assure product quality and freshness.

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<sup>66</sup> This is different from the traditional past approach to BDS delivery that was supply-driven, often monopolized by a single institution, with services heavily subsidized resulting in poor quality of service delivery, lack of sufficient outreach and lack of sustainability over time. The market development approach, or MDA, seeks to facilitate a sustainable increase in demand and supply of services, where subsidies are replaced by private payment for services.



34. **Arts, Crafts and Alternative Tourism.** The arts and craft trade suffers from a number of constraints, including: (i) lack of access to product design services and market information for new product development, (ii) lack of capacity to identify and link with buyers in all market segments, (iii) lack of knowledge and exposure to new designs, coloring methods and market needs, (iv) lack of access to regular and affordable raw materials, and (v) lack of easy access to airports and/or the capital of the atolls in many cases.<sup>67</sup>

35. **Product and Service Offerings.** By improving MSMEs access to a range of business development services, including those offered under the BDSC-supported Business Incubator Program, BDSCs will help enable MSMEs to play a larger role in the development of these priority sectors by expanding market access, improving technology and business skills, encouraging innovation, and strengthening value chain linkages. The BDSCs will continue to support the three main objectives established under PSDP, namely: (i) to provide BDS products to start-ups and established MSMEs; (ii) to facilitate local economic development and value chain development in their respective coverage areas; and (iii) to link start-ups and other types of MSMEs to financing opportunities. Additionally under the MSMEDP, the BDSCs will support BDS market growth through BDS provider capacity building and improved networking among BDS providers, public and private. The range of business products and services that the BDSCs will be able to directly offer or facilitate through BDS provider linkages will be directly dependent upon their network of BDS partner providers and the experience and capabilities of BDSC professional staff as well as BDSC office equipment, facilities, communication and logistical capabilities. During the establishment period, the BDSCs can be expected to add up to 30 new products and services to be offered in response to staff skills development training programs.<sup>68</sup>

36. **Institutional arrangements.** MED will be the implementing and coordinating agency for this output. Service providers for the BDSC will be identified through a bidding process in accordance with ADB guidelines. Close coordination between the MED, ADB and IDB will be essential. The component will be financed by loan from the MSMEDP.

37. **Target outputs.** (i) Over 5,000 beneficiaries on business, entrepreneurship and vocational skills, and 500 trainings; (ii) 30 developed BDS products and services offered by BDSCs; (iii) development of private sector through increased number of MSME (at least 1,000); (iv) 20 MSMEs Partnership Businesses participating under Business Incubator Program; (v) at least 15% of these trainings and BDS offered will be provided to women and youth MSMEs; and (vi) basic and advanced business training programs for about 3,000 owners and employees of MSMEs. Other outputs resulting from BDSC program activities include enhanced use of, and willingness to pay for, business development services by MSMEs availing of assistance, and improved field technical support, supervision and monitoring services for business loans extended under the LCF.

38. **Key activities.** The Project will support institutional strengthening and capacity building needs of the BDSC network by supporting measures and initiatives that broaden the range of BDS

<sup>67</sup> To address these problems there is a need to work more closely with industry stakeholders to develop a competitiveness strategy focused on greater efficiency, increased differentiation and accessing to markets in resorts and elsewhere. A government plan to encourage development of guest houses to cater to mid-scale tourism holds potential for MSME participation.

<sup>68</sup> The core BDS product and service offerings of the BDSCs include: (i) consulting services for business planning and business counseling, identification and provision of information, and coaching; (ii) training services on new product development, quality standards, costing and pricing, marketing and sales, accounting, and entrepreneurship; (iii) services for facilitating market access, access to finance, formation of cooperatives and other cluster models linked to value chains; (iv) business products and tools; and (v) government-related services covering support for business registration and licensing, and including other information services linking to government databases and other sources of market, technology, and finance information through a new MSME portal.

products and services offered, improve capacity of BDSCs to better serve business needs of MSMEs, support BDS market growth and enhance linkages with other BDS providers, and increase BDSC operational performance and business profitability. This will include support for (i) increasing revenue streams to improve long term sustainability (ii) transitioning toward a more corporate governance structure for BDSC management, (iii) expanding BDS capacity; and (iv) introducing new value added services offered by BDSCs.

## **B. Business Incubator Program**

39. **Background.** The BDSC Business Incubator Program will serve as a platform for increasing the efficiency of input, production, processing, and marketing businesses and strengthening the linkages between each in the seven targeted “growth pole” provinces of the country within selected value-chains of the agriculture, fishery and arts and crafts sectors by providing handholding support. This will help enable the BDSCs to play a more active role in engaging MSMEs in strategic value-chains linked to priority sectors of the economy that the government has identified for development.

40. **Objectives.** The objective is to make MSMEs more market oriented and profitable as individual enterprises, and collectively through improved linkages in each of the product chains. Through BDS training and technical assistance informed by market needs, on-the-job training, study tours, workshops for market linkages, financial support under LCF, access to facilities, innovative new products will be developed that have a high potential to meet demand in target domestic, regional, and international markets.

41. **Key activities.** The Business Incubator Program activity will support establishing two BDSC-operated business incubator facilities, one situated in the north and the other in the south, to work with a selected group of 20 MSMEs across the country (including MSMEs from the north and south regions) under business partnership agreements. The selection of MSMEs will occur on the basis of transparent selection criteria. Once the criteria is prepared in consultation with ADB, it will not be changed without the prior agreement of ADB.

42. **Focus areas.** (i) Product Development to support the development of a range of innovative products associated with identified priority sector value chains, including those linked to processed foods, fresh fruits and vegetables, fisheries and arts and crafts; (ii) Quality Control to improve quality standards through demonstrations and training in a wide range of product quality assurance programs<sup>69</sup>; (iii) Business Management to develop skills in applied principles of business management through on-the-job and formal business training courses and participation in customized training modules and study tours; and (iv) Market Research and Development to provide market research and development support related to establishing forward and backward linkages for identified value chain business opportunities.

43. **Eligibility.** All business either registered with MED or able to obtain registration with the MED of the following types of MSME partnership businesses: (i) new “start-up” businesses; (ii) established or existing businesses with expansion plans; and (iii) businesses which are classified as “for-profit” or “non-profit” including those businesses that are community-owned and operated, such as cooperatives. Other business eligibility requirements include: (i) business must demonstrate need for and evidence of their commitment to pay for services, office facilities and/or space to conduct its business operation; (ii) business must be consistent with the goals and

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<sup>69</sup> Including: Best Manufacturing Practices, Quality and Food Safety Management Systems (HACCP), Process Control, Technical Maintenance and Maintenance Management, Production Management, and Good Laboratory Practices

strategies of the MED; (iii) business must be willing to make a commitment to join a business chamber of commerce chapter or registered business association; (iv) business owners, managers and/or key personnel must be persons of good character and be respected within their community; (v) business must not be in default on any loan or be engaged in any outstanding litigation; (vi) business must be willing and able to enter into a written agreement with PMU/BDSC which shall govern the terms and conditions of any services, offices facilities and/or space requirements provided by the BDSC; and (vii) business must be willing and able to abide by any code of conduct and/or policies governing common or shared use of services and office facilities which the BDSC shall issue from time to time.

44. **Priority for selection.** Enterprises having: (i) new products, product lines, services or related technologies not presently being offered in the Maldives which add-value or enhance local value chains;<sup>70</sup> (ii) service or product marketability;<sup>71</sup> (iii) potential to add new revenue and security to the domestic market economy in such areas as import substitution, job growth, and food security;<sup>72</sup> and low competition.<sup>73</sup>

45. **Selection and review process.** Through a Business Incubator Selection Committee proposals shall be evaluated for determining whether proposals are suitable for further evaluation based on the selection criteria.

46. **Staffing and institutional arrangements.** MED will be the implementing and coordinating agency for this output. Identification of service providers for the incubators and purchase of necessary equipment will be identified through a bidding process in accordance with ADB guidelines. All activities under component will be financed from the loan provided under MSMEDP.

### III. Output 3: Credit Guarantee Scheme Initiated

47. **Rationale.** Credit Guarantee scheme (CGS) provide a mechanism for incentivizing lenders to facilitate access to finance for the sector, since they are aimed at help banks learn about lending to SMEs, while being cushioned from the risks involved. While commercial banks regard lending to SMEs as a high risk, and consequently the inability of such borrowers to offer adequate collateral by way of a risk cover is also a major deterrent. Simultaneously, the high administrative costs in relation to loan size which result in low profitability in SME lending is also a most serious disincentive to commercial bank lending to these enterprises. CGS compensate the lender for much of the risk, should the borrower default. Reduction in transaction costs can thus be one of the key enablers to increasing lending to SMEs; and CGS can certainly lower administrative costs by reducing the expense of handling collateral. The key features include, (i) collateral free lending, and (ii) PPP between government and financial institutions.

48. An appropriately designed Credit Guarantee Fund (CGF) for the MSME sector in the Maldives can: (i) facilitate access to finance by SME's by sharing Credit Risk with the participating Financial Institutions, and reducing collateral requirement; the focus for such a fund would be on the Atolls outside Male to support productive projects in the Fisheries and Agriculture sectors; and (ii) facilitate Project Finance for affordable transport and ancillary infrastructure projects supporting

<sup>70</sup> This criterion can be met by a new business offering a new combination of lines or services or to one marketing only one new service or product. Uniqueness of product and lack of competition in the area will score higher in consideration.

<sup>71</sup> The greater the potential market the higher the application will score.

<sup>72</sup> The greater the potential for added revenue and security for the domestic market, the higher the application will score.

<sup>73</sup> The lower is the competition for the business' products or services in the local market, the greater is the application's score.

growth of the Tourism Industry (the principal economic engine of the Maldives). The facilities would be available to SMEs in all administrative divisions. Considering the relatively large territory covered by the Maldives, the small population with a third being concentrated in Male, and a small non-competitive finance sector catering to the SME market, a Public Private Partnership approach would be best suited for a successful CGS in the Maldives. Both the Government and the Financial Institutions will be invited to contribute to the Fund as shareholders of the new CGS entity to be established.

49. The BML, the single largest lender to the MSME has proposed a scheme for covering the deficit in collateral amount for enterprises with sound financials and viable business plan with support from a special fund created for this purpose. According to BML's experience, a large number of MSMEs with sound business track records and adequate financials are unable to access finance from banks due to lack of collateral. This impedes the growth of these enterprises. BML has already had initial discussions with the MED for evaluating this model in respect of applications under the LCF scheme. The main objective of CGS is to Facilitate access to credit by MSMEs and by new small and medium size projects, with good business potential, but lacking the Collateral Security required to get bank or institutional financing by sharing a portion of the credit risk with the Participating Finance institutions (PFI).

50. **Legal structure and management.** Given pilot base operation of CGS, it is anticipated that a desk within the MED will incubate the CGS. The desk will comprise a small team of experienced Managers for administering the scheme as per the business rules of the scheme, as documented in an operational manual.

51. **Ownership.** The government is prepared to commit up to 75% (Rf.74.3 million or local currency equivalent to \$5.2 million, which is lower) of the CGF capital estimated at approximately local currency equivalent to \$7.0 million or Rf.100 million, which is lower, over 4 years. The CGS will start with the capital contributed by the government. There will be an option for banks and financial institutions to contribute 25% of the capital or approximately Rf. 25.7 million or local currency equivalent to \$1.8 million, which is lower, during the course of implementation.

52. **The guarantee coverage.** The Guarantee is expected to cover the collateral shortfall for MSMEs with sound business plans, adequate financials, and a satisfactory track record. The indicative table below explains the model envisaged for the scheme.

Scenario	Loan Amount	Collateral Required (A)	Collateral Available (B)	Shortfall (A-B)	Guarantee Cover	Default Amount (C)	Amount realized from Collateral (D)	Guarantee Payment (E)	Write off loss: C-(D+E)
1 (Worst Case)	100	120	80	40	40	100	50	40	10
2 (Likely Case)	100	120	80	40	40	80	60	20	0
3 (Best Case)	100	120	80	40	40	60	70	0	0

53. **Estimated claim level.** BML is currently carrying out a default analysis of its MSME portfolio. The findings of the study will indicate. It is estimated that to be sustainable a CGS managed by professionals should not suffer claims in excess of 2 to 3% of the guarantees, and no more than 5% under adverse economic cycles.

54. **Fees.** A front end fee of approximately 1% to 1.5% of the guaranteed amount.

55. **Eligible businesses.** Small enterprises with an annual turnover of less than Rf.5 million and less than 50 employees, registered and operating in the Maldives in well defined sectors such as, food and fish processing, transport and small tourism facilities. Also eligible would be new Projects with a forecast annual turnover of less than Rf.20 million. It is required that the key sponsors must have operating experience in a similar commercial activity for at least two years with verifiable financial results.

56. **Proposed activities.** This output shall include technical assistance for: (i) development of objective parameters to assess the eligibility of loans that would qualify under the scheme; and (ii) functional and technical specifications for a system which would help analyze the default records of BML loans for developing these parameters.

## APPENDIX 2

### COMPONENT 2: ACCESS TO FINANCE IMPROVED

1. **Background.** The access to finance for MSME continues to remain a major challenge in the Maldives. The SME Mapping Survey (SMEMS) initiated by the Ministry of Economic Development in June 2010 indicates that more than 61% of the MSME entrepreneurs in the Maldives have identified lack of funds as the main challenge for business expansion and investment in new business ventures. Further, nearly 68% of the entrepreneurs have never borrowed from banks or they do not have knowledge of banking transactions. The Getting Credit Rank for Maldives has deteriorated from 150 to 152 between 2010 and 2011<sup>74</sup>. The PSDP had a specific component designed for enhancing access to finance for MSMEs comprising the following subcomponents such as LCF and CIB. Based on the lessons learnt from the PSDP and the need for continued interventions, the MSMEDP includes a specific component relating to access to finance in its design. This component in turn comprises the following outputs: (i) LCF in line with the existing pilot model; (ii) strengthening and expanding the scope of the existing CIB; (iii) establishment of a Secured Transactions Registry (STR)<sup>75</sup>; and (iv) a preparatory consultancy for establishment of a Credit Guarantee Scheme (CGS).

2. **Rationale.** In the pilot phase while all applications from the Bazaar islands could be accommodated with the available resources, from the non-Bazaar islands only 41% of all applications received could be accommodated, meeting around 35% of the demand for credit. Given the unmet credit demand from the pilot phase and various macroeconomic indicators such as the current outstanding credit to the private sector (\$1 billion- about 42% of the gross domestic product (GDP)) even on a conservative basis there is currently a need of minimum additional credit of the tune of \$8-10 million to support the economic growth of the Maldives.

3. **Status and achievement of pilot phase.** The initial drawdown for the disbursements against the LCF has been made by BML from the designated interest account and the entire line is expected to be fully drawn and utilized by the end of November, 2011. Actual results from the exercise matched the indicated benchmarks for LCF very closely. As a whole 63% of all applications received, and 59% of the total value of applications received could be accommodated. The applications from women entrepreneurs however were somewhat fell short of the 40% of funds allocated for this sector. Overall 60 out of 120 MSME applicants<sup>76</sup> benefited from the programme.

4. **ADB Financial Intermediation Loan (FIL).** In line with ADB financial intermediation loan (FIL) in light of OM Section D6, the BML meets all eligibility criteria for financial intermediaries. It has been shown during PSDP implementation. Furthermore, BML builds up capacity for mobilizing domestic resources and enhances its staff capacity building through various trainings. During the MSMEDP implementation, \$0.2 million will be provided for capacity building of BML and Maldives Islamic Bank. The FIL criteria includes (i) financial soundness as evidence by adequate capital, asset quality, liquidity, and profitability, (ii) adequate credit and risk management policies, operation systems, and procedures; (iii) compliance with prudential regulations, including exposure limits, (iv) acceptable corporate and financial governance and management practices including, among other things, transparent financial disclosure policies and practices, (v) sound business objectives and strategy and plan, (vi) autonomy in lending and pricing decision; and (vii) adequate

<sup>74</sup> <http://www.doingbusiness.org/data/exploreeconomies/maldives>. Doing Business, 2011. World Bank.

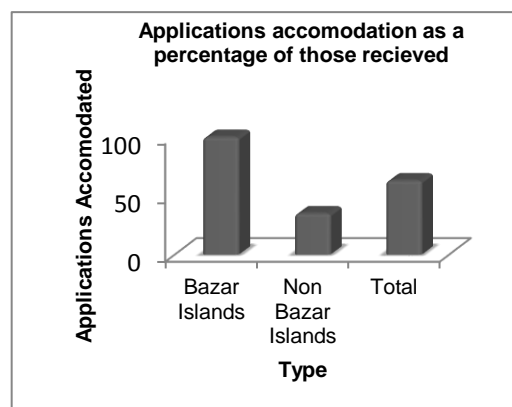
<sup>75</sup> The STR was envisaged as the CAR under the PSDP but has been proposed as an STR under MSMEDP in line with global best practices.

<sup>76</sup> 187 MSMEs are registered with MED.

policies, systems, and procedures to assess and monitor the economic, social, and environmental impact of subprojects in accordance with parameters established by ADB for this purpose.

#### IV. Output 1: Line of Credit Facility (LCF) Expanded

5. **Eligibility Criteria for Sub-loans.** LCF will be managed by BML to promote MSMEs by providing them with financing for investment. The eligibility criteria for such financing will be (i) the MSME is registered in the MSME database at the MED, (ii) all the MSMEs activities as per government policy including agricultural commercialization, fishery processing, handicrafts, and tourism-related activities, and special emphasis will be given to non-traditional sectors such as ICT and a part of the facility specifically earmarked for them; and (iii) 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 the PMU at MED. 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.



6. **Relending.** Of this \$1.5 million will be financed by the ADB and the balance \$7 million by the IDB. In order to avoid commingling of funds BML will be required to undertake that no sub-loans will be financed from IDB funds for LCF unless and until ADB funds for LCF have been entirely utilized. The MOFT will borrow from ADB's Special Funds resources and bear the foreign exchange risk of the loan. MOFT, on behalf of the Republic of the Maldives, will relend the loan to BML and enter into a subsidiary loan agreement with BML, detailing the terms and conditions of on-lending by the BML from these funds to eligible MSMEs according to the criteria stipulated by the Government.<sup>77</sup> 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 (MOFT to BML) will not exceed [15] 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 mid-term review after 18 months to review disbursement progress and refine the arrangements as needed. It should be ensured that the disbursement commences early in the project period so that all installment draw downs can be made before loan closure.

7. **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 BML.<sup>78</sup> If the credit risk assessment is satisfactory, BML will approve the sub-loan and execute an onlending agreement. Onlending agreements will be signed between BML and the sub-borrower on terms and conditions, as agreed among the Government, ADB, and BML. BML will submit a report on approved sub-loans and a copy of onlending agreements to MOFT. The maximum sub-loan size for individual applicants will be Rf1,024,000 or local currency equivalent to \$80,000 which is higher and the anticipated average sub-loan size is Rf512,000 or

<sup>77</sup> The terms and conditions of on-lending will address the required degree of dilution of collaterals and the interest rate to be charged by the BML for the loans extended to the MSMEs. For the pilot under the PSDP, MOFT executed the necessary subsidiary loan agreement and lent the funds to the BML at an interest rate of around 4% per annum. The interest rate for on-lending to MSMEs was linked to prevailing T Bill rates and was fixed at 8% per annum.

<sup>78</sup> Development Banking Cell (DBC) within BML has experience of conducting credit analysis under other development projects provided by ADB and other donors.

local currency equivalent to \$40,000, which is higher. It is expected that BML will provide around 200 MSMEs with sub-loans under LCF. Any deviation will be subject to ADB's and IDB's prior approval.<sup>79</sup> 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 sub-borrower will be required to pay an upfront processing fee<sup>80</sup> as per the current processing fee requirements being followed by BML. Sub-borrowers will have to provide any assets acquired with the credit line sub-loan as collaterals. The grace period and a maximum maturity will be decided based on the reasonable assessment of based on a selective approach in which sub-loans 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.

8. 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 sub-borrower will be required to pay an upfront processing fee as per the current processing fee requirements being followed by BML.<sup>81</sup> Sub-borrowers will have to provide any assets acquired with the credit line sub-loan 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.<sup>82</sup> Implementation of the scheme will be based on a selective approach in which sub-loans 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.<sup>83</sup>

9. **LCF Subloan Selection Criteria and Provisions.** The Beneficiary shall ensure that all subloan proposals are selected in accordance with the following Selection Criteria and that BML shall ensure all Onlending Agreements include among other things provisions pursuant to which:

- (i) No subloan is extended with Project funding other than to a Qualified Enterprise for a Qualified Project;
- (ii) The number of employees of Qualified Enterprise shall be up to 50;
- (iii) The Qualified Enterprise shall have been registered at the MED MSME database;
- (iv) A Qualified Enterprise with 20 or less employees shall have an enterprise budget and those with more than 20 employees shall have adequate cash flow and collateral based on an independent default risk assessment criteria agreed between the Beneficiary, BML and ADB;
- (v) The Qualified Project shall be carried out in compliance with the Beneficiary's applicable environmental laws and regulations;
- (vi) The Qualified Project shall have minimal or no adverse environmental impacts in accordance with the SPS,

<sup>79</sup> ADB portion and IDB portion of the LCF will be implemented separately in line with its respective procedures in consultation with the Government.

<sup>80</sup> In the Maldives, the 'upfront processing fee' is considered to be as a 'guarantee fee'. And 1% is payable to BML. The guarantee fee will cover the cost of application processing as well as discourage non-serious applications.

<sup>81</sup> Under the Pilot interest rates were set at the Government Treasury Bill rates as on May 2011 i.e. 8% per annum. The detailed specific terms and conditions will be defined under the onlending agreement between the Government and the BML.

<sup>82</sup> Under the Pilot the maximum period of loan was set at 8 years including grace period.

<sup>83</sup> Under the Pilot, the reduced collateral requirements were: (i) Below Rf 50,000 no collateral; (ii) Rf50,000–Rf 500,000: 20% below BML standards; Rf 500,001 to Rf 1,000,000: 10% below BML standards; no collateral dilution for amounts above Rf1 Million.



- (vii) The Qualified Project shall not involve any activities included on the Prohibited Investment Activities List, and the Qualified Enterprise applying to borrow the subloan shall not engage in any activities included on the Prohibited Investment Activities List;
- (viii) Each subloan is denominated in Rufiyaa in an amount not exceeding the equivalent of \$80,000; and
- (ix) Each Qualified Project is implemented in accordance with sound administrative, social, environmental, and governance principles.

10. **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 may consider providing BML with an 80% guarantee for defaulted sub-loans, and detailed terms and conditions will be defined under the onlending agreement between the Government and the BML. BML will bear the remaining risk to ensure that MBL continues to be diligent in its onlending activities. BML and the Government will agree on the length of time after which the sub-loan 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 2-3% should be targeted; the maximum acceptable rate should be 6%. The business development services centers (BDSCs) will assist the sub-borrower in preparing the sub-loan 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 sub-loan. If approved, BML will execute an onlending agreement with the sub-borrower and submit a report on approved sub-loans and a copy of onlending agreements to MOFT. The disbursement of the sub-loan will be made with reference to the BDSCs. MED PMU in coordination with the BDSCs will be responsible for encouraging the use of the LCF.

11. **Proposed activities.** It is proposed that additional LCF \$8.5 million would be disbursed to meet the unsatisfied credit demand of the pilot phase, without taking into account demand from other sectors (which do not capture sectors relating to agricultural commercialization, fisheries processing, handcraft, guesthouse and boat-building). The key activities and milestones for this component include (i) announcement of LCF Scheme, (ii) generation of awareness among relevant stakeholders and targeted MSMEs, (iii) making the LCF functional as per the operating mechanism for the LCF designed by BML and MED, (iv) call for submission of applications, (v) appraisal of applications as per the stipulated guideline, (vi) creation of an enabling environment for the enhanced access to credit for the MSME sector through the creation of a credit guarantee scheme to facilitate access to finance for MSME without adequate collaterals as a risk transfer mechanism for lenders. Minimum of 15% of the sub-loans would be disbursed to women and youth MSMEs, and at least 5% of sub-loans will be encouraged to be disbursed to the ICT sector. The LCF is expected to be operational within 6 months of loan effectiveness with BML as the facilitator for the related transaction processing activities.

#### **Proposed Cost of Operation and Target Sub loans**

Item	Phase I: Pilot Operation FY2008–FY2011	Phase 2: MSMEDP FY2012-2016
Fund size (\$)	3,000,000	8,500,000
Maximum sub-loan (Rf)	1,024,000 or equivalent to \$80,000, which is higher	1,024,000 or equivalent to \$80,000, which is higher
Average sub-loan (Rf)	512,000 or equivalent to	512,000 or equivalent to

Item	Phase I: Pilot Operation FY2008–FY2011	Phase 2: MSMEDP FY2012-2016
	\$40,000, which is higher	\$40,000, which is higher
Loan target(Number by the end of period)	About 70 sub-loans	About 200 sub-loans (including IDB's portion of 160 sub-loans)
Upfront fee from borrower (%)	1.5% of the sub-loan size	1.5% [1.0%]
Default coverage (%)	80% by the Government	80% by the Government

Note:

1. For the LCF pilot, 1.5% of the sub-loan upfront fee was proposed, however during the implementation, this may need to be further discussed whether LCF keeps 1.5% fee or reduced it down to 1%.

2. Above mentioned procedures and conditions will be a basis for the implementation of ADB LCF portion. The implementation arrangements of IDB LCF portion will be further elaborated in its financial agreements and related documents.

12. MOFT shall cause BML to ensure that qualified enterprises procure goods, works, and consulting services in accordance with procurement procedures acceptable to ADB. To be acceptable such procurement procedures shall 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.

## V. Output 2: Credit Information Bureau Enhanced

13. **Objective.** Credit information bureau (CIB), once operational completely, would decrease the cost of lending to MSMEs by providing reports on firms' loan repayment histories. This would in-turn allow lenders to use information on how borrowers have met their past loan obligations. Expansion of membership to include telecom and utility companies further would provide information with regard to the behavior of firms in relation to their payment of telecom bills and water, electricity, and other utility bills which is expected to be a better predictor of future loan performance. Also, CIB would provide an incentive for borrowers to repay loans promptly, as late payment to one lender can result in an inability to obtain future loans from other lenders.

14. **Status.** Since its launch under the aegis of the MMA in February 2011, the CIB has built a database of over 25,000 records of consumer and commercial loans. 8 of the 9 financial institutions members are already its members. Each month the eight financial institutions that are members of the Bureau load details of their loans into the CIB database using a secure internet connection. The members can request credit reports generated from this database on-demand. Reports are used as a supplemental source of information in the evaluation of new credit applications, as well as in the annual review of existing credit commitments, and are available only to members of the CIB. Approximately 500 credit reports have been requested by the member institutions to date. The rejection rate, or percentage of records which are not accepted into the database because of errors, has reduced to below 10%. While there was some concern in the early months of the launch of CIB about the data availability on loan applicants when bankers requested for credit reports, the number of "no-hit" requests is expected to decline as the database grows.

15. **Rationale.** CIB will enhance access to finance by creating level playing field for the borrowers and lenders by providing transparent and dynamic information sharing network. Particularly it will benefit the borrowers by, (i) Reducing turnaround time for financial approvals; (ii) Providing favorable financing terms making the credit more affordable; (iii) Providing self check tool to the MSMEs by giving access to their own credit report which will minimize the default rate. With regard to the lenders the benefits would include (i) Provision of risk management mechanism to enable credit grantors to mitigate risk and ensure business profitability; (ii) Facilitation of

confident and informed credit decision making , which would enable emergence of more robust financial institutions and evolution of a credit culture based on sound objective analytics; (iii) Improved monitoring and management of MSME portfolio.

16. **Key features and Mechanism.** The key features that define CIB include, (i) online repository of credit information, providing credit history of commercial and consumer borrowers, (ii) One stop access to all relevant credit information on MSMEs, (iii) Online real time enquiry (live system), (iv) credit information records detailing factual record of a borrower's credit payment history compiled from information received from different credit grantors, (v) Mechanism for grantors to assess loan applications and grant loans. CIB collects and collates personal information, financial data, on individuals from a variety of sources including creditors, lenders, utilities, debt collection agencies, courts (as a source for public records) and all other bodies that the customer has had transactions with to capture the complete credit history of the consumer and the payment experience with them. The data collected by the bureaus are aggregated into the CIB's data repository, the specific information from which is made available on request to customers of the credit bureau for the purposes of credit risk assessment or credit scoring.

17. **Operational arrangements.** The CIB is forecast to be self-financing on a business-as-usual basis (that is, before adding new members or products), assuming that existing members follow prescribed practices and request a credit report on each new and reviewed credit facility, and that there is no resistance to the planned charge of Rf.170 (approximately \$10) per credit report (Charging for credit reports has been deferred while the database was being loaded.)

18. **Proposed Activities.** The activities proposed under MSMEDP include expanding membership base, launch of new credit scoring products, public education, operation and maintenance, addition of retailers, and decoupling CIB and MMA.

19. **Expanding Membership Base.** The next phase in the operational development of the CIB will focus on expanding its membership base as increasing the number of members will both increase the number of consumers and businesses included in the database, and increase the number of credit experiences collected for existing subjects. The CIB will expand membership to include the telecommunications companies<sup>84</sup> as given the fact that they have large number of customers who use subscription services their participation will contribute a large volume of data to the CIB. Also the next phase would will invite the utility companies and other smaller non-bank financial institutions and credit providers, including the four insurance companies; organizations that provide student loans; and the State Trading Organization (STO), which offers loans to government employees to join the CIB<sup>85</sup>. This will require changes in their billing practices in order to correctly attribute payments to individual users (that is, tenants versus building owners), and this may delay their involvement. Therefore, reconfiguring of the existing CIB system will be required to provide for these changes in the current database. The key milestones under this include (i) invitation to MSMEs from target groups, (ii) identification of vendors and call for proposal for reconfiguration of the system, and (iii) reconfiguration of the existing CIB system to provide for these changes in the current database and accommodate the new members.

20. **Inclusion of Islamic Bank as a member.** Plans are in process for the Maldives Islamic Bank (MIB), which opened in May 2011, to join the CIB. This proposal includes a small stipend to fund systems modifications to accommodate Shariah compliant products in the CIB database. The

<sup>84</sup> The credit managers appear to be keen to participate.

<sup>85</sup> The Credit Information Act provides for all of these entities to become members of the MCIB; however, additional legal and regulatory work is anticipated to amend other laws and regulations. This will be addressed under Component 1.

key milestones under this would include, (i) identification of system modifications required to accommodate compliant products; (ii) contracting D&B (a vendor set up the CIB under PSDP) to implement the modifications; and (iii) implementation of the needed system modifications.

21. **Launch of new credit scoring products.** New credit scoring products<sup>86</sup> will be developed, tailored to the needs of these new customer segments; Development of these products is anticipated to take place later in the planning period, as a history of credit experiences must be accumulated before a reliable score can be calculated. The important milestones under this include (i) accumulation and analysis of history of credit experiences; (ii) design of the credit scoring products; and (iii) design and implementation of marketing campaigns.

22. **Public education.** It is proposed that awareness campaigns will be carried out to educate the public on credit, including the value of a “credit reputation”, and on the use of information reports. The key milestones under this include (i) preparation of an educational campaign, (ii) development of literature and brochures, (iii) design of media campaign, (iv) organization of seminars and discussions on CIB.

23. **Operation and maintenance.** The CIB system will require support for the maintenance and operational costs such as personnel and depreciation. The key milestones under this would include (i) finalization of TOR for the credit expert, and (ii) selection and recruitment of consultant.

24. **Addition of retailers.** A relatively small technical assistance project evaluating the possibility of adding retailers to the CIB is proposed. Typically retailers do not participate in central-bank sponsored credit information bureaus (since they are not regulated by the central bank), but given the small size of the Maldives economy, it may be a pragmatic action that would benefit both current members as well as retailers. The key milestones under this activity include (i) evaluation of legal implications of adding retailers<sup>87</sup>; (ii) cost-benefit analysis; (iii) submission of technical proposal to MMA management; and (iv) contracting with D&B for requisite software modification to accommodate the retailers.

25. **Decoupling CIB and MMA.** When the CIB was initially conceived it was proposed that the Bureau be “spun out” of the Maldives Monetary Authority after five years. It is proposed that at the end of the period covered by this proposal, a more thorough investigation of the possibility of decoupling the CIB from the MMA would be undertaken. This will require operational, regulatory, legal and financial inputs. The key milestones under this activity include, (i) financial analysis of viability of CIB as standalone institution, (ii) assessment of the feasibility of spin –off, (iii) consultation with relevant stakeholders, and (iv) presentation of proposal to MMA board and MOFT seeking an approval.

## VI. Output 3 : Secured Transaction Registry Established

26. **Empirical evidence and Experience from Developed Nations.** It has been observed that in countries where security interests are in place, credit to the private sector as a percentage of gross domestic product (GDP) averages 60 percent compared with only 30 to 32 percent on average for countries without these creditor protections<sup>88</sup>. Further economic analysis suggests that small and medium sized businesses in countries that have stronger secured transactions laws and

<sup>86</sup> Credit scores aggregate the experiences of an individual borrower to calculate a single “benchmark” evaluation of creditworthiness.

<sup>87</sup> It will be covered under Component.

<sup>88</sup> World Bank IFC Securitized Collateral.

registries have greater access to credit, better ratings of financial system stability, lower rates of non-performing loans, and a lower cost of credit. The end result is higher productivity and more growth. In industrial countries, borrowers with collateral get nine times the level of credit given their cash flow compared to borrowers without collateral. They also benefit from longer repayment periods (11 times longer) and significantly lower interest rates (50 percent lower).

27. **Rationale.** On the demand side the STR would enhance access to finance by (i) reducing turnaround time for loan processing by expediting the access to information; (ii) reduced cost of transaction and better pricing for borrowers increasing their market competitiveness; (iii) enabling more informed credit lending decisions, (iv) improved credit discipline, (v) expansion of the scope of acceptable collateral and reduced dependence on real estate collateral, and (vi) better governance systems. On the supply side financial institutions would benefit from these systems as it allows for: (i), diversified credit portfolios enabled by accepting movable assets, (ii) better reporting mechanisms on collateralized lending practices to the supervisory or regulatory authority, usually central banks.

28. **Status.** A feasibility study investigating the establishment of a STR is presently in process as is the review of the legal framework for secured transactions. A Mortgage Bill is presently under review in the Parliament.

29. **Key features.** The key features of STR system include: (i) Online registry system enabling maintenance of database of borrowers; (ii) Online real time enquiry (live system); (iii) Creation of charge on movable assets including more liquid assets such as receivables or investment instrument; (iv) Provision for modification of the records according to change in status of the assets.

30. **Mechanism.** All details of personal and corporate assets are recorded in the STR database with full details of ownership. On the basis of the contract with STR, authorized persons (lawyers and commercial banks) can file a notification statement electronically. Other entities can file notification statements in a written form or by telefax, and they can search the data base of the STR through the electronic system and in that manner check the accuracy of data entered by the STR staff and obtains other relevant information. The system is financially sustainable as users of the services pay the usage charges for accessing the database.

31. **Proposed activities.** Given the importance of establishing a STR in supporting access to finance, proposed activities include: (i) support for development of the laws and regulations supporting modern STR; (ii) establishment of STR, and (iii) training the creditors, registry staff and other relevant stakeholders as end-users and beneficiaries from the STR.

32. **Support to Acts and Regulations relevant to a Modern STR.** This activity is a precondition for establishing a registry, where mortgages and other security interest in moveable and immoveable property can be registered as collateral. These laws will enable secured transactions and improve the use of collateral. Banks, leasing companies, and other interested stakeholders including individuals are the target clients of a STR. Legislation enabling the use of movable collateral not only can ease access to credit for small firms, but can also help unlock the stock of receivables on firms' books and facilitate improved business performance of the firms. This activity would be covered under Component 1 of the proposed program. The key milestones will include, (i) retention of international legal expert, (ii) analysis of proposed and enacted legislations, (iii) identification of variances from best practices, (iv) consultation with stakeholders to develop acceptable level of draft laws, (v) monitoring passage status of Bills through the Parliament, (vi) drafting of supporting legislation such as regulations, (vii) consultation with

stakeholders to gain acceptance of proposed regulations, and (viii) support the enactment of legislations.

33. **Establishment of a STR.** While a feasibility study, identification and drafting of necessary legal and regulatory framework for establishment of a STR are already in progress, this activity proposes to complete the above activities and actually set up of the STR to enable expansion of access to finance and emergence of a robust financial system.. The important milestones under this activity would include (i) analysis of relevant laws to identify key characteristics of STR system defined in the laws, (ii) preparation of terms of reference for the vendors and technical specification for STR, (iii) Identification and convening of a steering committee to oversee project, (iv) rolling out for technical and financial proposal for system development; v) identification and contract with suitable vendor for designing and setting up the STR system, (v) negotiation of terms for system specification and hardware requirement, (vi) identification and arrangement for premises, (vii) STR launch, and (viii) identification of staffing needs and hiring of suitable expert for maintenance and management of the system.

34. **Capacity building of Relevant Stakeholders.** As STR is a relatively new concept, it is proposed that capacity building and training workshops would to be held for creditors, registry staff and other concerned stakeholders to familiarize them with STR and its benefits to ensure that the value of the investment in the STR is fully realized. Some of the proposed areas of training for the creditors include, (i) building positive perception towards movable assets (ii) understanding of the Securitized Transaction law and the types of properties it covers, (iii) awareness on relevant clauses of security Interest, (iv) operation of STR and registration of security interests, (v) use of registry possibly by live, demonstration on simulated systems, vi) enforcement mechanisms provided under the law particularly those pertaining to movable assets. Some of the proposed areas of training of registry officers and other stakeholders include, (i) administrative skills for management of registry, (ii) information technology skills for managing the database<sup>89</sup>, (iii) customer service skills, (iv) resolution of disputes. The key milestones under this activity include, (i) design of training modules; (ii) development and dissemination of promotional brochures literature; (iii) design and implementation of media campaign, and (iv) organization of seminars and discussions in coordination with BDS.

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<sup>89</sup> Assumes an electronic registry.

### APPENDIX 3

#### COMPONENT 3: TECHNOLOGIES FOR MSME DEVELOPMENT ESTABLISHED

1. **Background.** One of the biggest issues impeding the promotion and development of MSMEs is rooted in geographical spread of the 200 inhabited islands comprising the Maldives. Due to this dispersed geography coupled with the poor banking and BDS network, MSMEs outside Male face considerable logistical difficulties, and significant time and transport costs, in accessing government, educational, technical support and banking services. These difficulties are compounded by the fact that there is limited access to the internet in island communities. ADB 2008 figures on internet availability and usage are that, for every 100 persons, only 3.6 subscribed to internet services and 16.3 had a computer. 2010 figures show that only 22.2% of the population, as at 30 June 2010, use internet services.

2. **Rationale.** To a limited extent these difficulties may be ameliorated by the Government decentralization program (which provides for some government services to be provided through Province and Atoll Offices), the availability of BML mobile banking services and the BML/ MPS community banking service proposed to be established in few of the island communities. The proposed inter-operable mobile phone banking service, once established by all banks, will also assist in the availability of financial services. Nevertheless there remain significant gaps in citizens being able to access relevant services and information and being able to communicate with each other. Easy and inexpensive availability of computers with internet connectivity provides a good delivery channel for making e-government and e-banking services available to citizens on remote islands. MSMEs would stand to gain the most from such initiatives.

3. **Objectives.** This component will facilitate and enable: (i) use of innovative technologies to promote information and knowledge sharing between MSMEs, their business partners and customers and with the Government and to create a platform for delivery of e-government and e-payment services; (ii) implementation of a pilot project to demonstrate the use of ICT and renewable energy in order to create revenue stream for BDSCs through a PPP model; and (iii) establishment of an on-line, publicly accessible and centralized database for judgment debts.

#### I. **Output 1: MSME Portal and Judgment Debt Database Created**

4. **Rationale and Strategy.** This output is expected to facilitate MSME development by improving access to information for MSMEs and create a level playing ground in order to support their business operations; and enhancing access to finance for MSMEs by providing a repository of information relating to market standing of MSMEs and augmenting the credit reports from the CIB and the STR. MSMEs face considerable difficulties in accessing financial products and services, accessing knowledge of government schemes which they could benefit from and tapping new markets for their products. One of the root causes of this lack of overall access to opportunities for growth, is the access to information, which has resulted in severely diminished access to: (i) finance; (ii) technical support for Business Development Services (BDS); (iii) Business-to-Business (B2B) Services; and (iv) Business-to-Government (B2G) services. It is expected that improving access to information will allow MSMEs to improve themselves in each of the above areas. The MSME portal will be developed based on the BOLI Trade Information System currently used by MED. MSME Register component should support ways to enhance the BOLI system so that MSME Registry could be developed from the BOLI system as per requirements and needs specified for the MSME project.

5. In the context of MSME access to finance, commercial banks and potential foreign investors need to have a fair assessment of the financial health of MSME who apply for financing

support. For this, the banks need to know if there are any confirmed or contingent liabilities for the applying MSME. While the CIB and STR will provide information about the assets and loan liabilities for the MSME, judgment debts against MSME, awarded by the courts, need to be captured in a central database so as to give a fair and complete financial picture of the borrowers, to the banks. Currently the judgment debt records are kept manually and there is no central database for the judgment debts. This in effect means that the courts are unable to check whether somebody has a judgment debt. Further, the Constitution stipulates that whenever there is an election, persons who have put forth their candidacy should have a clear record (not be in default of any judgment debt), and the Elections Commission always refers this component to the Civil Court, which needs a computerized and centralized judgment debt database to respond.

6. **Objectives.** It is understood that, while the MSME Portal shall provide the key relevant information to MSMEs, given the poor availability of computers and internet connectivity unless the portal is complemented by an inexpensive and easily available method through which the portal can be accessed, its use shall remain limited. The MSME portal will facilitate and enable: (i) use of internet to promote information and knowledge sharing between MSMEs, their business partners and customers and with the Government, and to create a platform for delivery of e-government and e-payment services; and (ii) provision of key 'content' to be sued and made available through the Citizen Service Centers (CSC) and Information Kiosks proposed to be setup as a part of this project component. The Judgment Debt Database (JDD) will improve access to finance by: (i) enabling prospective lenders to ascertain whether prospective borrowers have outstanding judgment debts; (ii) providing proof of a judgment debt which can be used in subsequent enforcement proceedings (iii) providing the start date which can be used as a basis for court awarded interest on the debt; and (iv) providing proof of a creditor's claim in insolvency proceedings - this will be especially useful once new personal and corporate insolvency laws are enacted.

7. **Functions.** The MSME portal focuses on the need to address the access to information challenge faced by MSMEs, especially those outside Male. A BDSC website has already been established as part of the PSDP. This now needs to be transformed into a more comprehensive portal for MSMEs, offering a single point of data and information on all aspects of MSME development. The MSME Bill, currently pending approval with the Parliament, also mandates the establishment of such an MSME portal as part the new Act. The JDD will provide a central web-based repository of all Judgment Debts in Maldives. It will be an online, web-based, publicly accessible and centralized database for all orders for judgment debts given by the Civil Court in Male, the new Mercantile Court (when it is established), as well as island magistrates. The database will have capacity to cover all new orders and pre-existing orders, to the extent practicable, after its establishment.

8. **Staffing and Institutional arrangements.** MED will be the implementing and coordinating agency for this output. The Vendors shall work under the technical guidance and supervision of the Project Management Consultants (PMC) who will work as part of the PMU. Support will be provided by the National Centre for Information Technology, where relevant. The JDD team will work in close consultation and supervision of the Ministry of Justice who shall be responsible for assisting the vendor in defining the core and detailed functionality expected from the system. Support will also be provided by the judiciary in the Civil Court and the new Mercantile Court, once it is established.

9. The entire design, development and maintenance of the bi-lingual MSME Portal will be outsourced to a private vendor, through a procurement contract. The MSME Portal vendor shall comprise of international and national consultants and content writers, as well as a team of



software developers who shall use the BDSC website as the starting point for the conceptualization of the portal. The Vendor contract shall include one year of development and testing and three years of maintenance. Although the full portal will take a year to develop, the vendor would be required to ensure that the basic component is operational within six months of contract commencement. The PMU shall be responsible for providing all the basic content and data required for the portal and available with MED, however it shall be the vendor's responsibility to collect the additional data and information from other sources such as other Ministries, banks and MSME development partners. The Portal development will work closely with BDSC to continuously assess the information needs of the MSMEs and ensure that all relevant data and information are made available on the Portal.

10. The entire design, development and maintenance for the JDD will be also outsourced to a private vendor together with MSME portal and CSC, through a consultancy contract. The Vendor shall work under the technical guidance and supervision of the e-Governance consultants of the MED. The JDD vendor team shall comprise of international and national consultants and IT specialists who will design and implement the JDD solution in Male and two other pilot locations. The Vendor contract shall include one year of development and testing and three years of maintenance.

11. **Funding.** The Project will provide this output, through an ADB loan and grant which shall cover the entire cost of the development of the MSME portal and the JDD as well as their subsequent maintenance for a period of three years.

12. **Key content and services to be provided.** The MSME portal content will include; (i) Information about BDSCs – their role and specific services offered by them; (ii) the names and details of MSMEs registered with MED; (iii) MSME priority sectors as currently identified by Government; (iv) e-learning courses and materials for business development services relevant to MSMEs (such as for preparation of business plans and accounts); (v) a virtual market place showcasing products and services provided by MSMEs and including relevant contact details; (vi) reports and information with respect to MSMEs, including their business demographics, performance and type of activity; (vii) details of Government benefits to which MSMEs are entitled and the process to be followed to obtain such benefits and details of current government schemes, programs and projects which aim at improving access to finance to MSMEs; (viii) details of Government contracts available for tender; (ix) details of requirements for licenses and permits affecting MSMEs and copies of relevant application forms and information on applicable fees and how to apply; (x) information on economic indicators and forecasts, including by reference to different sectors; and details of MSME success stories, including relevant arrangements with tourist resorts, in a way which encourages innovation and sustainable business development; and (xi) access to an MSME Feedback System, through which MSMEs will be able to lodge complaints and grievances on any challenge faced by them and seek information on any aspect related to MSME development. As already mentioned, the JDD will provide online access to information relating to court judgments, recent and archived.

## II. Output 2: Citizen Service Centers Established

13. **Rationale and Objectives.** The difficulties posed by the geographic spread of the country are further compounded by the fact that there is limited access to computers and internet in island communities<sup>90</sup>. One of the key objectives is strengthening the BDSCs to make them more

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<sup>90</sup> 2008 figures on internet availability and usage show that, for every 100 persons, only 3.6 subscribed to internet services and 16.3 to a computer. 2010 figures show that only 22.2% of the population has access to internet services.

financially sustainable and enable them to provide a wider range and depth of technical support services to the MSMEs. The BDSCs are also required to conduct and organize numerous training and capacity building programs for existing and potential MSMEs, for which they need training room and support facilities such as computers and projectors.

14. Another objective is to promote low-cost sustainable source of energy like solar power. The Maldives also faces significant energy challenges. Diesel generators are used for 80% of the Maldives' energy needs, creating exposure to both foreign currency and fuel price rises<sup>91</sup>. Wind turbines are not a reasonable alternative given the country's scattered island geography. The GoM recently announced an initiative to harness solar power to generate at least 60% of its electricity by the year 2020. This is also the deadline for the country's carbon neutral objectives. Various economic modeling studies suggest that it is cheaper to generate electricity from solar photovoltaic panels than from diesel. Recent estimates that the direct cost of daytime solar PV is around \$0.21 per kilowatt hour, compared to \$0.28–0.44 per kw/hour for existing diesel generators. Official sources indicate that the total cost of de-carbonizing the Maldivian energy sector, including industrial zones and tourist resorts, is estimated at \$3 – \$5 billion over the next ten years. Given this background, the need for promoting the usage of more efficient and environment friendly renewable energy sources, cannot be overstated.

15. The MED are committed to promoting public-private-partnerships in as many areas of service delivery as possible. One the strategic use of such PPPs is in the operations and maintenance of technical services, traditionally not a strong point with most governments. ICT projects provide a good opportunity for the GoM to use the PPP mechanism to fund and implement complex technology driven projects. In this case, the PPP operator shall establish and manage the CSC under a PPP mechanism. At least two CSCs will be established through PPP.

16. **Functions.** Establishing a CSCs in each of the seven provinces and co-locating them with local BDSC offices, provides a great option to address each of the objectives and issues mentioned above. The CSCs proposed to be set up under this component, will be fully equipped with computers, printer, scanner, photocopier, broadband internet connectivity and supporting infrastructure such as a training room with a video projector. The computers will be used as (i) an internet café, by the MSME to access the MSME portal and emailing; (ii) a business center, for carrying out routine IT functions such as word processing, spreadsheet use and computerized accounting; (iii) a training center, where MSME training programs of all types, with or without the use of computers, can be conducted; and (iv) a meeting centre, for the BDSCs to have one-to-one or group consultations with MSMEs and other technical service providers.

17. **Services to be provided.** The CSCs will facilitate and enable (i) use of internet to promote information and knowledge sharing between MSMEs, their business partners and customers, and with the Government; (ii) allow MSMEs to carry out internet transactions (as they progressively become available) such as e-banking, e-commerce, online submission of LCF loan applications; (ii) provision of a regular revenue stream for BDSCs, through a PPP fee-sharing arrangement with the CSC Operator, who would be an MSME itself; and (iii) complement the BDSCs and other technical service providers in the delivery of training and other technical services to the MSMEs.

18. **Staffing and institutional arrangements.** The MED will be an implementing agency for this Component. Support will be provided by the National Centre for Information Technology, where relevant. The Government shall provide the suitable unfurnished office space, preferably be co-located, or located in close proximity to the BDSC offices, for housing the CSCs. The CSC operator shall be responsible for providing the full package of IT hardware, software, internet

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<sup>91</sup> Using imported fuel paid for in US\$

connectivity and furniture and fittings, as specified in the bidding document prepared by the CSC design and supervision consultants, whose role has been explained later in this appendix. The CSC PMU shall setup each CSC. The selected CSC operators shall be required to bring in their own staff to run the center and provide the range of pre-specified and additional services to MSME and other clients. The CSC operator's team shall be headed by a technically competent manager (MSME owner) who would report to the BDSC and PMU/PMC at the MED. The Vendor shall work under the technical guidance and supervision of the e-Governance consultants that will work as part of the PMU at MED and to MED for as financial and administrative matters.

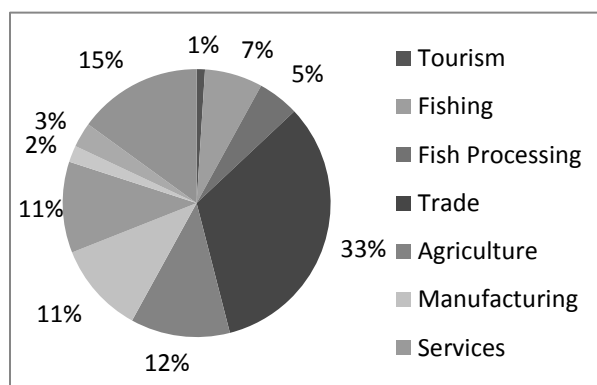
19. **Public-Private Partnership.** Under the project, it is proposed to set in place a suitable risk-sharing mechanism between public and private sector to establish CSCs on a PPP format. The CSCs will be structured on a PPP arrangement, for which the appropriate format will be worked out during due diligence.

20. **Funding. The Project will** finance through an ADB loan and grant. The standard equipment package required to be procured and provided by the CSC operators shall be directly paid for by the MED using ADB funds which shall cover the entire capital cost and subsequent annual maintenance cost of equipment for a period of three years. Operation and management costs will be met either through PPP arrangement or by suitable payment mechanisms outside the ADB loan. If additional funding is available, the CSCs may be powered using solar energy sources, in order to (i) demonstrate and promote the use of renewable sources of energy; and (ii) provide a low cost energy source for BDSC/ CSCs to improve their financial sustainability.

21. **Scope of services provided.** The electronic services will be made available to MSMEs through the CSCs: (i) accessing the services and information provided through the MSME Portal; (ii) direct access to government websites for on-line business registration of MSMEs, filing of tax returns and company and co-operative annual accounts and applying for import/export and other business permits and licenses; (iii) participating in short eLearning training courses, such as ICT certification courses; (iv) over time, a facility for e-commerce and e-banking transactions (such as online money transfer, bill payment and checking of account balances); and (v) video conferencing facilities. The CSCs would also be used for more general community services such as providing employment opportunities, communication services for e-health, e-education and connectivity in times of natural disasters, ticket booking and mobile phone recharges.

#### A. Reference: Energy Program and Gender Linkages

22. Fossil fuels, primarily petroleum provide for most of the energy needs in the Maldives - generation of electricity (diesel), road and marine transport (gasoline, diesel), aviation (jet kerosene), and cooking, hot water and other uses (Liquefied Petroleum Gas, kerosene). In 2009, the Government of the Maldives announced a vision to make the country carbon neutral by 2020. The Carbon Audit Report pegs carbon emissions in the Maldives at about 1.33 Million tons of CO<sub>2</sub> equivalent in 2009. From an economic perspective, imported fossils fuels accounted for more than \$200 million in 2009, which was equivalent to 15% of the country's GDP the same year. It is expected that introduction of measures to promote carbon neutrality (through energy efficiency and renewable energy) would open up



additional opportunities for entrepreneurship and relieve the fiscal burden imposed by government-subsidized fuel oil. The Government has decided to reduce energy sector emissions by 80%.

23. **Potential for Energy Sector related MSME in the Maldives.** Although tourism, fishing and fish processing were the leading economic sectors in the recent past, increasingly the concentration is shifting towards trading, agriculture, manufacturing and services. The distribution of sectors is presented in the adjoining figure. Trading is the largest MSME cluster in the Maldives with a share of 33% which by itself does not provide significant scope for renewable energy or energy efficiency application (except some demand side applications) Fish processing, which represents 5% of MSME has potential to deploy different energy technologies. A UNDP study on mapping of SME has proposed potential for energy saving in food processing like chilli sauce making, coconut oil making and couple of other agro processing units. RE technologies may also be considered for electricity generation, solar hot water systems, solar based cooking, solar based fish drying etc. There is also significant potential for waste heat recovery from diesel generating sets (captive or utility owned) to undertake ice-making, water desalination, steam generation etc.

24. A few sub-sector opportunities for usage of renewable energy applications in MSME that may be considered for feasibility studies include:

No	Sector / Type	Business Title or Description	RE Applications
<b>A</b>	<b>Services: Arts, Craft and Tourism</b>		
1	Service, Artist, trade skills	Design sewed souvenirs	Solar PV for Electricity generation
2	Service, Artist, trade skills	Design Wood carved and painted souvenirs	Solar PV for Electricity generation
3	Service , Artist, trade skills	Design new weaving patterns and introduce new colors to the hand weaving of mats	Solar PV for Electricity generation
4	Service - professional	Engineering design services (guest houses)	Solar PV for Electricity generation
5	Service - professional	Interior decoration, architectural design for "green" guest houses	Solar PV for Electricity generation
6	Service – trade skills	Welding and metal works shop (souvenirs)	Solar PV for Electricity generation
7	Service - service	Arts and crafts retail and wholesale store to Market Authentic Maldivian arts and crafts	Solar PV for Electricity generation
8	Service – service/Small	T-shirt design and marketing	Solar PV for Electricity generation
9	Service – transport/tourism	"Green" Water transport service (wind and electrical/solar)	Solar PV and battery driven boats
10	Service – waste management .art	Recycling center (paper, metal, glass, plastic) and/or make arts out of it	Solar PV and thermal
11	Industry - arts & crafts	Coral, shell craft, pearl harvesting tourism and jewelry manufacturing	Solar PV for Electricity generation
<b>B</b>	<b>Agriculture &amp; Agro-Industry</b>		
1	Industry – marketing	Integrated coconut processing to produce virgin coconut oil for spas, soap, etc.	Solar thermal applications
2	Industry – ISO, pilot equipment, Marketing	Chili souse, curry paste, short eats	Solar thermal applications
3	Industry – agro-processing	Cassava chip production and packaging [domestic]	Biomass gasifier for thermal application*
4	Industry – agro-processing	Community-based fruit products processing/ packaging [glass jar canning,	Biomass gasifier for thermal application*

No	Sector / Type	Business Title or Description	RE Applications
		dehydrating, vacuum packing] (dried fruits, jams, jellies, fruit-based nutrition bars, concentrates, etc.)	Solar thermal applications
5	Industry – agro-processing	Community-based vegetable products processing/packaging [vacuum packing, jar canning, dehydrating, freezing] (fresh vegetables and water canning, bagged fresh salad mixes, pickling, dried soup mixes, dried snack foods, etc.)	Biomass gasifier for thermal application* Solar thermal applications
6	Industry – food & beverage	Papaya or other fruit Vinegar making and bottling	Biomass gasifier for thermal application* Solar thermal applications
7	Agriculture - meat / eggs	Broiler and layer poultry production	Solar PV for Electricity generation
8	Industry – agro-processing	Community-based or commercial chicken meat products processing [frozen, dried and vacuum packaging for preservation]	Solar energy based air conditioning
9	Agriculture-hydroponics	Grading, packaging, marketing,	Solar PV for electricity generation
<b>C Fisheries Sector</b>			
1	Industry – food & beverage	Ice manufacturing plant (10 MT per day capacity)	Solar energy based ice making and cold storage
2	Industry – agro-processing	Community-based fisheries products processing/packaging/jar canning/preservation (sauce, oil, paste, jerky, sandwich spread, seasonings, dried snack food, etc.)	Biomass gasifier for thermal application Solar thermal applications
3	Industry – agro-processing	Fish smoking & vacuum packaging [for export]	Biomass gasifier for thermal application
4	Fisheries – salt water	Fish drying in open sun	Solar driers

25. **Gender related aspects of energy sector.** Household energy sources and energy consumption patterns play an important role in home-based micro-enterprises where women tend to be concentrated. The fuel used for household cooking is predominantly gas, followed by fuel-wood and oil. Gas is an important source of energy not only for cooking related to household consumption, but an essential source of energy which women's micro-enterprises rely upon, especially in food processing. Women's energy needs in relation to enterprise development are therefore closely linked to the following factors: (i) patterns of household energy use and consumption, and (ii) women's reproductive labor in the home.

26. This is especially so when cultural factors entrench women's gender roles and constrain women's mobility to reproductive tasks and labor – including income generation - at the household level. Emerging practice in the South Asia region point to greater potential for women's participation and gender interventions in the emerging renewable energy sector, especially in small-to-medium scale applications, than in the conventional energy sector. The Government is aware that energy policies and types of services impact on men and women differently. The gender-related goal on energy in the Strategic Action Plan 2009–2013 is: "Review gender-sensitive impact on women and men in addressing energy related matters." However, little or no studies are available on assessing gender related impacts of energy, including in relation to women and men's livelihood enhancement, which could be used as a baseline to inform the design of livelihood or MSME projects.

27. **Solar Powered CSC.** This could be a potential business opportunity for MSMEs in the Maldives. The focus could be on providing e-learning facilities and e-government services. These services could be e-filing of tax returns, downloading /uploading different applications etc. CSC can also be used for conducting training programmes through contractual arrangements for PPP mode of operation. A solar powered e-learning kiosk can also be used for disseminating knowledge and can be adapted to extend services such as providing employment news and opportunities, distance learning programmes, 24x7 communication for medical emergencies, online health education, connectivity in times of natural disasters, ticket booking and mobile phone recharge etc. Further, even banks and financial institutions can use them to disseminate services such as ATMs, online money transfer, bill payment etc.

## APPENDIX 4 PROCUREMENT PLAN

### Basic Data

<b>Project Name:</b> Inclusive Micro- Small and Medium Enterprise Development Project	
<b>Country:</b> Republic of the Maldives	<b>Executing Agency:</b> Ministry of Finance and Treasury
<b>Loan and Grant Amount:</b> \$ 20.32 Million	<b>Loan (Grant) Number:</b> t.b.d.
<b>Date of First Procurement Plan:</b> October 2011	<b>Date of this Procurement Plan:</b> March 2012

### A. Process Thresholds, Review and 18-Month Procurement Plan

#### 1. Project Procurement Thresholds

1. Except as the Asian Development Bank (ADB) may otherwise agree, the following process thresholds shall apply to procurement of goods and works.

Procurement of Goods and Works	
Method	Threshold
International Competitive Bidding (ICB) for Works	Above \$1,000,000
International Competitive Bidding for Goods	Above \$500,000
National Competitive Bidding (NCB) for Works	Between \$100,000 and \$1,000,000
National Competitive Bidding for Goods	Between \$100,000 and \$500,000
Shopping for Works	Below \$100,000
Shopping for Goods	Below \$100,000

#### 2. ADB Prior or Post Review

2. Except as ADB may otherwise agree, the following prior or post review requirements apply to the various procurement and consultant recruitment methods used for the project.

Procurement Method	Prior or Post	Comments
<b>Procurement of Goods and Works</b>		
ICB Works	Prior	
ICB Goods	Prior	
NCB Works	Prior/Post	1st NCB subject to prior review. Subsequent NCB subject to post reviews.
NCB Goods	Prior/Post	1st NCB subject to prior review. Subsequent NCB subject to post reviews.
Shopping for Works	Post	
Shopping for Goods	Post	
<b>Recruitment of Consulting Firms</b>		
Quality- and Cost-Based Selection (QCBS)	Prior	
Quality-Based Selection (QBS)	Prior	
Other selection methods: Consultants Qualifications (CQS), Least-Cost Selection (LCS), Fixed Budget (FBS), and Single Source (SSS)	Prior	

Procurement Method	Prior or Post	Comments
<b>Recruitment of Individual Consultants</b>		
Individual Consultants	Prior	

### 3. Goods and Works Contracts Estimated to Cost More Than \$1 Million

3. The following table lists goods and works contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

General Description	Contract Value (\$ 000)	Procurement Method	Prequalification of Bidders (y/n)	Advertisement Date (quarter/year)	Comments
N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

### 4. Consulting Services Contracts Estimated to Cost More Than \$100,000

4. The following table lists consulting services contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

General Description	Contract Value (\$)	Recruitment Method <sup>1</sup>	Advertisement Date (quarter/year)	International or National Assignment	Comments
(Component 1): Project Management Consultancy package for National Project Manager, National BDSC Coordinator, two Economic Associates, Local Audit Firm, International Gender Expert, National Gender Expert, International M&E Expert, National M&E Expert, two International Legal Experts, Local Legal Firm, and Credit Guarantee Scheme Expert	1,611,960 (1,569,000 + contingency 156,900)	Individual	2012Q2	International and national	Value subject to change depending upon demands from the implementing agency
(Component 1): BDSC Consultancy package for programme management consultants (team includes National SME Development Specialist, International SME Capacity Building, International SME Value Chain Specialist, International SME Renewable Energy Specialist, International SME Energy Efficiency Specialist and	928,400 (844,000 + contingency 84,400 )	QCBS 80:20	2012Q2	International and national	Same as the above



General Description	Contract Value (\$)	Recruitment Method <sup>1</sup>	Advertisement Date (quarter/year)	International or National Assignment	Comments
National Capacity Building Specialist)					
(Component 1): Capacity Building and Trainings for MED, BDSC, and related stakeholders	176,000 (160,000 + contingency 16,000)	Multiple (QCBS 80:20 or Direct)	2012 Q2	-	Same as the above
(Component 2): Consultancy package of programme management consultants for Access to Finance(including CIB Specialist, STR Specialist, and MIS Specialist/ Team Leader)	770,000 (700,000 + contingency 70,000)	QCBS 80:20	2012Q2	International	Same as the above
(Component 2): Procurement of Vendor for CIB system reconfiguration	1,100,000 (1,000,000 + contingency 100,000)	QCBS 80:20	2012Q4	International and national	Same as the above
(Component 2): Procurement of Vendor for development of software and procurement of hardware for STR system development	1,210,000 (1,100,000 + contingency 110,000)	QCBS 80:20	2014Q2	International and national	Same as the above
(Component 3): Consultancy package for programme management consultants for Enabling Technology component (PPP specialist, E-Governance specialist , solar technology specialist, and MIS specialist)	330,000 (300,000 + contingency 30,000)	QCBS 80:20	2012Q3	International and national	Same as the above
(Component 3): Procurement of Vendor for establishing MSME portal, Judgment Debt Database, 7 Citizen Service Centers, related equipment and facilities and internet connectivity for each of the 7 BDSCs, computer equipment for running the database system; and human resources support for all these BDSCs and Citizen Service Centers	1,375,000 (125,000,000 +contingency 12,500,000)	QCBS 80:20	2012Q4	International and national	Same as the above

### 5. Goods and Works Contracts Estimated to Cost Less than \$1 Million and Consulting Services Contracts Less than \$100,000

5. The following table groups smaller-value goods, works and consulting services contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

General Description	Contract Value (\$ 000)	Procurement Method	Prequalification of Bidders (y/n)	Advertisement Date (quarter/year)	Comments
(Component 1): Procurement packages for BDSC (a package for existing five BDSC)	430	NCB	N	2012Q1	Value subject to change depending upon demands from the implementing agency
(Component 1): Procurement packages for BDSC (a package for two new BDSC)	175	NCB	N	2012Q1	Same as the above

### B. Indicative List of Packages Required Under the Project

6. The following table provides an indicative list of all procurement (goods, works and consulting services) over the life of the project. Contracts financed by the Borrower and others should also be indicated, with an appropriate notation in the comments section.

General Description	Estimated Value (cumulative) (\$ million)	Estimated Number of Contracts	Procurement Method	Domestic Preference Applicable	Comments
(Component 1): Project Management Consultancy package for National Project Manager, National BDSC Coordinator, two Economic Associates, Local Audit Firm, International Gender Expert, National Gender Expert, International M&E Expert, National M&E Expert, two International Legal Experts, Local Legal Firm, and Credit Guarantee Scheme Expert	1,611,960 (1,569,000 + contingency 156,900)	13	Individual	N.A.	Value subject to change depending upon demands from the implementing agency
(Component 1): BDSC Consultancy package for programme management consultants (team includes National SME Development	928,400 (844,000 + contingency 84,400 )	1	QCBS 80:20	N.A.	Same as the above

General Description	Estimated Value (cumulative) (\$ million)	Estimated Number of Contracts	Procurement Method	Domestic Preference Applicable	Comments
Specialist, International SME Capacity Building, International SME Value Chain Specialist, International SME Renewable Energy Specialist, International SME Energy Efficiency Specialist and National Capacity Building Specialist)					
(Component 1): Capacity Building and Trainings for Med, BDSC, and related stakeholders	176,000 (160,000 + contingency 16,000)	multiple	QCBS 80:20 or Direct	N.A.	Same as the above
(Component 2): Consultancy package of programme management consultants for Access to Finance(including CIB Specialist, STR Specialist, and MIS Specialist/ Team Leader)	770,000 (700,000 + contingency 70,000)	1	QCBS 80:20	N.A.	Same as the above
(Component 3): Consultancy package for programme management consultants for Enabling Technology component (PPP specialist, E-Governance specialist , solar technology specialist and MIS specialist)	330,000 (300,000 + contingency 30,000)	1	QCBS 80:20	N.A.	Same as the above

## C. National Competitive Bidding<sup>92</sup>

### 1. General

7. National competitive bidding shall conform to the provisions for "National Competitive Bidding" as prescribed in the [*Procurement Guidelines 2005 for Goods and Works* issued in 2005] by the Government of the Maldives, and the specific procedures prescribed by the [*Procurement Rules and Guidelines* issued in 2005], with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the ADB

<sup>92</sup> Maldives does not yet have an NCB Annex, and ADB needs to review Maldives' procurement law, and create an NCB Annex, before any NCB procurement activities may be carried out by the EA. For this purpose, this section C and NCB Annex need to be prepared by ADB (Consulting Department) at the earliest possible time through a consultation mission during the first quarter of 2012.

Procurement Guidelines. For the efficient implementation of procurement, the government established Central Procurement Office (CPO) under the Ministry of Finance and Treasury in January 2011 and began its work from 1 March 2011.

## **2. Registration**

- (i) Bidding shall not be restricted to pre-registered firms under the national registration system of [the Ministry of Finance and Treasury (MOFT)], and such registration shall not be a condition for the submission of bids in the bidding process.
- (ii) Where registration is required prior to award of contract, bidders: (i) shall be allowed a reasonable time to complete the registration process; and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.
- (iii) National sanction lists or blacklists may be applied only with prior approval of ADB.

## **3. Prequalification**

8. Post qualification shall be used unless prequalification is explicitly provided for in the loan agreement/procurement plan. When used for large or complex Works contracts, *i.e.* turnkey, design and build, or management contracts; or custom-designed equipment, industrial plants, and specialized services, prequalification evaluation shall not include the evaluation of equipment and personnel. This assessment shall be undertaken at the bid evaluation stage. Irrespective of the procedure applied (whether prequalification or postqualification), no domestic or foreign contractor shall be precluded from participation.

## **4. Advertising**

9. Bidding of ICB contracts estimated at \$500,000 or more for goods and related services or \$1,000,000 or more for civil works shall be advertised on ADB's website via the posting of the Procurement Plan.

## **5. Bidding Documents**

10. Procuring entities shall use standard bidding documents acceptable to ADB for the Procurement of Goods, Works and Consulting Services, based ideally on the standard bidding documents issued by ADB.

## **6. Packaging**

11. Slicing or splitting of contracts within a package shall not be used to change the contract sizes and their corresponding methods of procurement as approved in the Procurement Plan.

## **7. Bid Security**

12. Where required, bid security shall be in the form of a bank guarantee from a reputable bank.

## **8. Preferences**

- (i) No preference of any kind shall be given to domestic bidders or for domestically manufactured goods.
- (ii) Foreign suppliers and contractors from ADB member countries shall be allowed to bid, without registration, licensing, and other government authorizations, leaving compliance with these requirements for after award and before signing of contract.

## **9. Procurement of Works**

- (i) Specifications for works may be based on specifications recommended by the MOFT to the extent possible, but MOFT approval shall not be required for adoption of specifications in a particular procurement activity.
- (ii) The determination of the financial capacity of a bidder for award of the contract in post qualification evaluation shall take into account current contract commitments and shall not be confined, for domestic bidders, to the MOFT registration.

## **10. Bid Rejection for Unrealistic Rates**

13. Bids shall not be subjected to a test for unrealistic rates. No lowest evaluated and substantially responsive bid shall be rejected on the basis of comparison to rates, including but not limited to market, historical, or agency established rates, without prior approval of ADB.

## **11. Rejection of All Bids and Rebidding**

14. Bids shall not be rejected and new bids solicited without the ADB's prior concurrence.

## **12. Price Negotiations**

15. Price negotiation shall be allowed only where the price offered by the lowest evaluated and substantially responsive bidder substantially exceeds costs estimates. Approval of ADB is required prior to any negotiation of prices.

## **13. Participation by Government-Owned Enterprises**

16. Government-owned enterprises in the Republic of the Maldives shall be eligible to participate only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the procuring entity, or the Project Executing Agency or Implementing Agency.

## **14. Member Country Restrictions**

17. Bidders must be nationals of member countries of ADB, and offered goods, works and services must be produced in and supplied from member countries of ADB.

## APPENDIX 5

### TERMS OF REFERENCE FOR CONSULTING SERVICES

#### I. Component 1: Business Support Infrastructure Built

##### A. Output 1: Strengthening program implementation capacity and enabling environment for SME development

Consultant	Type	Person Months
Project Manager	National	36
BDSC Coordinator	National	36
Monitoring and Evaluation Specialist	International	12
Monitoring and Evaluation Specialist	National	12
Two Economic Associates	National	30x 2= 60
Audit Firm	National	36
Two Legal and Regulatory Specialists	International	5x 2=10
Legal Firm	National	12
Gender Specialist	International	3
Gender Specialist	National	6
Credit Guarantee Specialist	International	4

#### 1. Project Management and Implementation

1. **Background.** Capacity constraint has been noted a key factor constraining the implementation of all externally-assisted projects.<sup>93</sup> Due to lack of project specific PIUs and relevant experience, projects are completed 3-4 years late, undermining their development effectiveness. Appropriate project management processes play an integral part in the successful implementation of all projects in the government. Against this background, necessary project management mechanisms were set up in the MED for the smooth implementation of PSDP. The performance of the PMU has been satisfactory and the MED has now put in place the position of a full-time project director to head the projects being managed by the MED. In line with past experience, a PMU will be set up at the MED for managing the MSMEDP.

2. A PMU will support the overall coordination of all the project components of MSMEDP and its smooth implementation. The PMU will also support strengthening the internal capacity relating to project management within the MED through a knowledge transfer process. The PMU will be responsible for the overall coordination of all the project components, procurement of goods and services, financial management and accounting, including timely submission of withdrawal and replenishment applications. The PD will be assisted by two international consultants (one project management specialist, and one monitoring and evaluation specialist), one national consultant, and an audit firm. This will help in the implementation of the project through the three pillars of (i) project management; (ii) course corrections, as necessary; and (iii) internal control.

##### a. Project Manager (Team Leader; National, 36 person months)

3. **Qualifications.** The Project Manager will have a post-graduate qualification in business management/ finance/marketing with a minimum of 5 years of experience in public sector development program administration, MSME sector development, organizational capacity building, small and medium-sized enterprises entrepreneurship training, business planning,

<sup>93</sup> ADB's 2007 country partnership strategy.

dealing with BDS providers. Technical skills desirable in areas relating to business planning and analysis, feasibility study preparation, financial appraisal, management information system, economic development, institution building, technical/trade skills training, human resource development; background desirable for working with chambers of commerce and/or industry, trade associations, different fields of industry, agribusiness, resource management, or science fields.

#### 4. **Key Tasks & Responsibilities.**

- (i) Anticipate and report possible problems and bottlenecks for the project and suggest precautionary remedial actions;
- (ii) Develop a business plan and identify areas of business counseling and coaching;
- (iii) Prepare request for payment for procurement of equipment for business incubator facilities and coordinate with PMU for procurement;
- (iv) Assist the capacity building specialist in designing and implementing capacity building programmes;
- (v) Collaborate with MSME capacity building specialist for designing customized training modules for the capacity building programmes and implementing them;
- (vi) Assist SME value chain specialist in identifying market linkage opportunities for the MSMEs;
- (vii) Assist the value chain specialist in identifying innovative areas of new product development;
- (viii) Provide support to value chain specialist for conducting market research study to support forward and backward linkages for identified value chain business opportunities;
- (ix) Ensure that the cost-sharing facility (CSF) management works per procedures defined in the CSF manual which was developed and recommend revisions in the manual based on the experience of PSDP, if necessary; and

#### 5. **Deliverables**

- (i) inception report detailing roadmap for implementation of activities under each of the outputs, annual performance targets, work and disbursement plans;
- (ii) interim report stating the progress of the activities based on progress reports prepared by international and national consultants against specified milestones;
- (iii) monthly updates and other periodic reports as may be specified by PMU; and
- (iv) final report with overall findings of the study including the summary to be submitted by the end of the study

#### **b. BDSC Coordinator (National, 36 person months)**

3. **Qualifications.** The consultant will have a post-graduate qualification in business management/ finance/marketing with a minimum of 5 years of experience in business development services (BDS) market development, organizational capacity building, small and medium-sized enterprises entrepreneurship training, business planning, dealing with BDS providers. Technical skills desirable in areas relating to business planning and analysis, feasibility study preparation, financial appraisal, management information system, economic development, institution building, technical/trade skills training, human resource development; background desirable for working with chambers of commerce and/or industry, trade associations, different fields of industry, agribusiness, resource management, or science fields.

#### 4. **Key Tasks & Responsibilities.**

- (x) Design and finalize BDSC Network Monitoring and Evaluation Framework;
- (xi) Provide effective leadership to the project management consultants of BDS;
- (xii) Anticipate and report possible problems and bottlenecks for the project and suggest precautionary remedial actions;
- (xiii) Develop a business plan and identify areas of business counseling and coaching;
- (xiv) Support to identify, register and develop 25 new/expanded BDS providers (whole duration);
- (xv) Collaborate with MSME capacity building specialist for designing and delivering customized training modules for the capacity building programmes and implementing them;
- (xvi) Assist SME value chain specialist in identifying market linkage opportunities for the MSMEs;
- (xvii) Assist the value chain specialist in identifying innovative areas of new product development;
- (xviii) Provide support to value chain specialist for conducting market research study to support forward and backward linkages for identified value chain business opportunities;
- (xix) Coordinate with the public-private partnership specialist of component D to plan activities under business incubator program;
- (xx) Support and facilitate, research and development, pilot testing and technical training activities associated with MSME business incubator projects

#### 5. **Deliverables**

- (i) inception report detailing roadmap for implementation of activities under each of the outputs, annual performance targets, work and disbursement plans;
- (ii) interim report stating the progress of the activities based on progress reports prepared by international and national consultants against specified milestones;
- (iii) monthly updates and other periodic reports as may be specified by PMU; and
- (iv) final report with overall findings of the study including the summary to be submitted by the end of the study

#### **c. Monitoring & Evaluation Specialist (International, 12 Person Months)**

6. **Qualifications.** The monitoring and evaluation (M&E) specialist will have a post-graduate qualification/s in business, economics, or associated fields and be responsible for the overall progress and performance of the project in the context of expected outcomes and performance indicators for the project. S/he should have at least 10 years international experience in the areas of MSME development, particularly in developing economies. S/he should have project management and monitoring experience and knowledge of tools and methodologies related to project management. Previous experience in the Maldives is necessary. The assignment will involve travel within the Maldives for monitoring the progress of the various components of the MSMEDP, particularly the one related to business infrastructure strengthening, in locations away from the capital island of Male.

#### 7. **Key tasks and responsibilities:**



- (i) In consultation with the project director, the implementing agencies involved in the project, and the M&E specialist agree on the baseline performance indicators for all the components of the project;
- (ii) Support the project director to put in place a system to monitor the outputs and outcomes, to ensure that the performance of the project in terms the of expected outcomes and performance indicators are met;
- (iii) Evaluate the development of the MSME sector in the Maldives on the basis of the performance matrix developed in consultation with the MED and other stakeholders, and pilot design the performance monitoring and evaluation mechanism;
- (iv) Support project director to facilitate conduct of an impact study of the MSME Act on women and youth participation in MSMEs;
- (v) Monitor the periodic progress made in respect of each component at suitable intervals in consultation with the PMU, and the ADB;
- (vi) Document the periodic progress made under each component, and highlight gaps if any;
- (vii) Present the findings to the PMU, ADB and the respective implementing agencies and identify reason for slippage, if any, and build consensus on correctional measures in consultation with the BDSC Coordinator;
- (viii) Escalate critical issues to the PMU, and the project officer of the ADB as necessary in consultation with the BDSC Coordinator;
- (ix) Transfer knowledge relating to the monitoring and evaluation of the MSMEDP to the national consultant of the PMU, and designated counterpart staff in the PMU for independently monitoring the progress of the project on an ongoing basis;
- (x) Provide guidance and inputs and support to the national project management specialist in preparation of the monthly progress report;
- (xi) Develop a subproject eligibility criteria based on, among others, the ADB safeguard requirements, a screening checklist that would also exclude for the activities in the Prohibited Investment Activities List of ADB; a positive indicative list of MSME subprojects likely to have minimal or no adverse environmental impacts for LCF desk and related stakeholders at MED and BML. Conduct the relevant training to LCF desk and related stakeholders at MED and BML; and
- (xii) Any other task related to the implementation of the MSMEDP as asked by the ADB and the Government of the Maldives

8. **Deliverables.** The key deliverables will include:

- (i) periodic briefing/presentation to relevant stakeholders on key findings from the monitoring and evaluation for updating them on the status of the project;
- (ii) periodic reports on situation assessment based on missions carried out for monitoring and evaluation;
- (iii) on the job training related to the monitoring and evaluation of the MSMEDP for the national consultant, designated counterpart staff, and other individuals and entities identified; and
- (iv) operational manual providing an overview of the approach and methodology for monitoring and evaluation in the context of the MSMEDP.

**d. Monitoring & Evaluation Specialist (National, 12 Person Months)**

6. **Qualifications.** The monitoring and evaluation (M&E) specialist will have a post-graduate qualification/s in business, economics, or associated fields and be responsible for the overall progress and performance of the project in the context of expected outcomes and performance indicators for the project. S/he should have at least 5 years international experience in the areas of MSME development, particularly in developing economies. S/he should have project management and monitoring experience and knowledge of tools and methodologies related to project management.

**7. Key tasks and responsibilities:**

- (i) In consultation with the international M&E expert, the implementing agencies involved in the project, and the M&E specialist agree on the baseline performance indicators for all the components of the project;
- (ii) Assisting the activities of international M&E expert under the guidance of the international M&E expert

**e. Economic Associates (Two National, 30 person months per each)**

9. **Qualifications.** The national project management specialist will have a post-graduate qualification/s in business, economics, or associated fields and be responsible for supporting the Project manager and BDSC coordinator in the overall progress and performance of the project and work under his/her guidance and supervision. S/he should have at least 5 years experience in the areas related to MSME development in the Maldives is necessary. Previous experience in similar capacity in government supported project, and knowledge of government systems and procedures for donor supported projects is essential. The assignment will involve travel within the Maldives in locations away from the capital island of Male.

**10. Key tasks and responsibilities:**

- (i) Provide support to the Project Manager and BDSC coordinator for overall management of the project as guided by him
- (ii) Facilitate meetings with key stakeholders, various implementing agencies, and other government departments as required
- (iii) Assist the Project manager and BDSC coordinator in coordinating with the various implementing agencies and consultants for the different components of the projects to support the ongoing progress of the project by identifying constraints, providing and addressing the constraints by bringing these to the attention of the project director
- (iv) Collate and archive information and data such as consultant reports, invoices, payment detail, BDSC activities, public announcements etc. as required
- (v) Provide ongoing liaison for the PMU with the BDSCs in the islands in provinces other than the capital, and coordinate the necessary support process such as recruitment, supplies, etc. for the BDSCs as required under the project
- (vi) Prepare MIS reports and monitoring reports under the guidance of the international specialists (BDSC coordinator and monitoring and evaluation) reports for the project director, implementing agency and project steering committee
- (vii) Assist in the implementation and conduct of training programs designed by the Project manager and BDSC coordinator, and gradually taking over the task of conducting the training programs from the international specialists

- (viii) Provide support relating to translation of documents, and interpretations of communications as required
- (ix) Represent the PMU in its role as an auditee during the period audits carried out by the external auditors, and reply to audit findings for audit closure under the guidance of the international project manager
- (x) Other tasks requested by the government and the international project management specialist for the implementation of the MSMEDP

11. **Deliverables.** The key deliverables will include:

- (i) draft MIS and monitoring reports for review to the project director and the international BDSC coordinator;
- (ii) archived documents such as MIS, consultant reports, training material, invoices, ADB drawdown, etc. relevant to the project; and
- (iii) draft replies to audit reports.

**(ii) Local Audit Firm (certified accountants or carrying out quarterly external audits of all transactions related to the MSMEDP during the project period; 36 person months**

12. **Qualification and experience.** A local audit firm will be recruited to audit the processes of the PMU in order to ensure that all activities of the project are compliant with government and ADB regulations and provide assurance relating to the necessary internal controls being in place in the PMU, and the statements of transactions, financial and non-financial, prepared by the PMU present a “true and fair view” of the activities of the PMU. The audit firm must have been in practice for at least 5 years in Maldives, and have experience relating to audit of medium to large organizations. It should have at least five audit clients with annual turnover of \$1 million and above. The audit firm should be familiar with government rules and regulations relating to procurement, reporting, and internal controls stipulated for government transactions.

13. **Key tasks and responsibilities:**

- (i) Prepare an audit charter for the audit of the transactions of the PMU for the entire duration of the project;
- (ii) Carry out quarterly audits of the transactions of the of the PMU in accordance with the audit charter;
- (iii) Guide the PMU team in rectifying the audit irregularities during the audit process;
- (iv) Submit quarterly audit reports within 60 days from the closure of a calendar quarter;
- (v) Prepare key audit findings and present these to the PMU to highlight operational deficiencies relating to internal control and compliance;
- (vi) Provide necessary assurances relating to the working of the PMU based on audit findings, and submit special reports based on the closure of accounts at the PMU e.g. half-yearly and annual reports;
- (vii) Prepare audit reports on the whole expenditure including the use of imprest accounts and the SOE, and two audit reports need to be prepared separately capturing ADB portion and IDB portion respectively which will be submitted to ADB and IDB respectively; and
- (viii) Conduct training sessions for the PMU and other MED staff to discuss key audit findings and operational deficiencies relating to internal control and compliance in

order to inculcate a compliance culture as part of the capacity building process within the MED

**14. Deliverables:**

- (i) audit charter for the audit of the transactions of the PMU for the entire duration of the project;
- (ii) quarterly audit report related to the transactions of the of the PMU together with necessary assurances;
- (iii) special audit reports based on the account closure processes of the PMU;
- (iv) key audit findings highlighting operational deficiencies relating to internal control and compliance for presentation to the project director, PMU consultants, and the steering committee; and
- (v) checklists and guidelines relating to internal control and compliance for the use of operational staff of the PMU.

**15. Implementation arrangement and timeline.** The audit firm will report to the MED/ADB. The firm will carry out quarterly audits over the entire duration of 3.5 years of the project

**2. Legal and Regulatory Framework Reform**

**16. Background.** The legal and institutional frameworks in the Maldives are still at an early stage of development and impede the progress of MSME development in view of the difficulties. Legal provisions relating to enforcement of contracts, absence of a Civil Procedures Code, and the current administrative processes relating to enactment of legal provisions pose a major challenge for smooth resolution of conflicts emanating from doing business. A large amount of overdue in the financial sector remains unresolved due the complexities and anomalies in the legal system, thereby inhibiting the lending appetite of banks and financial institutions. Absence of credit history and the reluctance on part of the MSMEs to share internal information has been cited as the major challenge in assessment of credit requirements of MSMEs in various studies. The MMA launched a CIB in February 2011 to address these difficulties. However, the CIB is at an incipient stage of development and is yet to mature as a widely used tool for risk based credit judgment and resultant credit decisions for moving away from a collateral based lending paradigm. The project preparatory technical assistance for the MSME program has identified continuing weaknesses in the enabling environment in several areas. In spite of the LCF program to enhance credit for instance, it is not yet possible for lenders in the Maldives to move away from collateral based lending due to several reasons including information asymmetries and weaknesses in the legal processes.

**17.** It is envisaged that strengthening the legal and institutional framework for MSMEs will help create a better enabling environment for the promotion and development of MSMEs through development of the legal framework for (i) enhancing access to finance, (ii) enforcement of commercial contracts, and (iii) commercial laws pertaining to MSMEs, including new e-commerce and data protection laws. Hence, legal and regulatory consultants will support in review of existing legislations and drafting on new acts. The consultants will also support in developing a regulatory impact assessment framework and its implementation, and implementation of programs on judicial trainings. The legal consultants will assist the project director and the PMU in undertaking the tasks. The consultants must have experience in developing countries in South Asia. Prior experience of working in the Maldives will be preferred.

**a. Legal and Regulatory Specialists (Two International, Total 10 months)**

19. **Qualification & Experience.** The legal and regulatory specialist will have a post-graduate qualification in law and be responsible for managing the legal and regulatory component of the MSMEDP to ensure that the expected outcomes and performance indicators for the project are met. S/he should have at least 15 years international experience in areas of review and drafting of codes/legislation/acts, particular in developing economies. The consultant must have done similar work i.e. hands-on drafting of legal statutes, acts, etc. for MSMEs in developing countries. Previous experience in the Maldives will be preferred. The specialist shall coordinate with national legal specialist on the project and provide necessary support to the project director for smooth implementation of the component and the project. Majority of the work shall be based out of capital island of Male. Occasional travel to islands away from the capital may be involved for stakeholders consultation, impact assessment, and training.

**20. Key tasks and responsibilities:**

- (i) Drafting of Civil Procedure Code, Credit Information Bureau (CIB) Act and Secured Transaction Registry (STR) regulations;
- (ii) Conduct stakeholder consultations and make appropriate revisions based on feedback to Civil Procedure Code, and STR regulations, and draft the CIB Act;
- (iii) Drafting of non-bank financial institutions (NBFI) Act and review existing commercial laws;
- (iv) Conduct stakeholder consultations and workshops and make appropriate revisions based on feedback to NBFI Act and review existing commercial laws;
- (v) Drafting of ABS listing rules;
- (vi) Conduct stakeholder consultations and workshops and make appropriate revisions based on feedback to ABS listing rules;
- (vii) Drafting of e-commerce laws, bankruptcy laws and personal/corporate insolvency laws; conduct stakeholder consultations/workshops and make appropriate revisions based on feedback;
- (viii) Design and implement regulatory impact assessment framework;
- (ix) Design program for judicial training on commercial laws;
- (x) Implement program for judicial training on commercial laws; and
- (xi) Provide advice and support to the project director on actions related to this component for ensuring that the outcomes and indicators are achieved.

**b. Legal Firm (National, 12 months)**

21. **Qualifications and experience.** A local legal firm will be recruited to assist the international legal experts of the PMU in order to ensure that all activities of the project are compliant with government regulations. Previous experience on working in similar capacity in government supported projects, and knowledge of government laws and regulations is essential. It shall support the international specialist for consultation, impact assessment, and training. Majority of the work shall be based out of capital island of Male. Occasional travel to islands away from the capital may be involved. One of the key responsibilities will be to support the international expert in providing working English translations of laws, regulations, and other relevant literature which are available only in Dhivehi.

**22. Key tasks and responsibilities:**

- (i) Provide support to the international legal and regulatory specialist for drafting, undertaking stakeholder consultation with regard to amendments in Civil Procedure Code, CIB Act, and STR regulations, NBF) Act, existing commercial laws, ABS listing rules, e-commerce laws, bankruptcy laws and personal/corporate insolvency laws, and other relevant acts/legislations;
- (ii) Provide support on design and implementation of regulatory impact assessment framework; and
- (iii) Provide support on design of program for judicial training on commercial laws and support its implementation.

23. **Implementation arrangement and timelines.** The legal team will work in close coordination with the project director and the PMU for supporting the smooth progress of the project. For day-to-day matters relating to the assignment, s/he will coordinate with the PMU and the counterpart staff designated for project management by the MED and will need to work in close coordination with the attorney general's office in the Maldives.

24. **Deliverables:**

- (i) Codes and Legislations—Civil Procedure Code, CIB Act, STR regulations, NBF) Act, ABS listing rules, e-commerce laws, bankruptcy laws and personal/corporate insolvency laws;
- (ii) training modules and training programs with participation in training programs as required; and
- (iii) progress report to PMU and donor.

### 3. **Gender Mainstreaming**

#### a. **Gender Specialist (International, 3 person months)**

25. **Background.** The output will be to (i) encourage greater participation of women in the MSME development process; (ii) provide business development services to strengthen MSMEs owned by women and youth through BDS in partnership with private sector, educational institutions, non-government organizations (NGOs), and BDSCs; (iii) facilitate linkages between women and youth entrepreneurs, and service providers of appropriate technology; (iv) provide technical support to business associations supporting women and youth (Women Entrepreneurs Association (WEA) and Junior Chamber International Maldives (JCIM); (v) build capacity of business associations and NGOs on women and youth engaged in MSME development, and for MED and BDSCs on gender sensitization; (vi) mobilize communities to work with NGOs on outer islands; and (vii) assist BDSCs in promoting BDS and monitoring work, and to facilitate women and youth to access business services.

26. **Qualifications.** The gender specialist will have a minimum of 5 years of experience in MSME sector, working on gender related issues, MSME capacity building and training, establishing market linkages, domestic product marketing, market analysis, and market development.

27. **Key tasks and responsibilities.** The key tasks and responsibilities for the gender specialist include:

- (i) Develop the Gender Action Plan and supervise its implementation and monitoring;

- (ii) Review and analysis of gender laws and policies affecting MSMEs;
- (iii) Support to the design of communication and education activities to promote awareness and to build a positive image of entrepreneurship by women;
- (iv) Support the promotion of entrepreneurship education by existing education institutions;
- (v) Conduct a study in selected atolls to identify business opportunities suited particularly to women and youth;
- (vi) Review and conduct an impact study of MSME Act on women and youth participation in MSMEs and other skill needs of women and youth;
- (vii) Support MED to improve the MSME registration system for the purpose of generating a sex-disaggregated database and utilization of such database for program planning and policy reform;
- (viii) Design specific skill building exercises to enhance entrepreneurship and building marketable skills among women and development of communication materials;
- (ix) Design business development services to strengthen MSMEs owned by women and youth through BDS in partnership with private sector, educational institutions, NGOs, and BDSCs;
- (x) Facilitate linkages between women and youth entrepreneurs, and service providers of appropriate technology;
- (xi) Capacity development of business associations and NGOs on women and youth engaged in MSME development, and for MED and BDSCs on gender sensitization;
- (xii) Facilitate mobilization of communities to work with NGOs on outer islands for promoting BDS;
- (xiii) Conduct meetings with other development partners on common issues related to women and youth participation in MSMEs; and
- (xiv) Organizing exposure visits to other neighboring countries of women and youth entrepreneurs to learn effective business models and to promote business linkages.

28. **Deliverables.** The key deliverables will include:

- (i) periodic briefing/presentation to team leader on progress made with regard to the activities, and
- (ii) final report with overall findings of the study including the summary to be submitted by the end of the study.

**b. Gender Specialist (National, 6 person months)**

29. **Qualifications.** The national gender specialist will have a minimum of 5 years of experience in MSME sector, working on gender related issues, MSME capacity building and training, establishing market linkages, domestic product marketing, market analysis, market development.

30. **Key tasks and responsibilities.** The key tasks and responsibilities for the national gender specialist would include:

- (i) Support the preparation of Gender Action Plan and assist the work of the international gender specialist;  
Assist the review and analysis of gender analysis of laws and policies affecting MSMEs;

- (ii) Support to the design of communication and education activities to promote awareness and to build a positive image of entrepreneurship by women;
- (iii) Support the promotion of entrepreneurship education by existing education institutions;
- (iv) Conduct a study in selected atolls to identify business opportunities suited particularly to women and young entrepreneurs;
- (v) Support the designing of business development services to strengthen MSMEs owned by women and youth through BDS in partnership with private sector, educational institutions, NGOs, and BDSCs;
- (vi) Capacity development of business associations and NGOs on women and youth engaged in MSME development, and for MED and BDSCs on gender sensitization;
- (vii) Support the facilitation of the mobilization of communities to work with NGOs on outer islands for promoting BDS;
- (viii) Support the international gender specialist for the conducting meetings with other development partners on common issues related to women and youth participation in MSMEs; and
- (ix) Organize exposure visits to other neighbouring countries of women and youth entrepreneurs to learn effective business models and to promote business linkages.

#### **4. Credit Guarantee Scheme**

##### **a. Credit Guarantee Specialist (International, 4 person-months)**

64. **Background.** A major constraint for MSMEs in the Maldives in accessing finance, as elsewhere globally, is the absence of adequate collateral. Recent experiences based on the line of credit facility provided under the PSDP has highlighted several instances where MSMEs with sound business plans and satisfactory financials were unable to access credit for growth plans due to lack of collaterals. While this situation can improve with the introduction of an STR for movable assets being accepted as collaterals, and better credit decisions based on information relating to credit history, these initiatives would take time to take full effect. A credit guarantee fund (CGF) for diminishing the risk incurred by lenders by guaranteeing the shortfall in collateral can facilitate access to credit for MSME without sufficient collateral to meet the bank's requirements.

65. The majority of the MSMEs in the Maldives are unable to fund growth plans in the absence of adequate collateral as per the existing norms in the Maldives, in spite of viable business plans and sound financials. The Government of the Maldives intends to explore the possibilities of setting up a CGF to cover the shortfall of collateral for such MSMEs, with the intention of helping them to access finance from the formal sector. The main task in this connection is to develop objective criteria, based on policy priorities of the government for identifying eligible MSMEs which would qualify for the scheme and launch a pilot under the MED to test the model. The Credit Guarantee Scheme (CGS) is expected to start with the capital contributed by the government. The proposed TA under the MSMEDP is to help the MED in implementing and operationalizing the CGF.

66. The project objective is to operationalize a credit guarantee mechanism for supporting access to finance for MSMEs with sound business plan and satisfactory financials but without adequate collaterals as per the existing banking norms in the Maldives. The decision relating to identification of MSMEs eligible under the scheme should be based on objective criteria which would be established and tested through a pilot. The pilot would also support developing the



standard operating procedures for the scheme, build internal capacity for the MED to administer the scheme on a sustainable basis, and create public awareness about the scheme.

67. **Qualifications.** The credit guarantee specialist must have a post-graduate qualification in business/finance/economics. S/he must have at least 15 years of first-hand international experience relating to setting up, operationalizing, and administration of government funded CGS including such experience in developing countries. First-hand knowledge about credit guarantees for MSMEs is essential. S/he must have worked in a senior position in a credit guarantee fund in a developing country.

68. Key tasks and responsibilities will include:

- (i) Carrying out a study to design the model for a credit guarantee fund for covering the shortfall in collateral related to viable business entities based on objective criteria in consultation with the MED, Ministry of Finance and Treasury, BML, and other stakeholders;
- (ii) Developing the guidelines for various parameters such as eligibility criteria, cost of guarantee, settlement of claims etc. and the operational procedures including the monitoring and follow-up processes for the guaranteed loans for implementing a pilot project under the MSMEDP;
- (iii) Setting up a pilot desk within the MED for the operationalization of the CGF and provide handholding support for an initial period of 3 months post the implementation of the scheme;
- (iv) Carrying out trainings and workshops for counterpart staff in the CGF desk at MED for building the capacity of the operational staff of the CGF desk; and
- (v) Supporting the Government of the Maldives in carrying out awareness campaigns among stakeholders (MSMEs and banks) about the functionalities and the use of the CGS

69. **Delivery milestones:**

- (i) guidelines for selection of applicants,
- (ii) interim progress report covering the rules of business and the standard operating procedures for the pilot, and
- (iii) final report detailing the setting up of the pilot and the review of its operations during the first 3 months of operations.

## **B. Output 2: Strengthening BDS Capacity and Business Incubator Program**

31. **Background.** A network of BDSCs started was under PSDP which included a central BDSC and two regional BDSCs—one in North and South. The government has added two more BDSCs from its own funds, and plans to further expand this network to cover each of the seven provinces to support MSMEs countrywide. The project will (i) support institutional strengthening and capacity building of the BDSC network by supporting initiatives that broaden the range of BDS products and services offered, (ii) improve capacity of BDSCs to better serve business needs of MSMEs, (iii) support BDS market growth and enhance linkages with other BDS providers, and (iv) increase BDSC operational performance and business profitability. The activity will support in (i) increasing revenue streams to improve long term sustainability, (ii) transitioning towards a better corporate governance structure for BDSC management and enhancing BDS capacity, and (iii) new value added service offerings by BDSCs.

32. **Objectives.** This component will increase MSME access to BDS and support institutional capacity building for BDSCs by (i) expanding BDSC services' geographical coverage to all seven provinces within the country; (ii) introducing new business services offered by the BDSCs; (iii) strengthening the institutional, operational, infrastructural, and human resource capacity of an expanded network of BDSCs to better support BDS demand needs of MSMEs; (iv) transitioning the BDSCs under a corporate governance development plan into a viable, sustainable, and privately managed national business services delivery network,<sup>94</sup> and (v) making MSMEs more market oriented and profitable, through improved linkages in each of the product value-chains identified. This component will also support energy sector linkages to value-chain business opportunities having potential for MSME participation. The specific outputs of BDSC include (i) strengthening the BDS capacity and outreach, (ii) business incubator program, (iii) cost-sharing facility, and (iv) gender mainstreaming.

33. **Functions.** Each of the outputs under BDSC will serve to fulfil a unique function as follows:

- (i) **BDSC Capacity Building.** The output will (i) support institutional strengthening and capacity building of the BDSC network by supporting initiatives that broaden the range of BDS products and services offered, (ii) improve capacity of BDSCs to better serve business needs of MSMEs, (iii) support BDS market growth and enhance linkages with other BDS providers, and (iv) increase BDSC operational performance and business profitability;
- (ii) **Business Incubator Program.** This activity will support establishing two BDSC-operated business incubator facilities, one situated in the north and the other in the south, to work with a selected group of 30 MSMEs under business partnership agreements. It will enable (i) product development associated with identified priority sector, (ii) quality control to improve product quality standards, (iii) business management support to develop skills through on-the-job business and customized training modules, and (iv) market research and development to support forward and backward linkages for identified value chain business opportunities.<sup>95</sup>

34. **Key professionals.** A combination of international and domestic technical assistance (TA) consultants is contemplated to support the outputs of this component with 32 person months of international consultants and 52 person months of national consultants. The firm must have experience of working in developing countries in South Asia and prior experience of working in the Maldives.

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<sup>94</sup> This will require adoption of a sustainability plan that, over time, achieves sufficient revenue growth to support institutional program and financial viability, and develops functional working relationships and linkages with other public and private BDS partner providers.

<sup>95</sup> **Cost-Sharing Facility (CSF) to be financed by IDB.** The activity will support for CSF through an investment of \$2.0 million to support about 200 BDS user grants and up to 40 BDSC program grants.<sup>95</sup> The focus of the CSF will be to (i) support research and development, pilot testing and technical training activities associated with MSME business incubator projects; (ii) assist BDSCs to undertake program activities that contribute to BDS market capacity building and development of priority sector value-chains; and (iii) enable MSMEs to access needed BDS to grow their businesses on a 80:20 cost sharing basis. The CSF management will be as per procedures defined in the CSF manual which was developed under the PSDP. PMU/BDSC will act as the CSF management unit before screening and recommendations by the Steering Committee and the Tendering Evaluation Committee. These committees need to complete their recommendations within 7 working days. The Steering Committee comprises representatives from BML, Credit Bureau, MMA, MOFT, MNCCI, and WEA. The recommendations will be submitted to Tendering Evaluation Committee comprising representatives from staff of related ministries.

Consultant	Type	Person Months
SME Development Specialist	National	12
SME Value Chain Specialist	International	8
SME Renewable Energy Specialist	International	4
SME Energy Efficiency Specialist	International	4
SME Capacity Building Specialist	International	8
SME Capacity Building Specialist	National	24

**a. SME Development Specialist (National, 12 person months)**

35. **Qualification.** The SME business technology advisor will have minimum of 5 years practical experience in industry, technology sourcing and/or value chain technology transfer; experience in working in a team approach to achieving program deliverables; a minimum of 3 years experience in the SME sector, preferably part of which involves dealing with BDS providers, SME development, organizational development, technical training and/or business services; technical skills desirable in areas relating to business planning, project design and start-up, product development, testing and quality control; packaging/labelling, import/export, processing systems, operational management

36. **Key tasks and responsibility.** The key tasks and responsibility for the deputy team leader are as follows:

- (i) Conduct market demand gap survey and analysis to determine MSME growth opportunities;
- (ii) Assist and support the team leader in all the activities;
- (iii) Support the international team leader to put in place a system to monitor the outputs and outcomes, to ensure that the performance of the project in terms the of expected outcomes and performance indicators are met;
- (iv) Liaise with the project management consultants for BDS and ensuring effective and timely progress of the consultants;
- (v) Document the periodic progress made under each output, and highlight gaps, if any;
- (vi) Suggest remedial actions for the possible problems faced by the consultants;
- (vii) Present the findings to the PMU, ADB, and the respective implementing agencies and identify reason for slippage, if any, and build consensus on correctional measures;
- (viii) Coordinate with the specialists to ensure timely completion of activities;
- (ix) Conduct market study to identify the opportunities for innovative product development;
- (x) Coordinate with the PMU for procurement; and
- (xi) Any other tasks related to the implementation of this component of MSMEDP as asked by the ADB and the Government of the Maldives.

37. **Deliverables.** The key deliverables will include:

- (i) periodic briefing/presentation to team leader on progress made with regard to the activities based on key performance indicators mentioned in the objective, and
- (ii) final report with overall findings of the study including the summary to be submitted by the end of the study.

**b. SME Value Chain Specialist (International, 8 person months)**

38. **Qualifications.** The SME value chain specialist will have a minimum of 5 years of experience in domestic product marketing, market analysis, market development, value chain product development, and process technology. Also, the person would have experience in information technology market information systems. The person should have good contacts with chambers of commerce and/or industry, trade associations, and in manufacturing, agribusiness, fisheries, retail, tourism, or other service sectors. Must have worked in value chain analysis in neighboring countries of the Maldives and possess thorough of products specific to the region.

39. **Key tasks and responsibilities.** The key tasks and responsibilities of the value chain specialist will include:

- (i) Selection of priority sector value chains and 30 MSME partnership businesses under Business Incubator Program;
- (ii) Provide market research and development support related to establishing forward and backward linkages for identified value chain business opportunities;
- (iii) Develop 30 new BDS products and services offered by BDSCs associated with identified priority sector value chains, including those linked to processed foods, fresh fruits and vegetables, fisheries and arts and crafts;
- (iv) Provide ongoing technical assistance to 30 MSME partnership businesses under Business Incubator Program for the selected priority sector value chains;
- (v) Facilitate local economic development and value chain development in their respective coverage areas;
- (vi) Develop guidelines for quality control to improve quality standards through demonstrations and training in a wide range of product quality assurance programs;
- (vii) Link start-ups and other types of MSMEs to financing opportunities;
- (viii) Support BDSCs to develop new value chain business opportunities for MSMEs;
- (ix) Provide technical guidance in specific areas of identified value chain product lines;
- (x) Assist BDSC SME capacity building capacity, in designing training modules for business incubator staff on the processes and techniques involved in product development, including product testing, packaging and branding, within a particular value chain;
- (xi) Work with SME capacity building specialist in designing training services on new product development, quality standards, costing and pricing, marketing and sales and accounting; and
- (xii) Identify services for facilitating market access, access to finance and formation of cooperatives and other cluster models linked to value chains.

#### **c. SME Renewable Energy Specialist (International, 4 person months)**

1. 38. **Qualifications.** The SME renewable energy specialist will have a minimum of 10 years of experience in providing advisory services in small scale renewable energy applications and design of training programs for the same. The consultant should also have project experiences in the developing countries, preferably in similar small island countries or the south Asia region. The person should have experience of renewable energy usage in small scale manufacturing, agribusiness, fisheries, retail, tourism, or other service sectors.

39. **Key tasks and responsibilities.** The key tasks and responsibilities of the value chain specialist will include:

- (i) Assist the Team Leader to consult with MED and other relevant stakeholders including FAO, UNDP, chambers of commerce and industry, private sector to review the energy value chain of various MSME in identified priority focus sectors namely agribusiness, fisheries, tourism, retail etc. and identify suitable opportunities to introduce small scale renewable energy applications;
- (ii) Support in establishing the design configuration, capital cost, implementation requirements and business viability of possible small scale renewable energy interventions in these priority areas;
- (iii) Prepare material for training and information dissemination on renewable energy under Component 1 and support in the rolling out of such a training program for at least 300 people;
- (iv) Undertake field surveys and visits to deliver the above tasks; and
- (v) Other tasks requested by the Team Leader as well as the Government to implement the project; and

**d. SME Energy Efficiency Specialist (International, 4 person months)**

2. 38. **Qualifications.** The SME energy efficiency specialist will have a minimum of 10 years of experience in providing advisory services in small scale energy efficiency applications and design of training programs for the same. The consultant should also have project experiences in the developing countries, preferably in similar small island countries or the south Asia region. The person should have experience of energy efficiency in small scale manufacturing, agribusiness, fisheries, retail, tourism, or other service sectors.

39. **Key tasks and responsibilities.** The key tasks and responsibilities of the value chain specialist will include:

- (i) Assist the Team Leader to consult with MED and other relevant stakeholders including FAO, UNDP, chambers of commerce and industry, private sector to review the energy value chain of various MSME in identified priority focus sectors namely agribusiness, fisheries, tourism, retail etc. and identify suitable opportunities to introduce small scale energy efficiency interventions;
- (ii) Support in establishing the design configuration, capital cost, implementation requirements and business viability of possible small scale energy efficiency interventions in these priority areas;
- (iii) Prepare material for training and information dissemination on energy efficiency under Component 1 and support in the rolling out of such a training program for at least 300 people;
- (iv) Undertake field surveys and visits to deliver the above tasks; and
- (v) Other tasks requested by the Team Leader as well as the Government to implement the project; and

**e. SME Capacity Building Specialist (International, 8 person months)**

40. **Qualifications.** The SME capacity building specialist will have a minimum of 5 years of experience in SME training, business-related human resource development, entrepreneurship development, community development, and/or organizational development. The person should also have experience in conducting international SME business training programs (e.g. CEFE training, SIYB training, etc.), enterprise and institutional development.

41. **Key tasks and responsibilities.** The key tasks and responsibilities of SME capacity building specialist will include:

- (i) Design and facilitate the technical capacity building training of 2,500 MSMEs on new product development, quality standards, costing and pricing, marketing and sales, accounting, and entrepreneurship;
- (ii) Design on-the-job and formal business training course modules and customized training modules for MSMEs to develop skills in applied principles of business management;
- (iii) Basic and advanced business training programs for about 3,000 owners and employees of MSMEs;
- (iv) Conduct BDS staff training to improve skill capacity of BDSC personnel;
- (v) Support BDS market growth and enhance linkages with other BDS providers, and increase BDSC operational performance and business profitability;
- (vi) Provide ongoing training, and business mentoring to 30 MSME partnership businesses under Business Incubator Program;
- (vii) Support enhancement of entrepreneurial capacity and build marketable skills for women and youth through community mobilization and networking interventions;
- (viii) Undertake market study to identify new value added services that could be offered by BDSCs; and
- (ix) Design capacity development training for business associations and NGOs on women and youth engaged in MSME development, and for MED and BDSCs on gender sensitization training.

42. **Deliverables.** The key deliverables will include:

- (i) periodic briefing/presentation to team leader on progress made with regard to the activities, and
- (ii) final report with overall findings of the study including the summary to be submitted by the end of the study.

**f. SME Capacity Building Specialist (National, 24 person months)**

43. **Qualifications.** National SME capacity building specialist will have a minimum of 5 years of experience in SME training, business-related human resource development, entrepreneurship development, community development, and/or organizational development. Also, the person should have experience in conducting SME business training programs, enterprise and institutional development.

44. **Key tasks and responsibilities.** The key responsibilities will include:

- (i) Based on the understanding of local context, identify the technical capacity building areas for MSMEs and assist the international SME capacity building specialist in implementing the training programmes;
- (ii) Generate awareness about the business training courses among MSMEs and ensure implementation of training programs in coordination with international SME capacity building specialist;
- (iii) Provide support BDS staff training to improve skill capacity of BDSC personnel. Support BDS market growth and enhance linkages with other BDS providers, and increase BDSC operational performance and business profitability;
- (iv) Support enhancement of entrepreneurial capacity and build marketable skills for women and youth through community mobilization and networking interventions;
- (v) Undertake market study to identify new value added services that could be offered by BDSCs; and
- (vi) Design of promotional material for BDS

45. **Deliverables.** The key deliverables will include:

- (i) periodic briefing/presentation to team leader on progress made with regard to the activities, and
- (ii) final report with overall findings of the study including the summary to be submitted by the end of the study

## II. Component 2. Access to Finance Improved

46. **Background.** The access to finance for MSME continues to remain a major challenge in the Maldives. A specific component of the MEMEDP is designed for enhancing access to finance for MSMEs in the Maldives. This component in turn comprises the following four outputs: (i) LCF in line with the existing pilot model, (ii) strengthening and expanding the scope of the existing CIB, (iii) STR<sup>96</sup>, and (iv) credit guarantee scheme (CGS).

47. **Key Professionals.** This project will require the services of a consulting firm that can provide all the necessary TA on a turnkey basis and will field four international specialists with different skills sets for a total of 25 person months. The outputs related to the project will be focused on enhancing the access to finance. The firm must have significant experience in developing countries and South Asia including prior experience of working in the Maldives.

Key Professionals	Type of Consultant	Person Months
Team Leader and MIS Specialist	International	10
Credit Information Bureau Specialist	International	8
Secured Transaction Registry Specialist	International	8

48. **Staffing and institutional arrangements.** The Ministry of Economic Development of the Government of the Maldives will be the implementing and coordinating agency for the component. The consultants will work in coordination with the project director of the MSMEDP and liaise closely with the Bank of Maldives (BML) for necessary inputs. Periodic monitoring of the progress of the project will be done by the PMU of the MED. The team would comprise:

<sup>96</sup> The STR was envisaged as the CAR under the PSDP but has been proposed as an STR under MSMEDP in line with global best practices.

a. **Team Leader and MIS Specialist (International, 10 person-months, intermittent).**

49. **Qualifications.** The international team leader must have a post graduate qualification in information technology (IT)/business/Finance or a related field with over 10 years of experience in the field of design, development, and implementation of credit information and rating institutions. In addition he should have experience in the field of implementation of systems for credit information and related solutions such as credit scoring. Should have worked in projects in leadership positions and managed teams comprising multi-disciplinary specialists.

50. **Tasks and responsibilities.** The tasks will include:

- (i) Design request for payment (RFP) for procurement of the system and coordinate with PMU in selecting a suitable vendor as per the RFP guidelines taking inputs on functional and technical specifications relating to the systems requirements, and investment plan for hardware and software requirements and of STR from STR specialist;
- (ii) Supervise and monitor the overall progress of the project and ensure coordination among the other team members, to ensure delivery of project objectives;
- (iii) Coordinate with the PMU, MMA, and other stakeholders (e.g. banks and other financial institutions) regarding obtaining necessary inputs for the tasks required;
- (iv) Assist in developing User Acceptance Criteria for the CIB system and assist in carrying out the tests once the system is reconfigured to accommodate information from new members and telephone and utility companies;
- (v) Provide necessary guidance and support for capacity building within the MMA and awareness creation among stakeholders on the functions and benefits of the MCIB and STR;
- (vi) Identify and document the necessary changes in CIB system to accommodate the information from new members and telecom and utilities companies;
- (vii) In coordination with the MMA, provide the necessary advisory to the telecom and utilities companies for revising the format of the collection of the data for these entities;
- (viii) Facilitate the capacity building support for the internal IT team of the MMA for regular operations relating to the system;
- (ix) Based on consultation with ADB, MMA, and other relevant stakeholders, reconfigure the existing system to ensure that data from the new member entities, particularly data from the utilities and telephone companies, can be incorporated in the database and credit history from these entities are included in the credit reports produced by the MCIB;
- (x) Assist MMA to reconfigure the existing system parameters to include the data from new member organizations, including the telecom and utilities companies; and formulate revised operational guidelines for the enhanced credit information system;
- (xi) Hold workshops and other dissemination events to educate stakeholders and raise public awareness about the functioning of the MCIB and highlight the importance of responsible credit management;
- (xii) In consultation with the MMA and other stakeholders, design and develop credit scoring products that meet the requirements of the financial services sector with specific focus on MSME lending, and ensure that the existing system is suitably customized to produce such scorecards; and



- (xiii) Prepare a desktop manual for knowledge transfer relating to standard operating procedures and troubleshooting guidelines for the day-to-day operation of the MCIB.

## 51. **Delivery milestones**

- (i) Inception report detailing the roadmap for the tasks to be completed and the time schedule for the implementation, with detailed methodology;
- (ii) Interim progress detailing the progress with regard to each of the outputs; and
- (iii) Final report detailing the result of activities undertaken for each of the outputs and the review of its operations during the first 3 years of operation

### b. **Credit Information Operations Specialist (International, 8 persons months)**

52. **Background.** A key component for access to finance under the PSDP was the creation of a credit information bureau in order to provide the credit history of borrowers in the Maldives to prospective lenders in order to make informed credit decisions. The Maldives Credit Information Bureau (CIB) was launched February 2011 and has made substantial progress in building the database of around 22,000 customers. 8 financial institutions operating in the Maldives have registered as CIB members. More than 98% of all credit queries are routinely serviced.

53. A full fledged credit information bureau is expected to (i) increase of MMA's revenues, (ii) facilitate access to finance for SMEs, and (iii) reduce credit risk as a result of improvement in information quality. A well-established credit bureau would help financiers assess credit worthiness and the ability to pay back loans which will affect the interest rate and other terms of a loan. Alongside, a well-founded credit bureau would enable small and medium sized businesses to have greater access to credit as well as a lower cost of credit; the banks would experience fewer non-performing loans; and the financial system would have greater stability. Further, (i) to increase the acceptability and usage of the MCIB among the various user groups of credit information, including those in the financial services sector; (ii) to step up the sustainability of the MCIB by developing new products which would contribute to revenue; and (iii) to instill credit discipline among prospective borrowers, particularly those in the MSME sector, in order to facilitate access to credit.

55. **Qualifications.** The credit information operations specialist must have a post graduate qualification in IT/business/finance or a related field with at least 10 years of experience in the field of operations and management of credit information and rating institutions at a senior level in developing economies of Asia or South Asia. The specialist should have specific experience in developing products such as credit scoring, particularly for MSMEs. Experience related to credit information, rating, and scoring models for MSME is necessary.

## 56. **Key tasks and responsibilities:**

- (i) Based on the identification of the specific areas of capacity building required for the CIB at the MMA, develop and implement a comprehensive capacity development and training program for the MMA and other relevant institutions to ensure that the MMA can manage the operations of the CIB independently in a sustainable manner;
- (ii) Provide guidance to the MCIB team in bureau for the operations of the MCIB, with specific focus on solving problems related to errors in reporting;

- (iii) In consultation with the MMA and other stakeholders, provide necessary models and designs for new products related to credit information based on international best practices;
- (iv) Design and develop specific products related to credit information based on the feedback from the MMA and various stakeholders;
- (v) In consultation with the information technology specialist, test the new products to ensure that these are supported by the existing system at the CIB;
- (vi) Assist the CIB in creating awareness about these products and marketing them among the financial institutions;
- (vii) Support internal capacity within the MMA for ensuring the continuity of the new products being available after the project duration;
- (viii) With facilitation from the MMA, liaise extensively with the telecom, and utility companies and other entities as applicable to ensure that they carry out necessary modifications in their information management process for providing the data related to credit history available with these entities;
- (ix) Lay down the parameters to be used in including the data from new member organizations, including the telecom and utilities companies; and formulate revised operational guidelines for the enhanced credit information system;
- (x) Assist the MMA in guiding the member institutes in providing necessary inputs for the functioning of the CIB;
- (xi) Support the MMA in its role of creating awareness about the MCIB among the members and public in general; and
- (xii) Hold consultations with ADB, MMA, and other relevant stakeholders, for reconfiguring the existing system to ensure that data from the new member entities

**57. Delivery milestones:**

- (i) Inception report detailing the roadmap for the tasks to be completed in consultation with the team leader and the time schedule for the implementation, with detailed methodology for each component;
- (ii) Monthly progress reporting to the team leader relating to all tasks i.e. system changes to include new members and data; development of new products, operational support for the CIB, and capacity development of the CIB;
- (iii) Development and launching of new products for the CIB;
- (iv) Operationalization of a reconfigured user accepted system supporting (a) data from new members and telecom and utilities companies, and other entities as decided during the project period, and (b) new products launched by the CIB;
- (v) Detailed report and desktop manual for day-to-day operations of the CIB system; and
- (vi) Detailed report and desktop manual for standard operating procedures for the CIB

**c. Secured Transaction Registry Specialist (International, 8 person months)**

**58. Background.** MSMEs in the Maldives, as elsewhere globally, have difficulties in accessing finance from the formal sector in the absence of adequate collateral to backup the loan. An STR provides a credible mechanism for securing the interests of lenders on borrowers' assets provided as security for a loan and helps MSMEs with sound business financials to secure credit against its movable assets and thus facilitates access to finance for such enterprises even when they do not have adequate collateral. A secured transactions registry is thus a critical enabler for access to finance for MSMEs.

59. On the demand side, the STR would enhance access to finance by (i) reducing turnaround time for loan processing by expediting the access to information, (ii) reduced cost of transaction and better pricing for borrowers increasing their market competitiveness, (iii) enabling more informed credit lending decisions, (iv) improved credit discipline, (v) expansion of the scope of acceptable collateral and reduced dependence on real estate collateral, and (vi) better governance systems. On the supply side, financial institutions would benefit from these systems as it allows for (i) diversified credit portfolios enabled by accepting movable assets, and (ii) better reporting mechanisms on collateralized lending practices to the supervisory or regulatory authority, usually central banks. The establishment of the STR will take place in two phases. In the first phase, a secured transactions system specialist will carry out a feasibility study to decide the framework for the establishment of an STR in the Maldives based on international best practices and prepare a Request for Proposal (RFP) based on the functional and technical specifications for such an STR. In the second phase, a vendor selected on the basis of the RFP will establish the STR in the Maldives.

60. The project objectives include (i) establishment of a secured transactions registry in the Maldives to support acceptance of movable assets as collaterals, particularly for MSMEs; (ii) ensure that secured transaction registry is based on international best practices is available for securing and verification of charges on movable assets; (iii) establishment of an appropriate legal and regulatory framework for creating and enabling environment for the STR.<sup>97</sup>

61. **Qualifications.** The secured transactions specialist must have a post-graduate qualification in business/finance/IT or related field. S/he must have at least 10 years of international experience in the economic and legal analyses of secured transactions systems. S/he must have developing country experience with problems in the framework for secured transactions and how they relate to accessing credit, particularly for MSMEs. In-depth knowledge, based on first-hand experience of the best practices related to establishment of a secured transactions system, is essential.

62. **Key tasks and responsibilities.** The secured transactions system specialist will carry out the following activities:

- (i) A detailed feasibility study for the implementation of a secured transactions registry in the Maldives and the necessary enablers for supporting the operationalization of such a registry. The feasibility study will identify the options available for the implementation a secured transactions registry in the Maldives, the baseline design for each option, and recommendations for the best option in the context of the Maldives, based in international best practices;
- (ii) Review existing public registries including land registries, registries under the Companies Act, MSME registries under the MEDT and identify areas in which they can be used or integrated in a framework for secured transactions;
- (iii) Consult with stakeholders in identifying a roadmap for establishing an effective secured transactions regime and identify policy issues in creating, prioritizing, publicizing, and enforcing secured interests, and make related recommendations relating to (a) ownership and structure, (b) staffing plan, (c) options for integration with the existing credit information bureau for the implementation phase, and (d) revenue model for the registry;

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<sup>97</sup> The establishment of the enabling legal and regulatory framework for the STR will be addressed in the consultancies for strengthening the legal and regulatory framework component of the project.

- (iv) Assess all points of linkage between the law and technical options for the central registry, including which legal drafting options present technical problems and which technical options require changes in the law;
- (v) Develop a time-bound action plan for the establishment of a central registry for secured transactions, according to international best practices and define the functional and technical specifications relating to the systems requirements and investment plan detailing hardware and software requirements and corresponding cost and budget;
- (vi) Prepare a RFP for setting up the registry;
- (vii) Design training modules for capacity building of STR staff for managing the STR;
- (viii) Support the MMA and the Government of the Maldives in carrying out campaign to sensitize all stakeholder about the functionalities and use of the STR; and
- (ix) Any other tasks requested by the government for the implementation of the MSMEDP

### 63. **Delivery milestones:**

- (i) Inception report detailing the roadmap for the tasks to be completed and the time schedule for the implementation, with detailed methodology;
- (ii) Interim progress report covering an as-is study;
- (iii) Final report detailing the to-be recommendations relating to the setting up of the STR on the Maldives based on the as-is findings and international best practices; and
- (iv) RFP detailing all functional and technical specifications for setting up of an STR in the Maldives

## III. **Component 3. Technologies for MSME Development Established**

70. **Background.** One of the biggest issues impeding the promotion and development of MSMEs is rooted in geographical spread of the 200 inhabited islands comprising the Maldives. Due to this dispersed geography coupled with the poor banking and BDS network, MSMEs outside Male face considerable logistical difficulties, and significant time and transport costs, in accessing government, educational, technical support, and banking services. These difficulties are compounded by the fact that there is limited access to the internet in island communities. ADB 2008 figures on internet availability and usage are that, for every 100 persons, only 3.6 subscribed to internet services and 16.3 had a computer. 2010 figures show that only 22.2% of the population as at 30 June 2010 use internet services.

71. To a limited extent, the above mentioned difficulties may be ameliorated by the government's decentralization program (which provides for some government services to be provided through province and atoll offices), the availability of the BML's mobile banking services and the BML/MPS community banking service proposed to be established in a limited number of island communities. The proposed interoperable mobile phone banking service, once established by all banks, will also assist in the availability of financial services. Nevertheless there remain significant gaps in citizens being able to access relevant services and information and being able to communicate with each other. Easy and inexpensive availability of computers with internet connectivity provide a good delivery channel for making e-government and e-banking services available to citizens on remote islands. Also, the strategic use of public-private partnerships (PPP) in the operations and maintenance of technical services, has traditionally not been a strong point with most governments. Information and communication technology (ICT) projects provide

a good opportunity for the government to use the PPP mechanism to fund and implement complex technology driven projects. MSME in particular stand to gain a lot from such initiatives.

72. This output will improve access to information and knowledge sharing for the MSME sector through a MSME portal. It is designed to facilitate and enable (i) use of ICT technologies to promote information and knowledge sharing between MSMEs and with the government; (ii) implementation of a pilot ICT project in order to (a) demonstrate the use of ICT and viability of solar energy as a cost effective energy option; (b) creation of a platform for delivery of e-governance services such as e-commerce, e-banking, online submission of government taxes through citizen service centers; and (c) create revenue stream for BDSCs through a PPP model; and (iii) provide support to the MSMEs from the ICT and IT-enabled services industry, with a view to grow their economic contribution to the gross domestic product. Each of the outputs of the components would serve to provide different services. In order to ensure the feasibility of the proposed CSC, an initial study will be carried out at the proposed location and methodology.

73. **Output 1: The MSME portal** would serve as a single point of data and information on all aspects of MSME development and focus on the need to address the access to information challenge faced by MSMEs, especially those outside Male. Its key functions include:

- (i) a virtual market place showcasing products and services provided by MSMEs and including relevant contact details;
- (ii) repository of data providing information with respect to MSMEs including their (a) business demographics, performance and type of activity, details of government benefits to which MSMEs are entitled and the process to be followed to obtain such benefits; (b) details of government contracts available for tender, requirements for licenses and permits affecting MSMEs and copies of relevant application forms and information on applicable fees and how to apply; (c) information on economic indicators and forecasts, including by reference to different sectors; and (d) details of MSME success stories, including relevant arrangements with tourist resorts, in a way which encourages innovation and sustainable business development;
- (iii) access to an MSME feedback system, through which MSMEs will be able to lodge complaints and grievances on any challenge faced by them and seek information on any aspect related to MSME development;
- (iv) Trade registration and MSME development related software development

74. **Output 2: The judgment debt database** will improve access to finance by (i) enabling prospective lenders to ascertain whether prospective borrowers have outstanding judgment debts, (ii) providing proof of a judgment debt which can be used in subsequent enforcement proceedings, (iii) providing the start date which can be used as a basis for court awarded interest on the debt providing proof of a creditor's claim in insolvency proceedings— this will be especially useful once new personal and corporate insolvency laws are enacted.

75. **Output 3: The citizen service centers** will facilitate and enable (i) use of internet to promote information and knowledge sharing between MSMEs, their business partners and customers and with the government; (ii) allow MSMEs to carry out internet transactions (as they progressively become available) such as e-banking, e-commerce, online submission of LCF loan; (iii) provision of a regular revenue stream for BDSCs, through a PPP fee-sharing arrangement with the Citizen Service Centers (CSC) operator, who would be an MSME itself; and (iv) complement the BDSCs and other technical service providers in the delivery of training and other technical services to the MSMEs. The CSC will be used as (i) an internet café by the MSME to access the MSME portal and emailing; (ii) a business center for carrying out routine IT functions

such as word processing, spreadsheet use, and computerized accounting; (iii) a training center where MSME training programs of all types, with or without the use of computers, can be conducted; and (iv) a meeting center for the BDSCs to have one-to-one or group consultations with MSMEs and other technical service providers.

76. **Key professionals.** This project will require the services of a consulting firm that will field four international consultants, and one national consultant.

Key Professionals		Type of Consultant	Person Months
MIS Specialist and Team Leader		International	5
e-Governance Specialist		International	2
Business Development and PPP Specialist		International	2
Solar Technology Specialist		International	1
MIS Specialist	National		9

**a. MIS Specialist and Team Leader (International, 5 person months)**

77. **Qualifications.** The international IT specialist will be a person having at least 7 years of experience in the field of IT including IT software, hardware, and quality systems. A master's degree in computer science or a related discipline is required and an academic qualification in business is highly preferable. Experience on advising/working for governments and private sector in the field of (i) technology development, (ii) hardware/software/enterprise resource planning (ERP) recommendations; and/or (iii) public private partnership is highly desirable. Specific experience of a consulting assignment that includes turnkey IT hardware, software, and training services is highly preferable. Knowledge of legal issues is preferable. S/he will be a person having significant experience in multiple developing countries with experience in South Asia. Recent experience of working in the Maldives will be preferred. Experience on advising/working for national and local governments in the field of (i) website/software development, (ii) e-governance and commerce, and (iii) MSME development is required. Expertise in working across all levels of government, national and local is necessary. S/he should have specific experience of managing as a team leader on a variety of projects.

78. **Key tasks.** The key tasks will include:

- (i) Manage the overall implementation of the consulting assignment in close coordination with the national MIS specialist.
- (ii) Prepare procurement plan for the assignment set up and prepare detailed bill of material for the infrastructure requirements.
- (iii) Design the Request for Bids (RFB) for the vendor to serve as the CSC operators and subsequently assist the PMU in selecting the vendor in line with the RFB guidelines.
- (iv) Facilitate the process of procurement of turnkey equipment and computes
- (v) Coordinate with PMU to procure a vendor for the design, bid process management, project management and quality assurance of the CSCs.
- (vi) Establish judgment debt database;
- (vii) Design RFB for procurement of computer equipment for running the judgement database and coordinate with the PMU to select suitable vendor;
- (viii) Draft the equipment contract for procurement of computer equipment for running the Judgement database and coordinate with PMU in purchasing the equipments

- (ix) Draft the equipment contract for desktop, printer, and internet connectivity for each of the seven BDSCs; web server and domain registration for website;
- (x) Review the PPP agreement prepared by the PPP specialist;
- (xi) Ensure timely inputs from all the members in the team and be responsible for delivering quality outputs and documents;
- (xii) Review all deliverables from other team members and submit them to ADB/government after quality assurance;
- (xiii) Understand the assignment and prepare detailed notes and reports on the database systems and the variables that can and should be tracked;
- (xiv) Prepare the structure and architecture of the solution/website;
- (xv) Prepare the content to be uploaded on the BDSC website;
- (xvi) Design the MSME portal and judgment debt database;
- (xvii) Review the system prepared and performs User acceptance testing and training; and
- (xviii) Ensure services to be set up under this assignment are up and running in a timely manner and supervise the national IT specialist

**b. E-Governance Specialist (International, 2 person months)**

79. **Qualifications.** The international e-governance specialist must have a post graduate qualification in IT/business/accounting or a related field with at least 10 years of relevant experience. S/he will be a person having experience of working in multiple developing countries in South Asia. Preference will be given to candidates having prior experience of working in the Maldives. S/he should additionally have experience on advising/working for national and local governments in the field of (i) technology procurement, (ii) institutional development, and/or (iii) PPP. S/he should have expertise in working across all levels of government.

80. **Key tasks:** The key tasks will include:

- (i) Review the quality of the content designed for the MSME portal;
- (ii) Assist the team leader in drafting of equipment contract for CSC and judgment debt database;
- (iii) Be responsible for overall quality assurance of the data uploaded on the website; and
- (iv) Conduct a study to identify the emerging areas of intervention for government under e-governance in the Maldives and develop a roadmap detailing the steps that need to be followed to bring them into practice.

**c. Business Management and PPP Specialist (International, 2 months intermittent)**

81. **Qualifications.** The international business and PPP specialist will be a person having significant experience in the field of business management and PPP. A master's degree in business management is required. Experience on advising/working for governments in the field of (i) business management, (ii) consulting services, (iii) PPP, and (iv) conducting relevant training programs is desirable. Specific experience of consulting assignments with focus on PPP components and research on PPP is required. Experience in conducting national and international PPP and/or training workshops would be preferred.

82. **Key tasks.** The key tasks of the specialist will include:

- (i) Preparation of a business case for the CSC;
- (ii) Conducting stakeholder consultations to solicit ideas for finalization of services to be offered through the CSCs;
- (iii) Preparing the bidding documents for procurement turnkey providers to act as CSC operators, for each of seven CSCs/BDSCs whose scope of work will include establishment, running and maintenance of the CSCs for a period of 3 years;
- (iv) Drafting the PPP agreement between the CSC operator and MED;
- (v) Planning that the CSCs become self sustaining in due course of time;
- (vi) Providing relevant training as may be necessary;
- (vii) Preparing the PPP framework and partnership agreement for the CSC operators; and
- (viii) Support in making seven CSCs operational

**d. Solar Technology Specialist (International, 1 months intermittent)**

81. **Qualifications.** The solar technology specialist will be a person with significant experience of at least 10 years in providing advisory services in design, project management and bid process management in the field of off-grid electrification using solar or other renewable energy. The consultant should also have project experiences in similar island countries or in the south Asia region and should possess a degree in electrical engineering.

82. **Key tasks.** The key tasks of the specialist will include:

- (i) Assist the PPP Specialist and the Team Leader to consult with MED and other relevant stakeholders to develop a feasibility study that includes estimates of current and expected load requirement at the site, system concept and output specifications including electricity storage (if required), preferred configuration and contract packages, cost analysis and business case for setting up 7 solar powered citizen service centers;
- (ii) Assist in detailing the PPP modality (including fee sharing mechanism and bidding procedures) based on an assessment of local entrepreneurial resources and interest in developing and maintaining these facilities over a period of 3 years;
- (iii) Support in conducting field surveys, bid process management including preparation of special sections of the bid documents, PPP agreement, evaluation of the bids received and relevant training as necessary; and
- (iv) Other tasks requested by the Team Leader and PPP Specialist as well as the Government to implement the project

**e. MIS Specialist (National, 9 person months)**

83. **Qualifications.** The national MIS specialist will be a person having exposure to technology and systems. A degree in computer science or a related discipline and a minimum work experience of 5 years in a related discipline is required. Experience on working in the Maldives in the field of technology, software, hardware, and related areas will be highly desirable.

84. **Key tasks.** The key tasks of the national MIS specialist will include:

- (i) Assisting the team leader in meeting the objectives of the assignment;
- (ii) Research and preparation of documents, guidelines, etc;
- (iii) Assisting the international MIS specialist and team leader in establishing MSME portal;
- (iv) Liaising with government and other local bodies and personnel;



- (v) Visiting remote offices to ensure proper implementation and provide relevant training as may be necessary;
- (vi) Preparing training modules and facilitate the implementation of training programmes;
- (vii) Visiting the field offices of the CSCs and maintain communication;
- (viii) Ensuring any capacity or other gaps are identified and addressed;
- (ix) Coordinate closely with the government and ADB and act as a day to day coordination officer for the project;
- (x) Any other function that may be required for the smooth conduct of the assignment;
- (xi) Support in review and examination of the database and web design;
- (xii) Assist the team leader in preparation of procurement plan for the CSC set up and prepare detailed bill of material for the infrastructure requirements;
- (xiii) Assist the international MIS specialist in preparing the website design;
- (xiv) Document the structure of the website; and
- (xv) Support in reviewing the content to be uploaded on the BDSC website

**85. Key deliverables and milestones:**

- (i) inception report;
- (ii) concept Note on design and implementation strategy;
- (iii) RFP and terms of reference for the bidding process;
- (iv) contract and PPP agreement with the CSC operators;
- (v) final report;
- (vi) a quarterly progress report (every 3 calendar months);
- (vii) inception report and registration of domain name;
- (viii) interim report with draft details of portal along with presentation;
- (ix) draft final report incorporating changes suggested by the client;
- (x) operationalization of basic components of the website;
- (xi) operationalization of the fully functional website;
- (xii) submission of unit testing report of website;
- (xiii) submission of source code of website;
- (xiv) final report with uploaded information; and
- (xv) maintenance— every quarter

**86. Staffing and institutional arrangements.** MED will be the implementing and coordinating agency for this component. Support will be provided by the National Centre for Information Technology, where relevant. The government shall provide the suitable office space, preferably co-located, or located in close proximity to the BDSC offices, for housing the CSCs. The CSC operator shall be responsible for providing the full package of IT hardware, software, internet connectivity, and furniture and fittings, as specified in the bidding document prepared by the consultants. The selected CSC operators shall be required to bring in their own staff to run the center and provide the range of pre-specified and additional services to MSME and other clients. The CSC operator's team shall be headed by a technically competent manager/MSME owner who would report to the BDSC and PMU and project management consultants at the MED. The vendor shall work under the technical guidance and supervision of the e-governance consultants of the project management consultants who will work as part of the PMU at MED and to MED for as financial and administrative matters are concerned. MED will be the implementing and coordinating agency for this component. The vendor shall work under the technical guidance and supervision of the project management consultants who will work as part of the PMU at MED. Support will be provided by the National Centre for Information Technology, where relevant.