



Report and Recommendation of the President to the Board of Directors

Project Number: 41914
March 2008

Proposed Loan and Equity Investment Republic of the Maldives: Housing Development Finance Corporation

In accordance with ADB's public communications policy (PCP, 2005), this abbreviated version of the Report and Recommendation of the President excludes confidential information and ADB's assessment of the project or transaction risk, as well as other information referred to in paragraph 126 of the PCP.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 February 2008)

Currency Unit	–	rufiyaa (Rf)
Rf1.00	=	\$0.78125
\$1.00	=	Rf12.80000

ABBREVIATIONS

ADB	–	Asian Development Bank
BOM	–	Bank of Maldives
CPS	–	country partnership strategy
EMI	–	equated monthly installment
GDP	–	gross domestic product
HDFC	–	Housing Development Finance Corporation
HDFC India	–	Housing Development Finance Corporation of India
IFC	–	International Finance Corporation
IFRS	–	International Financial Reporting Standards
IPO	–	initial public offering
IRR	–	internal rate of return
LTV	–	loan-to-value
MAA	–	Maldives Monetary Authority
NPL	–	nonperforming loan
ROA	–	return on assets
ROE	–	return on equity
SBI	–	State Bank of India
SOE	–	state-owned enterprise
TA	–	technical assistance
UN	–	United Nations

NOTES

- (i) In this report, "\$" refers to US dollars.
- (ii) The fiscal year (FY) of Housing Development Finance Corporation ends on 31 December. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2007 ends on 31 December 2007.

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INVESTMENT AND PROJECT SUMMARY

Investment Proposal	A senior secured loan of up to \$7.5 million to, and equity investment of up to \$4.5 million in the Housing Development Finance Corporation (HDFC) of the Maldives.
Classification	Targeting classification: General intervention Sector: Finance Subsector: Housing finance Themes: Sustainable economic growth, private sector development Subthemes: Promoting economic efficiency and enabling markets, private sector investment
Environment and Safeguard Policies	Environment: Category FI Indigenous peoples and resettlement: Category C
Project Sponsor	<p>In 2004, the Government of the Maldives created HDFC to provide long-term mortgage financing. At its inception, HDFC received technical assistance from the World Bank in collaboration with Housing Development Finance Corporation Bank of Sri Lanka (unrelated to HDFC) and National Development Bank of Sri Lanka. Wholly owned by the Government, HDFC is the primary mortgage finance lender in the Maldives.</p> <p>As of 31 December 2007, HDFC had total assets of approximately \$17.4 million, a gross loan portfolio of \$13.7 million, and equity of about \$2.1 million.</p>
Use of Proceeds	HDFC will use (i) the loan proceeds for mortgage lending in the Maldives; and (ii) the equity investment to increase its capital base. The transaction will entail privatizing HDFC, with the Government ultimately holding up to 49% of the HDFC. The International Finance Corporation and the Housing Development Finance Corporation of India (HDFC India), which is unrelated to HDFC, will become shareholders as a result of this transaction.
Rationale and Justification	<p>Meet Urgent Need for Housing in the Maldives. Housing is in chronic shortage in the Maldives due to the scarcity of land and a lack of availability of long-term financing for mortgages. As a result, Malé is now one of the most densely populated cities in the world with an average household size of almost eight people. The influx of residents from outer atolls after the 2004 tsunami increased crowding on Malé.</p> <p>Increase Availability of Mortgage Lending and Strengthen the Financial Sector. The Asian Development Bank (ADB)'s country partnership strategy for the Maldives for 2007–2011 identifies the financial sector as a priority area for reform. The dearth of long-term finance for mortgage lending reflects the underdevelopment of the financial sector and banking.</p> <p>Support Privatization. The Government has a large role in the</p>

country's economy through either partial or full ownership of enterprises. State-owned enterprises contributed more than 35% of gross domestic product in 2005. ADB support for HDFC will advance the country's privatization efforts; lessen future public debt burden; and, importantly, help the Government to evolve from a provider of services to a facilitator of private enterprise.

Strengthen Capacity. The Maldives has historically suffered from weak institutions and human resource deficiencies with respect to skilled and managerial staff. The proposed project will directly address these issues through the provision of a technical assistance program (TA). HDFC India, the leading housing finance company in India, with global consulting experience, will implement the TA.

Generate Jobs and Additional Revenue. Mortgage lending is a highly developmental activity. A healthy mortgage market enables a country to generate multiple sources of employment, including employment related to construction and home improvement industries. Importantly, mortgage lending serves as a vehicle to create one of the most important sources of capital for an individual or family. Capital for establishing small and medium-sized enterprises can be accessed through a mortgaged property.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation for a loan of up to \$7,500,000 to, and an equity investment of up to \$4,500,000 in, the Housing Development Finance Corporation (HDFC) located in the Maldives. HDFC will use the loan proceeds for long-term mortgage lending in the Maldives and the equity investment to strengthen its capital base (the Project). The design and monitoring framework is provided in Appendix 1.

II. RATIONALE: BACKGROUND, CHALLENGES, AND OPPORTUNITIES

A. The Economy

1. Overview and Outlook

2. The Maldives comprises 1,190 islands in 20 atolls spread over 900 kilometers in the Indian Ocean. The country's population of approximately 320,000 people lives on 197 of these islands, 70% of which are inhabited by fewer than 1,000 people. The Maldives is the smallest Asian country in terms of population. As a result of good economic performance over the last 2 decades, the country has some of the strongest social and health indicators in South Asia. Average per capita income is above \$2,600, average life expectancy is 73 years, infant mortality rates are low, and the adult literacy rate is 98%.¹

2. Economic Performance

3. The economy of the Maldives is small, but has performed well. Tourism is the country's largest industry, accounting for about one third of gross domestic product (GDP) and more than 60% of foreign exchange receipts. Tourism focuses exclusively on the development of one-island resorts. The Maldives receives about 600,000 tourists annually.² Fishing is the second largest industry, representing about 6% of GDP. While small in comparison with tourism, it is important with respect to exports and employment. The economy grew impressively over the last decade and a half as a result of the development of the tourism and fisheries sectors, favorable external conditions, large inflows of external aid, and good economic management. Annual GDP growth averaged 7.5% between 1994 and 2004.

4. The 26 December 2004 tsunami, which destroyed 14 islands and severely damaged 39 others, stunted the country's impressive economic growth. Total damage estimates amounted to over 60% of GDP (about \$470 million), with severe damage occurring on the resort islands and to the housing sector. More than 5,800 houses were damaged and more than 3,000 destroyed. The economy slowed dramatically and in 2005 GDP was -4.5%; this was the first time the Maldives recorded negative growth.

5. Economic performance following the tsunami has been mixed. In 2005, public expenditures increased rapidly, primarily as a result of the tsunami. The fiscal deficit widened to 11% of GDP and the balance of payments current account deficit increased from 17% to 36% of GDP. The ratio of external debt to GDP grew to 57% (footnote 1). By 2006 the economy had largely recovered; GDP growth was 19.1%. The few resorts impacted by the tsunami were subsequently reconstructed and tourist arrivals rebounded. Post-tsunami reconstruction and new

¹ Asian Development Bank. 2007. *Country Partnership Strategy (2007–2011): Maldives*. Manila.

² World Bank. 2007. *Maldives: Sustaining Growth and Improving the Investment Climate*. Washington, DC.

resort construction helped improve the economy's recovery. The fisheries industry returned to pre-tsunami levels, as well. For additional details on the country's macroeconomic performance, refer to Appendix 2.

6. **Political Change.** The Maldives is currently undergoing political change. President Maumoon Abdul Gayoom, president since November 1978, serves as head of government and head of state, as well as the commander-in-chief of the armed forces. Following riots in 2004 when the population demanded increased representation, the Government announced political reforms that resulted in the creation of a broader political system with the registration of four political parties. The Government held a referendum in August 2007 for the public to determine the future form of government. The results indicate that the public supports the presidential form of government. Presidential elections are likely to occur in August or September of 2008. Whether President Gayoom will be allowed to stand for another two terms has not yet been determined. The country's constitution is being redrafted and Parliament is expected to finalize a draft of the constitution by the end of the first quarter of 2008. Please refer to Appendix 2 for additional details on the country's political environment.

7. **Challenges.** As a small island country, the Maldives is vulnerable because of its unique geography (i.e., lack of land, small size of most islands, large distance between atolls); demographic character (i.e., small, widely dispersed population group with income disparities); and narrow economy, which places it at risk for external shocks. In addition, the country is exposed to environmental challenges from rising sea levels. The country will need to address certain challenges in the short and medium term if it is to sustain its social and economic achievements.

8. Private sector growth is necessary to broaden and strengthen the economy. While the World Bank ranks the Maldives as having one of the best investment climates in South Asia, private sector growth has been somewhat constrained.³ The Government has a large role in the economy either directly or indirectly. The country has a large number of state-owned enterprises (SOEs) given the small economy; the Government employs more than one third of the workforce.⁴ Thus, the Government needs to evolve from a provider of services to a facilitator of private enterprise by supporting privatization and developing an enabling environment for the private sector. Lack of access to financing on reasonable terms due, in large part, to the small and underdeveloped financial sector also hampers private sector growth. A 2006 World Bank survey identified lack of access to finance as a key issue restricting private sector development (footnote 2).

9. Other challenges include weak institutions and human resource deficiencies. The overall lack of skilled workers impacts public and private sector institutions and companies. Secondary education and vocational and skills training are not widespread. Instead, the private and public sectors rely on expatriate labor. The 2006 population and housing census indicated that expatriate labor makes up 45% of the workforce. With approximately 30% of the population between the ages of 18 and 35, social problems are increasing because the country cannot absorb the relatively unskilled youth. Unemployment among youth is high at 22% for men and 41% for women (footnote 1).

³ The World Bank conducted a study in 2007 to evaluate the investment climates of all South Asian countries. The evaluation examined policy, regulatory, institutional, and governance environments that support entrepreneurship and efficient markets. The report concluded that the Maldives has one of the best investment climates in the region (footnote 2).

⁴ In 2005, the country's 21 SOEs accounted for 36% of GDP.

10. Public sector financial management has weakened since the 2004 tsunami. Higher levels of public spending were expected given the levels of reconstruction following the tsunami. However, public spending continued to grow and the fiscal deficit widened. Increases in public sector wages, debt servicing costs, public employment, and subsidies to SOEs contribute to the increase in public expenditures. The Government must also provide social services to numerous islands that are a long distance from Malé. Funding the deficit is difficult due to the narrow tax base, shallow financial markets, and minimal contribution of SOEs to the budget.

B. The Financial Sector and Banking

11. The financial sector is small and dominated by banking. The five banks have total assets of \$710 million. The Bank of Maldives (BOM), established in 1982, has 20 branches and is the largest bank. It is partially owned by the Government. The four remaining banks are foreign-owned commercial banks: the State Bank of India (SBI), Habib Bank Limited, the Bank of Ceylon, and a branch of the Hong Kong Shanghai Banking Corporation. The BOM and SBI account for more than 80% of domestic credit. Nonbanking financial institutions comprise insurance companies, a finance leasing company, HDFC for mortgage lending, and money services businesses. The country does not have any long-term savings institutions. The Maldives Monetary Authority (MMA) regulates all financial institutions.

12. Lending is typically short to medium term with floating interest rates. Many banks focus on lending for resort development; lending to individuals or small and medium-sized enterprises is less attractive and more difficult. Currently, the country lacks a credit information bureau. Without comprehensive credit information, banks have been more conservative in the amounts that they are willing to lend, as well as with respect to the tenor of loans. Interest rates on loans are likely to be higher given the lack of information. The Government is addressing this issue and the Asian Development Bank (ADB) is providing technical assistance to establish a credit information bureau.

13. Capital markets in the Maldives are in the early stages of development. A stock exchange was established in 2003. There is some secondary market trading of a limited number of shares of the BOM and two other partially state-owned public companies—the Maldives Transport and Contracting Company and the State Trading Organization, which are the only publicly available equity stock at present. The recently passed Securities Act supports the establishment of a formal capital market and the necessary administrative arrangements are currently being finalized. With respect to the primary market for debt securities, neither government securities nor private sector commercial debt instruments are currently available to the general public. The MMA issues certificates of deposit and sells these to commercial banks and SOEs for the purpose of managing liquidity.

C. The Housing and Mortgage Market

1. Housing Supply and Demand

14. **Supply.** Land scarcity and lack of availability of long-term financing for mortgages have resulted in a chronic shortage of housing in the Maldives. Housing conditions in Malé and several islands are inadequate; overcrowding is a serious problem.⁵ Malé is now one of the world's most densely populated cities. According to the 2006 census, more than 100,000 people (35% of the

⁵ Many households are "house poor," i.e., they do not have access to the standard and type of housing that they might otherwise be able to afford.

country's population) now live on Malé, which has an area of 1.9 square kilometers. This translates to an average household size of almost eight people. The number of housing units on Malé increased from about 3,600 in 1990, to 6,600 in 2000, which represented an annual growth rate of 6.6% a year. It is estimated that the island had 7,800 housing units in 2007.⁶ According to the Malé Municipality, Malé can accommodate in total about 10,000 housing units.

15. The severity of housing conditions on Malé increased following the tsunami with the influx of outer atoll residents. The development assistance framework of the United Nations (UN) for 2003–2007 notes that the extreme overcrowding and lack of privacy on Malé, as well as some of the other islands, is believed to be a major source of growing social problems such as juvenile delinquency, drug abuse, and child abuse.⁷ Thus, the UN concludes that housing is a critical issue that the Maldives must address in the short and medium term.

2. Future Supply

16. **Hulhumalé.** The Government is actively pursuing options to increase land and housing supply, and alleviate crowded conditions. Foremost among its efforts is the development of Hulhumalé, a new 188-hectare land mass created from a lagoon approximately 3 kilometers off the coast of the capital island. Reclamation of the island began in 1997 and was completed in 2002. Hulhumalé is envisaged to be a comprehensive development; providing residential, commercial, and industrial facilities for the country. Hulhumalé Development Corporation, incorporated in 2005 and a wholly-owned government company, oversees development and management of the island.

17. Hulhumalé is being developed in two phases. A major road network, 280 apartment units, and primary social and community infrastructure (i.e., a school, hospital, 48 commercial units) were completed in 2004. The island has a BOM branch, a post office, retail outlets, cafes, and a fish market. A port has been constructed, which is managed by the Maldives Ports Authority. Hulhumalé offers a wide range of housing for a variety of socioeconomic classes. Currently, there is a population of over 5,000 living on Hulhumalé. It is estimated that the island should be able to accommodate about 60,000 people by the end of phase I, which is expected to be completed by 2020. Phase II plans are currently being reviewed. More information on the development of Hulhumalé is provided in Appendix 3.

18. **Focal Islands.** To maximize economic efficiencies and broaden the country's economic base, while better protecting its population from natural disasters, the Government introduced a focal island program. The primary objective is to create host islands in the north and south atolls that are in ecologically safe zones and will have basic services and food and water supplies to protect the population in the event of another large-scale emergency. The Government is hopeful that the population will start to consolidate on these islands and be attracted by their wider range of economic activities.

3. Demand

19. Demand for housing in the Maldives is high and will continue to grow. One indicator of current demand is the rental ratio on Malé. Approximately 45% of Malé's population lives in rental housing. In addition, HDFC has a backlog of 300 applications for mortgages that it is unable to

⁶ Maldives Ministry of Housing and Urban Development.

⁷ United Nations Development Programme. 2002. *United Nations Development Assistance Framework for Republic of Maldives, 2003–2007*. Malé.

process due to diminished sources of funding. Over the next 20 years, the country's population is anticipated to increase by more than 36%, with the population of Malé almost doubling. Although household size is anticipated to decline somewhat, this will result in the creation of 20,200 households on Malé by 2020.

20. In 2007, housing stock on Malé totaled 7,800 units for 11,000 families and 14,107 households. Currently 350 houses are being constructed. Malé Municipality estimates that the city can accommodate a total of about 10,000 homes. Assuming an average household size in Malé of eight persons, 13,000 housing units are required for a population of 100,000. With maximum capacity of 10,000 houses, Malé can accommodate only 80,000 people. Hence, incremental housing possible in Malé will be about 2,000. This estimate includes demolition and reconstruction of existing old houses. Hulhumalé can accommodate a maximum of 8,000 houses.

21. Another indication of the demand for mortgage financing is the level of mortgage registration on Malé. Table 1 provides information on the number of mortgages registered in Malé (including residential and commercial) from 2003 to 2006.

Table 1: Mortgage Registration in Malé, 2003–2006

Year	Mortgages Registered
2003	459
2004	754 (due to HDFC lending)
2005	434
2006	521

HDFC = Housing Development Finance Corporation.

Source: Housing Development Finance Corporation.

22. **Construction Industry.** There are a number of small- and medium-sized construction companies in the Maldives.⁸ Some of the firms have been in business since the early 1970s. The average construction period is 8–12 months. Due to the lack of skilled labor, expatriates make up the majority of construction workers. When HDFC expands its lending activities and clears the backlog of housing loan applications, this will likely boost construction in Malé and other islands and will certainly require additional labor.

23. **Mortgage Lending.** HDFC is the primary mortgage lender in the Maldives. By providing fixed-rate loans of up to 20 years, it has an important role in meeting demand for residential mortgages. The BOM and SBI are the primary commercial banks that offer mortgage financing, albeit at much lower levels than their other lending activities.⁹ The tenors of the mortgage loans offered by the commercial banks are also much shorter than those loans provided by HDFC.

4. Legal and Regulatory Framework

24. The legal system of the Maldives is based on Islamic law and English common law, with English common law being more influential on areas of commercial law. The Maldives Land Act (Law No. 1/2002) provides the legal framework for property. Additional regulations pursuant to the act govern the sale and purchase of land, and mortgaging of buildings and apartments. A new land act is being drafted by the Law Commission (a Government-appointed committee).

⁸ Some of the more well-known construction companies include Rainbow Construction, Amin Construction, Aima Construction, Jausa Construction, Alia Construction, Alison Construction, and Coastline Construction.

⁹ For instance, HSBC's primary business is commercial banking, with a focus on tourism. Approximately, 70% of its portfolio is related to tourism, with the balance in sectors such as fisheries. Housing is a new market for HSBC; it has engaged selectively with only a few mortgage loans currently in its portfolio.

25. The Government owns the majority of land on Malé and the atolls; private individuals own about 10%. Residents lease land from the Government on a perpetual basis. Unlike Malé and the atolls, land on Hulhumalé is intended for private purchase from the Government. All land on Malé is registered with the Malé Municipality (a department under the Ministry of Home Affairs, Housing, and Environment) and recorded in the land register. Land in the atolls is registered at atoll offices.

26. Foreclosure is facilitated through a court process. Within 1 year of the expiration of the repayment period under the mortgage agreement, the mortgagee must start legal proceedings against the mortgagor (except where the mortgagee and mortgagor have agreed in writing). Upon finding in favor of the mortgagee, the mortgagor has 90 days to appeal the ruling. Appeals are not common. The mortgagee sells the land, buildings, or flats through public auction. Evictions can occur. On average, the foreclosure process takes a maximum of 6 months. Appendix 4 provides details on the legal and regulatory framework for property.

III. THE PROPOSED PROJECT

27. HDFC was established in 2004 by the Government with technical assistance from the World Bank and in collaboration with the chief executive officer of the Housing Development Finance Corporation of Sri Lanka and the former chief executive officer of National Development Bank of Sri Lanka. HDFC's vision is for all Maldivians to own decent homes. Its mission will be achieved by sourcing and making available long-term finance to the local population, and managing HDFC professionally and profitably to provide a reasonable return on shareholders' funds. To date, HDFC has a loan portfolio of \$13.7 million. The lack of locally available long-term finance is hampering the expansion of HDFC and its ability to meet local demand for housing.

A. Ownership and Management

1. Board of Directors and Management

28. HDFC's Board of Directors is comprised of five members, including HDFC's managing director. Other members are government representatives and include the auditor general,¹⁰ general of the Ministry of Atolls Development, director of the Ministry of Foreign Affairs, and an assistant undersecretary for the Ministry of Finance and Treasury. The Board has oversight and decision-making authority over company functions such as the appointment of senior management and remuneration. A Credit Committee reports directly to the Board. Appendix 5 contains biographical details of the current Board of Directors.

2. Employees

29. A small team, of approximately 10 people with backgrounds in consulting, accounting, banking, and management, manages HDFC's day-to-day operations. The management team comprises Raheema Saleem, managing director; Mohamed Fathy, internal audit and information technology manager; Aishath Rasheed, credit officer; Appa Reddy, accountant; and Adam Athif, administration manager. Appendix 6 provides details of HDFC's management team.

¹⁰ Ibrahim Naeem is currently the executive chairman of the Board of Directors for HDFC. In January 2008, he was appointed as the auditor general for the Maldives. He has been instrumental in the restructuring and privatization of the company, including sourcing international investors, and will continue to act as an advisor and executive chairman of the Board until the international equity investment in the company is completed and a new Board of Directors is nominated.

B. Corporate Governance

1. Risk Management

30. HDFC has developed a risk management system that covers credit appraisal, approval, disbursements and monitoring, and operational risk. Given that HDFC's employee base is very small, HDFC does not have the standard hierarchy of authority that might be expected of a typical financial institution. As the company expands, it will develop a broader organization structure that will further delineate some of these functions. Appendix 7 provides the HDFC's current organization structure.

31. Risk governance is embedded in the Credit and Internal Audit Departments, and the Credit Committee. As HDFC grows, it will introduce a Risk Management Department that will be a separate entity from the Credit Department. Currently, the Credit Committee undertakes the independent review of proposed loans.

32. HDFC's Credit Committee is convened for every loan extended to a borrower. The Credit Committee comprises the managing director, three credit officers (including the officer recommending the loan), the administration manager, and the accountant. It meets as and when required.

33. **Delegation of Authority.** HDFC has developed delegation of authority guidelines. The Credit Committee has decision-making authority for loans up to Rf1 million. Upon approval by the Credit Committee, the managing director sanctions the extension of the loan. For loans exceeding Rf1 million, the Board of Directors approves the loan following the review and recommendation of the Credit Committee.

34. **Internal Supervision and Audit System.** The Internal Audit Department ensures that departments are functioning according to HDFC-established guidelines. It reports internal audit findings to the Board on a monthly basis. The auditor provides an additional check on the credit evaluation process by ensuring that proper documentation is included in the files and that all calculations and pricing are correct. The auditor also ensures that HDFC is compliant in all expenditure functions, and checks all cash collections and receipts.

35. **Mortgage Underwriting.** HDFC, with the assistance of HDFC of Sri Lanka, developed a manual of guidelines and instructions for underwriting and servicing its mortgage loans. HDFC's credit officers are responsible for underwriting and servicing the mortgage loans. All borrowers are personally interviewed by a credit officer who verifies information provided, and requests supporting documentation if needed. All titles for properties in Malé are verified with Malé Municipality, and properties outside of Malé with the atoll offices. In the absence of a credit bureau in the Maldives, banks and financial institutions have developed a model of mutual cooperation, wherein details of the applicant are sent to the other financial institutions for confirmation of outstanding debt and payment history of the applicant. The loan amount recommended is based on the assessment of the borrowers' repayment capacity.

C. Business Overview and Strategy

36. HDFC's strategy for the next 5 years will focus on two core geographic areas for housing development—Malé and Hulhumalé. HDFC will first clear the backlog of existing home loan applications and then process new loan applications as they are received. In the medium term,

HDFC will target the provision of loans to focal islands, as they continue to develop.

37. Demand for HDFC's products has been robust, and the company has demonstrated strong performance. Even without active marketing, HDFC received more than 500 loan applications per year. HDFC has managed this demand well and achieved breakeven in 10 months (as opposed to a target of 12 months). As presented in the supply and demand analysis, the market potential for HDFC to develop housing across the country is considerable.

1. Products

38. HDFC offers a variety of mortgage loan products. The loan products are designed and priced based on two types of market demand: (i) loans for immediate housing needs, and (ii) loans for investment income generation (commercial loans, where the owner does not necessarily occupy the entire premise). Projects designed for rental income generation are not considered home loans, but rather business loans, and the terms and conditions extended differ. HDFC does not provide loans to corporations or for construction of staff quarters, as its primary objective is to meet the demand for individual housing loans. The design of HDFC mortgage products is based on market demand assessed from inquiries and applications for loans.

2. Branch Network

39. Mortgage loan processing and disbursements are done through HDFC's sole office on Malé. Considering its current backlog of mortgage loan applications and demand for mortgage loans, HDFC does not need to advertise in the local media for business development in the immediate future. However, it can look at a judicious mix of media and other communication media for business development. It may also consider opening a branch over the long term on Hulhumalé.

3. Information Technology and Management Information System

40. At present, each HDFC department is equipped with a computer connected to a server using a local area network. HDFC has nine terminals. All loan records are maintained in an Excel file. The management information system is sufficient for managing the current loan portfolio of less than 500 loans, but will have to be upgraded as operations grow. HDFC has purchased an Oracle-based package from Datalink, Sri Lanka, that contains four modules addressing originations, collections, recovery, and an integrated general ledger. HDFC management is exploring options for maintaining backup files off-site.

IV. THE PROPOSED ASSISTANCE

A. ADB's Proposed Investment

1. Loan

41. ADB is proposing a senior secured loan of up to \$7,500,000. The loan will be sourced from ADB's ordinary capital resources. ADB's Pricing and Credit Enhancement Committee will determine the interest rate and the upfront and commitment fees. The loan will be secured through a pledge of the underlying mortgage loan receivables.

2. Equity

42. ADB proposes to make an equity investment of up to \$4,500,000, representing up to 18% of the total share capital of HDFC. The equity investment will support the Government's privatization plans for HDFC and lead to a more efficient mortgage finance company. ADB's initial equity investment will be \$2.25 million. A second infusion of equity will occur if HDFC meets certain performance targets, as determined by its Board of Directors. An initial public offering (IPO) on Maldives Stock Exchange is also envisaged.

3. International Shareholders

a. International Finance Corporation

43. IFC, a member of the World Bank, was established in 1956. It maintains an AAA rating. As of the end of June 2007, IFC had total assets of \$40.6 billion. Shareholder's equity totaled \$14.1 billion. IFC's net income for FY2007 was \$2.6 billion as compared to \$1.2 billion for FY2006. IFC has experience in the housing finance sector with a global portfolio of approximately \$2 billion.

b. Housing Development Finance Corporation of India

44. HDFC India was established in 1977 and is India's market leader in the housing finance industry. It had assets totaling \$15.82 billion as of the end of March 2007. Share capital for the same period was approximately \$64 million. HDFC India's current loan portfolio totals \$14.25 billion equivalent, which represents an increase of 26% from FY2006. Net income for FY2007 exceeded \$395 million.¹¹

45. HDFC India has developed significant expertise in retail mortgage loans to different market segments and has a large corporate client base for its housing-related credit facilities. Building upon its success in India, the company has invested in other housing finance institutions outside of India, including Delta Brac Housing Finance Corporation (Bangladesh), NBD Housing Bank (Sri Lanka), and Egyptian Housing Finance Company.

46. In addition, HDFC India provides consultancy and technical assistance services. Technical assistance typically includes a review or development of products, systems, marketing strategies, and operating guidelines. HDFC India will often provide training at the client site or at HDFC India's training center located near Mumbai. As of March 2007, the company had completed 26 assignments in several countries including Indonesia, Nepal, the Russian Federation, Ghana, and Mauritius. HDFC India's numerous clients including the US Agency for International Development, the World Bank, the Canadian Housing Mortgage Corporation, and a variety of mortgage finance companies.

B. Technical Assistance

47. To enhance HDFC's operations and enable it to more effectively manage its operations on a larger scale, the Project includes a technical assistance component (TA). HDFC India will provide the technical assistance. Training will be a major activity under the TA. A training needs assessment study will be undertaken during the first phase of the TA and a training plan formulated. The training plan will include in-house and off-site training, and training at HDFC India headquarters in Mumbai and at HDFC India's training center.

¹¹ The information provided is given on an unconsolidated basis.

C. Exit Strategy

48. ADB will consider the disposal of its shares in HDFC once the developmental role of ADB has been fulfilled. HDFC has announced that it expects to conduct a listing of its shares through an IPO on the Maldives Stock Exchange. ADB will seek to dispose its investment primarily through the public markets after the IPO and after the expiration of a to-be-agreed lock-in period on share sales by strategic shareholders.

49. Other than a sale through the public markets, ADB may sell its minority stake in a negotiated transaction to a third party at an appropriate time. HDFC may also seek additional strategic or financial buyers to purchase a portion of the HDFC shares after an IPO.

V. INVESTMENT BENEFITS, IMPACTS, ASSUMPTIONS, AND RISKS

A. Justification

1. Development Outcome

50. The ADB assistance will promote significant development in the Maldives.

51. **Meet Urgent Need for Housing.** Land scarcity and lack of availability of long-term financing for mortgages have resulted in a chronic shortage of housing in the Maldives. Malé is now one of the most densely populated cities in Asia (para. 14). The UN's development assistance framework for 2003–2007 identified the extreme overcrowding and lack of privacy on Malé, as well as some of the other islands, as a critical source for growing social problems such as juvenile delinquency, drug abuse, and child abuse (footnote 7). Thus, the UN concludes that housing is a critical issue that the Maldives must address in the short and medium term.

52. **Increase Availability of Mortgage Lending and Strengthen the Financial Sector.** ADB's country partnership strategy (CPS) for 2007–2011 identifies the financial sector as a priority area for reform (footnote 1). Underdevelopment of the financial sector and banking is reflected in the lack of long-term finance appropriate for mortgage lending. HDFC has curtailed its operations because of scarce funding sources. Thus, ADB will provide a critical role by increasing the availability of mortgage lending to the sole housing finance company in the Maldives, thereby strengthening the overall financial sector.

53. **Support Privatization.** The Government's partial or full ownership of enterprises means it has a large role in the country's economy. SOEs contributed more than 35% of GDP in 2005, indicating a limited role for the private sector. High government participation has also negatively impacted the economy. Public debt has become burdensome and the fiscal deficit has widened. The support of this Project will advance the country's privatization efforts; lessen future public debt burden; and importantly, help the Government evolve from a service provider to a facilitator of private enterprise.

54. **Strengthen Capacity.** The Maldives has historically suffered from weak institutions and human resource deficiencies with respect to skilled and managerial staff. Expatriates have often filled these gaps, but at the cost of developing strong local enterprises or institutions. The Project will directly address these issues through the provision of the TA. The TA will review all HDFC policies and procedures, supplement those found lacking, and provide training to HDFC staff.

55. **Generate Jobs and Additional Revenue.** Mortgage lending is an important development activity. A healthy mortgage market enables a country to generate multiple sources of employment, and employment related to the construction and home improvement industries is supported. Consumption of consumer goods also increases. Importantly, mortgage lending also serves as a vehicle to create one of the most important sources of capital for an individual or family. Capital for the establishment of small- and medium-sized enterprises can be accessed through a mortgaged property. By providing funding for HDFC, the proposed ADB investment will contribute to expanding the country's narrow economic base.

2. Value Added by the Asian Development Bank

56. The primary deficiency in the financial sector of the Maldives is the lack of long-term finance. Lending capacity of domestic commercial banks is not adequate to meet the financial needs of the private sector. The country does not have any long-term savings institutions (such as life insurance companies and pension funds) to help provide long-term capital to accommodate pent-up housing demand. In order to meet growing housing demand, HDFC must urgently access long-term financing in order to originate mortgages. Support of this Project through ADB's equity and debt will assist HDFC in further expanding its operations as the primary housing finance company in the Maldives. Additionally, ADB is supporting the goals of the Government. The Government has recognized the need to transform its role from a direct provider of financing to a facilitator of enabling environments. Therefore, it has prioritized the privatization of HDFC. In this regard, ADB's participation will support Government efforts and, more importantly, HDFC's crucial role within the country.

3. Measures for Development Impact

57. ADB has prepared a design and monitoring framework and measured the expected development impact of the loan (Appendix 1), in accordance with ADB's *Guidelines for Preparing a Design and Monitoring Framework* (2007).

4. Fit to Sector and Country Strategy

58. The CPS highlights the need for the Maldives to urgently enhance institutional capacity. The CPS also notes that the financial sector should be strengthened and broadened. Additionally, the CPS notes that the role of the private sector must be expanded with the Government providing a clear program for privatization. By doing so, the Government can improve, in part, its public sector financial management. The ADB proposes a number of technical assistance initiatives to strengthen institutional capacity and to improve the environment for the private sector, including the creation of a credit information bureau.

59. The Project addresses some of the key concerns highlighted by the CPS. First, it increases private sector participation in the economy through the privatization of HDFC. Second, it will help alleviate some of the Government's fiscal burden, as the Government can no longer provide funding for HDFC. Third, the financial sector will be strengthened through the expansion of HDFC operations. Fourth, the TA will strengthen HDFC's institutional capacity. Finally, and most importantly, the Project will address the chronic shortage of housing.

B. Social and Environmental Safeguard Policies

60. The proposed loan is assigned a classification of FI for environment and category C for indigenous people and resettlement. As per ADB's *Environment Policy* (2002), HDFC will be required to establish an environmental management system and resettlement framework, within a time frame to be specified, following the guidelines in Appendix 8 and setting out detailed screening and assessment mechanisms. ADB will review and approve the developed environmental management system. Further, HDFC will build capacity for implementing the system in accordance with its specific business needs and with ADB assistance, and will send at least one HDFC officer to ADB-sponsored environmental management training. With respect to the poverty analysis impact of the project, the project has been assigned a classification of GI. The Project will indirectly contribute to poverty reduction by supporting private sector growth and promoting mortgage financing in the Maldives. The social impact of the Project is high. The provision of mortgage lending will enable a broad spectrum of Maldivian society access to housing. Moreover, mortgage lending enables a country to generate multiple sources of employment in the construction and real estate industries. A summary of ADB's poverty reduction and social strategy is presented in Appendix 9.

C. Anticorruption Policy, Combating Money Laundering and the Financing of Terrorism

61. ADB's *Anticorruption Policy* (1998, as amended to date) and *Combating Money Laundering and the Financing of Terrorism Policy* (2003) were explained to HDFC. Consistent with its commitment to good governance, accountability, and transparency, ADB will require HDFC to institute, maintain, and comply with internal procedures and controls following international best practice standards for the purpose of preventing corruption or money laundering activities or the financing of terrorism. Further, HDFC will be required to covenant with ADB to refrain from engaging in such activities. The documentation between ADB and HDFC will allow ADB to investigate any violation or potential violation of these undertakings.

VI. EXPOSURE LIMITS

62. Once approved by the Board, the proposed loan and equity investment will represent 0.28% of ADB's total nonsovereign exposure, and increase ADB's exposure in the nonbanking financial subsector to 4.82%. ADB's nonsovereign exposure in the Maldives following approval of the loan and equity investment will be \$16.5 million. The proposed loan and equity investment are within ADB's aggregate, country, industry, group, and single project exposure limits for nonsovereign operations.

VII. ASSURANCES

63. Following the approval of the proposed investments by ADB's Board of Directors, ADB will enter into suitable finance documentation, and ensure that such documentation will be on terms and conditions satisfactory to ADB and consistent with all relevant ADB policies.

64. Consistent with the Agreement Establishing the Asian Development Bank, the Government of the Maldives will be requested to confirm that it has no objection to the proposed loan to and equity investment in HDFC. No funding will be disbursed until ADB receives such confirmation.

VIII. RECOMMENDATION

65. I am satisfied that the proposed senior secured loan and equity investment would comply

with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the senior loan of up to \$7,500,000 (denominated in US dollars) to, and the equity investment of up to \$4,500,000 in, the Housing Development Finance Corporation from ADB's ordinary capital resources, and on terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

18 March 2008

Haruhiko Kuroda
President

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <p>Residents of Malé and Hulhumalé have greater access to housing in the Maldives</p> <p>Unlock "dead capital" or capital that cannot be accessed through the creation of a formal mortgage financing market</p>	<p>Increased formal housing for families in Malé and Hulhumalé</p> <p>Mortgage finance as percentage of gross domestic product increased</p>	<p>Bank of Maldives</p> <p>Ministry of Construction and Housing statistics</p>	<p>Assumptions</p> <ul style="list-style-type: none"> Increased access to mortgage finance from banks leading to more individuals receiving mortgage loans and stimulating the supply of housing in the economy Stable or increased economic development in the Maldives
<p>Outcome</p> <p>HDFC provides increased access to long-term mortgage loans to individuals in the Maldives</p>	<p>HDFC's number of mortgage loan borrowers increased (20% in next 24 months)</p> <p>HDFC's credit quality is high; NPLs make up less than 4% of its total portfolio</p> <p>HDFC's capital adequacy ratio remains above prudential norms</p>	<p>HDFC's quarterly and annual financial statements</p> <p>Reporting specifically requested by ADB</p>	<p>Assumptions</p> <ul style="list-style-type: none"> Demand for mortgage loans from individuals continues. Local currency loans are demanded. The supply of property is adequate. HDFC does not breach domestic prudential norms. No adverse economic developments occur in the Maldives. No adverse regulatory changes affect the financial sector. No adverse regulatory changes affect the legal and regulatory framework governing the property subsector.
Outputs			Assumptions

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>1.1 ADB provides a long-term US dollar loan to HDFC.</p> <p>1.2 ADB invests \$2.25 million in HDFC (up to \$4.5 million).</p>	<p>As of May 2008, HDFC has \$7.5 million in the form of a loan from ADB.</p> <p>As of May 2008, ADB has purchased shares from HDFC equivalent to \$2.25 million. Mortgage loan requests received by HDFC increase by 20% per annum from current levels.</p>	<p>HDFC quarterly and annual financial statements</p> <p>Reporting specifically requested by ADB</p>	<ul style="list-style-type: none"> • Prevailing market conditions are stable. • All regulatory approvals are in place for ADB.
<p>Activities with Milestones</p> <p>1.1 ADB executes legal agreements, including loan and shareholder agreements</p> <p>2.1 Provision to HDFC of \$7.5 million in debt (by December 2008)</p> <p>2.1 Investment of \$2.25 million (up to \$4.5 million) in HDFC (by May 2008)</p> <p>3.1 Utilization of proceeds by HDFC (ongoing)</p> <p>3.2 Origination of (new) client opportunities</p> <p>3.3 Assessment of clients</p> <p>3.4 Completion of loan agreements with clients</p> <p>3.5 Disbursement of loans to clients</p>			<p>Inputs</p> <ul style="list-style-type: none"> • ADB: Up to \$12.0 million

ADB = Asian Development Bank, HDFC = Housing Development Finance Corporation, NPL = nonperforming loan.
Source: Asian Development Bank.

MACROECONOMIC AND POLITICAL OVERVIEW

1. **Gross Domestic Product Growth.** Gross domestic product (GDP) growth rebounded to 19.1% in 2006 (approximately \$802 million). This robust growth followed a contraction of 4.6% in 2005, due to the December 2004 tsunami, which caused loss of human lives and substantial destruction to the country totaling approximately 30% of the national GDP. Prior to the tsunami, the economy averaged annual growth of more than 7% for over a decade. The large 2006 rebound is attributed primarily to a resurgence of tourism, post-tsunami reconstruction, and development of new tourist resorts. Tourism, the Maldives' largest and most important industry, accounted for 27.1% of GDP in 2006 and for more than 60% of foreign exchange receipts. Import duties and tourism-related taxes comprise more than 90% of government tax revenue. Other important industries include fisheries, comprising 6.3% of GDP; and manufacturing and construction.

2. **Inflation.** The Maldives has experienced relatively low inflation in recent years. The national consumer price index gained 3.5% in 2006, and through April 2007, year-on-year estimates had moved higher, averaging 5.0% for the first 4 months. Price increases are led by the higher cost of food and beverages, health care, and household equipment. The costs of hotels, cafés, and restaurants have increased nearly 20% since early 2005.

3. **Fiscal Indicators.** The central Government's fiscal position changed significantly following the 2004 tsunami. Government revenue for 2006 was up 113% from 2004, while expenditures rose 127%. The bulk of the increased revenue can be attributed to grants (equivalent to 17.7% of GDP) and current revenue related to reconstruction efforts. While total revenue and grants amounted to 61.5% of GDP in 2006, expenditure and net lending was 68.6%, maintaining the country's fiscal deficit position of the past few years. In the 5 years leading up to the tsunami, the Maldives ran budget deficits averaging 3.5% of GDP; in 2006 the deficit reached 7.1%, following a deficit of 10.9% in 2005. Total debt in 2006 stood at 50.6% of GDP. Foreign-held debt was 32.7% of GDP in 2006.

4. **Monetary Developments.** Broad money has been steadily increasing over the past several years. As of May 2007, broad money growth stood at 23.2% in year-on-year terms; this rate has been sustained since the 2004 tsunami. Growth of domestic assets resulted in broad money growth, primarily in private sector credit. Balance sheets of Maldives Monetary Authority and commercial banks show significant growth in assets and liabilities in recent years, with growth of over 30% for Maldives Monetary Authority and 40% for commercial banks since the end of 2004. Significant increases in loans to tourism have been responsible for much of the balance sheet change. The Maldives Monetary Authority repurchase facility rate (a system introduced in November 2006 to replace the existing Lombard facility) maintained 12%, holding steady since its inception.

5. **External Developments.** The current account was in deficit equal to 39.8% of GDP in 2006. This follows a trend of increasing deficits, which have spiked significantly since the tsunami. Exports of goods and services recovered significantly from 2005 to 2006, increasing by 44%. For 2006, total imports were valued at \$926.5 million, versus total exports of \$225.2 million. Intermediate and capital goods (construction supplies) were the most significant imports, again due to the tsunami. Among exports, fish exports increased rapidly in 2006, gaining more than 35% from the previous year. Increasing yields of fresh fish, principally yellow fin tuna and skipjack, were responsible for the increase. Asia dominated the Maldives' direction of trade for both imports and exports in 2006, continuing a growing trend over the past 5 years. Over 60% of imports originated in Asia, representing a 26% increase from a year earlier. For exports, Asia

was the destination market for more than 68% of goods, representing a 22.9% yearly change. Diversifying the economy beyond tourism and fishing is a major challenge facing the Government.

6. **Exchange Rate.** The Maldivian rufiyaa (issued by Maldives Monetary Authority), continues to be fixed at Rf12.8 per US dollar. This rate has been in effect since 2001, when it was raised from Rf11.8 per US dollar.

7. **Political Outlook.** The Maldives has a presidential system of government. The President heads the executive branch and appoints the cabinet. President Maumoon Abdul Gayoom has been in power since 1978. He also heads the Maldivian Peoples' Party, which was the only political party in the Maldives until 2005. The unicameral parliament, the Majlis, comprises 50 members serving 5-year terms. Two male members from each atoll are elected directly by universal suffrage. The President appoints eight members.

8. Following riots in the capital in 2004 when citizens demanded democratic reforms, the President and his government pledged to address concerns, introduce a more representative political system, and expand political freedoms. In 2005, Parliament voted unanimously for the creation of a multiparty system. In August 2007, a public referendum to determine the form of government for the country indicated that people wanted to continue with a presidential form.

9. Presidential elections will be held in 2008. This will be the country's first multiparty election. In addition to the Maldivian Peoples' Party, the following are the officially registered parties: Islamic Democratic Party, Justice Party, and Maldivian Democratic Party. The Maldivian Democratic Party is considered to be the main opposition party to the Maldivian Peoples' Party. The question of whether President Gayoom will be allowed to stand for another two terms has not yet been determined. The constitution of the Maldives is also being redrafted. A draft of the constitution is expected to be finalized by Parliament during the first quarter of 2008.

THE HULHUMALÉ DEVELOPMENT

1. As part of Government efforts to ease crowding on Malé, the Hulhumalé development project (Hulhumalé) was initiated. The creation of Hulhumalé is also part of the Government's focal island strategy, whereby community infrastructure, commercial activity, and housing will be concentrated on a few islands. Thus, the Government envisages Hulhumalé to be a residential, commercial, and industrial center for the country. It will address the critical lack of housing, and generate employment opportunities. By supporting the development of commercial and industrial development on the island, the Government is providing a strong incentive for people to move from Malé to Hulhumalé and for people moving from the atolls to consider living on the reclaimed island, rather than concentrating on overcrowded Malé.

2. Hulhumalé, located approximately 3 kilometers off the coast of the capital island, is a new 188 hectare land mass created from a lagoon. It is situated near Malé International Airport. Reclamation of the island began in 1997. To meet the \$34 million cost of the physical reclamation, the Government provided \$13.5 million and Fortis Bank of Belgium and the Government of Belgium (through a state-to-state loan) provided loans of \$20.9 million. A consortium¹ of consultants from Singapore completed the first master plan for the development in 2001.

3. Hulhumalé Development Corporation Limited oversees the development and management of Hulhumalé. Incorporated in 2005, the corporation is a wholly-owned government company. After the completion of reclamation in 2002, Exim Bank of Thailand provided loan assistance for the development of the major road network, 280 apartment units, and primary social and community infrastructure (i.e., a school, hospital, 48 commercial units); the work was completed in 2004. The island has a branch of the Bank of Maldives, a post office, retail outlets, cafés, and a fish market. A port has been constructed, which is managed by Maldives Ports Authority. Hulhumalé is linked to both Malé and the Malé International Airport island. Hulhumalé and Malé are connected by ferry service. A road links Hulhumalé to the far southern end of the Malé International Airport island. The road is being paved and upgraded and will be opened to the public. Ferry service between Malé and the airport island is planned. Finally, construction of a bridge between Malé and the far southern end of the airport island is now being discussed.

4. Hulhumalé offers a wide range of housing for a variety of socioeconomic classes. At present, it has 400 apartments (one, two, three, and four bedrooms) that are fully occupied. In addition, at the lower end of the affordability range are 64 detached houses with three bedrooms each. Plots of land sold to the public are categorized as standard, beachfront, and beachside plots. More than 470 plots have been sold. Finally, two large condominium buildings containing 116 apartments each will be developed by the end of 2008 or early 2009. These two large plots have been sold to private investors. Currently, more than 5,000 people live in Hulhumalé. The island is expected to accommodate about 60,000 people by the end of phase I of the development, which should be completed by 2020. Phase II is being planned, as well as an airport extension phase.

¹ AMC Architects International, J. Pro Consultants, and Binnie Black and Veatch, Ltd.

SUMMARY OF THE LEGAL AND REGULATORY FRAMEWORK FOR PROPERTY AND MORTGAGES

1. The Maldives legal system is based on Islamic law and English common law, with English common law being more influential on commercial law. The Maldives Land Act (Law No. 1/2002) provides the legal framework for land. Additional regulations pursuant to the act govern the sale and purchase of land, and the mortgaging of buildings and apartments.

A. Title and Registration

2. The country has two types of land: private and government-owned. The Government owns most of the land; private individuals own about 10%. Most residents lease land from the Government on a perpetual basis. Land leased by a family can be transferred to family members by a will or as a gift. Leased land can also be subdivided. Unlike in Malé and the atolls, Hulhumalé land is intended for private purchase from the Government.

3. All land in Malé is registered with the Malé Municipality, a department under the Ministry of Home Affairs, Housing, and Environment, and recorded in the land register. Land in the atolls is registered at atoll offices. The process for title registration is simple. An application is made to Malé Municipality (or the relevant atoll) for registration. The individual presents the following information: (i) written court approval for the sale of the land, building, or flat;¹ (ii) documents confirming the purchase of the land, building, or flat; (iii) a registration certificate of the purchased land, building, or flat; and (iv) a document confirming the payment of tax pursuant to the Maldives Land Act. The process takes about 1 month. The recording is done manually, as the Maldives does not have an automated registry for land titles. A registration fee must be paid as well as a revenue stamp for placement on the new registration certificate.

B. Property Purchase

4. Maldivian citizens have the option to purchase land directly from the Government or through a foreclosure process. Payment to the Government can be done on an installment or lump sum basis. The price of a piece of government-owned property is determined by the Ministry of Housing and Urban Development following consultation with the committee for determining prices of land, which comprises members from public and government entities. The price of land is reassessed every 2 years.

5. The Maldives has not yet developed a secondary residential property market, primarily because of the scarcity of land. The country has regulations for sale of mortgage properties and transference of title between individuals. Property transfers require a court process. The buyer and seller make an agreement for the sale of property, and then file a case with the court. The court holds a hearing to determine that the intention to sell is valid. A tax is paid and the buyer and seller bring evidence of the tax payment back to the court. The court then gives a judgment that indicates that the sale can be executed. The parties bring the court judgment to Malé Municipality where the title transfer is registered.

¹ In the case of Hulhumalé land, (i) a copy of the registration certificate or temporary certificate provided by the Malé Municipality for the land, building, or flats, and (ii) confirmation that all payments have been made to the Housing Development Finance Corporation.

C. Foreclosure

6. Foreclosure in the Maldives is also facilitated through a court process. Within 1 year of the expiration of the repayment period under the mortgage agreement, the mortgagee must start legal proceedings against the mortgagor (except where the mortgagee and mortgagor have agreed in writing). Upon finding in favor of the mortgagee, the mortgagor has 90 days to appeal the ruling. Appeals are not common. The mortgagee sells the land, buildings, or flats through public auction. Evictions can occur. The local police must be involved. On average, the foreclosure process can take a maximum of 6 months.

D. New Land Act

7. The Law Commission (a Government-appointed committee that drafts legislation), is currently drafting a new land act to replace the Maldives Land Act. The new act is in the form of a comprehensive code and incorporates new concepts; however, the content has not yet been released to the public. The act has gone through the first commentary stage. The relevant government authorities have not yet decided how the new act will be presented to Parliament.

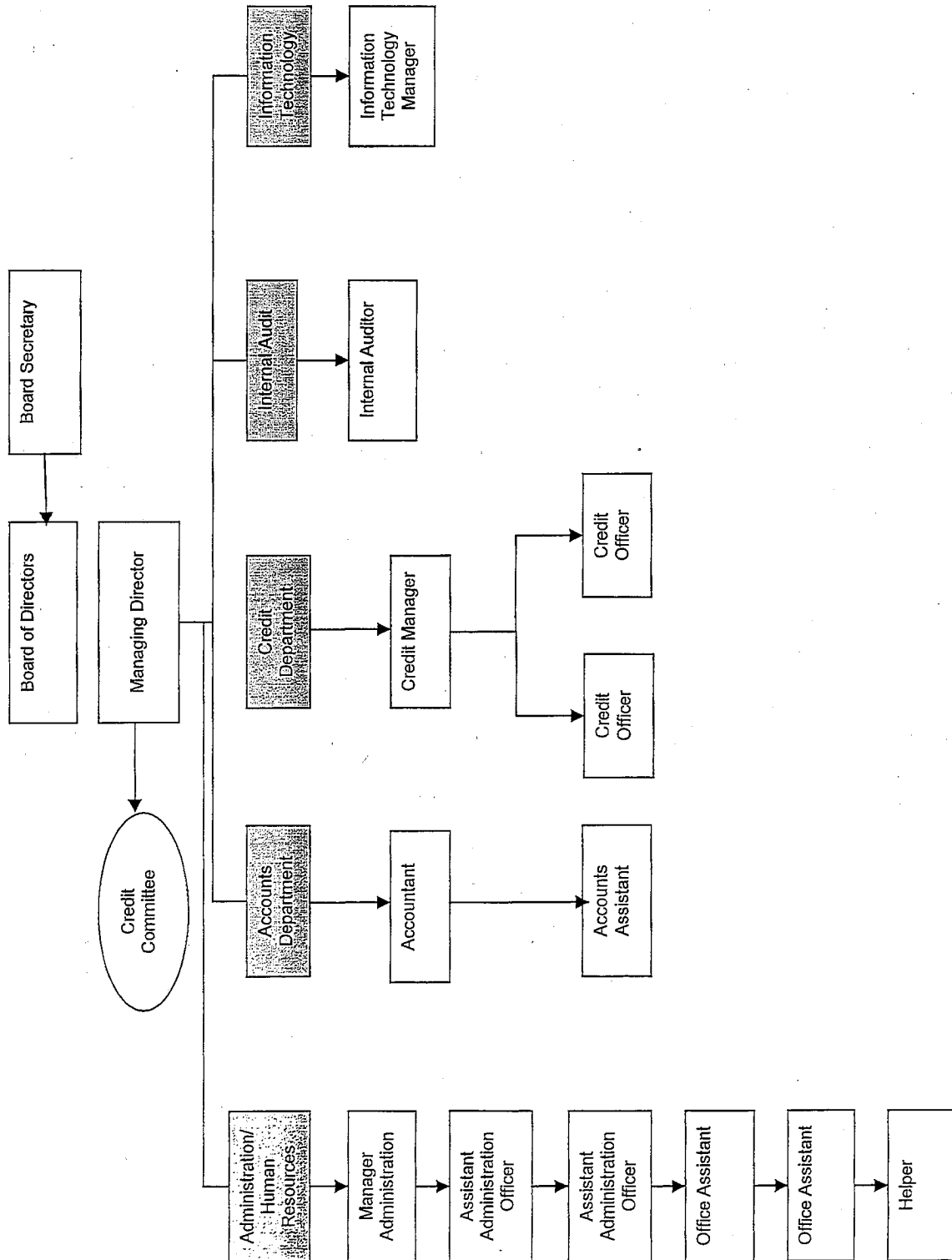
BOARD OF DIRECTORS OF HOUSING DEVELOPMENT FINANCE CORPORATION

1. **Ibrahim Naeem.** I. Naeem is currently the Chairman of the Board of Directors of Housing Development Finance Corporation (HDFC). He holds a master of business administration, a postgraduate diploma in management consulting, and postgraduate diploma in accounting; and has completed coursework for a doctorate in entrepreneurship and small business. He is also a certified public accountant. I. Naeem has over 12 years experience with international accounting firms in Australia and Singapore in audit, taxation, accounting and finance, management consultancy, and general management. For the last 10 years, I. Naeem has held senior positions at Maldives Monetary Authority and worked at policy-making in multiple areas of central banking, including macroeconomic policy, money and banking, financial sector development, bank supervision, payment settlements system, accounting and treasury management, internal audit, information technology and human resource management, and general management. He was involved in the conceptualization and establishment of HDFC, including sourcing the initial financing. I. Naeem was sworn in as the auditor general for the Maldives in January 2008. He will continue as Chairman of the Board of Directors until the new HDFC Board is appointed.
2. **Raheema Saleem.** R. Saleem is currently the managing director of HDFC. She holds a bachelor of commerce in accounting and marketing from Australia. She has held senior positions in the Ministry of Finance and Treasury, where she worked for more than 20 years. Her special areas of work include human resource management, accounting and finance, treasury management, and general management. Prior to being recruited to join HDFC as its founding managing director, R. Saleem restructured and managed the personal and enterprise loan portfolio of the Ministry of Finance and Treasury, resulting in a very high recovery of loans.
3. **Mohamed Shahudy.** M. Shahudy is currently the director of the Ministry of Foreign Affairs. Prior to holding this position, M. Shahudy was the assistant director of the Department of External Resources, Ministry of Foreign Affairs, from 2002 to 2005. From 1992 to 2002, he held various positions in the Ministry of Foreign Affairs. M. Shahudy has a master's degree in international policy analysis from the University of Bath, United Kingdom, and a bachelor of applied economics from Massey University, New Zealand.
4. **Hamid Yoosuf.** H. Yoosuf is currently the director general of the Ministry of Atolls Development. Prior to holding this position, he was the atoll chief for the following atolls: Raa (2004–2005), Addoo (1997–2004); Lhaviyani (1996–1997); and Gnaviyani (1995–1996). From 1992 to 1995, H. Yoosuf was the assistant director for the Unit for the Rights of Children at the Ministry of Home Affairs. He holds a bachelor of sociology from the University of Qarunis, Libya. H. Yoosuf has received professional qualifications in development management and dispute management.
5. **Fathmath Muaza.** F. Muaza is currently the assistant undersecretary for the Public Enterprises Monitoring and Evaluation Board of the Ministry of Finance and Treasury. She has held this position since 2005. F. Muaza has a bachelor of business studies from the University of Sunderland, United Kingdom.

KEY PERSONNEL OF HOUSING DEVELOPMENT FINANCE CORPORATION

1. **Managing Director: Raheema Saleem.** R. Saleem holds a bachelor of commerce in accounting and marketing from Australia. She has held senior positions in the Ministry of Finance and Treasury, where she has worked for more than 20 years. Her special areas of work include human resource management, accounting and finance, treasury management and general management. Prior to being recruited to join the Housing Development Finance Corporation (HDFC) as its founding managing director, she restructured and managed the personal and enterprise loan portfolio of the Ministry of Finance and Treasury resulting in a very high recovery of loans. R. Saleem is responsible for the general day-to-day management of HDFC and directly supervises the collection and treasury functions.
2. **Internal Audit and IT Manager: Mohamed Fathy.** M. Fathy has a bachelor of commerce and more than 5 years of work experience in the private and public sectors. He is experienced in developing internal audit programs, undertaking hands-on work, and supervising junior staff. He is also experienced in developing, installing, and managing computerized management information systems. He has been employed at HDFC since its inception.
3. **Credit Manager: Aishath Rasheed.** A. Rasheed holds an association of accounting technicians diploma and has more than 14 years of experience in Maldives Monetary Authority (MMA) with experience in dealing with government and commercial bank accounts, and internal controls. She has been employed by HDFC since its inception.
4. **Accountant: Appa Reddy.** A. Reddy, an Indian national, holds a bachelor of commerce and has more than 5 years experience in accounting in a home mortgage institution in India. He has been with HDFC for more than 2 years.
5. **Administration Manager: Adam Athif.** A. Athif has 5 years experience in general management in the President's office and 5 years in human resource management in the private sector. He is completing his diploma in business administration. He has been with HDFC for more than 3 years.
6. **Advisor: Ibrahim Naeem.** I. Naeem is currently the Executive Chairman of the HDFC Board of Directors. In January 2008, he was appointed attorney general for the Maldives. He has been instrumental in the privatization of HDFC, including sourcing international investors. He will continue to act as an advisor to HDFC until the international equity investment in the company is completed. He was involved in the conceptualization and establishment of HDFC, including sourcing the initial financing. I. Naeem holds a master of business administration, a postgraduate diploma in management consulting, and postgraduate diploma in accounting; and has completed coursework for a doctorate in entrepreneurship and small business. He is also a certified public accountant. He has over 12 years of experience with international accounting firms in Australia and Singapore in audit, taxation, accounting and finance, management consultancy, and general management. For the last 10 years, I. Naeem has held senior positions at MMA and worked at policy making in multiple areas of central banking, including macroeconomic policy, money and banking, financial sector development, bank supervision, payment settlements system, accounting and treasury management, internal audit, information technology and human resource management, and general management.

ORGANIZATION CHART OF HOUSING DEVELOPMENT FINANCE CORPORATION



Source: Housing Development Finance Corporation.

ENVIRONMENTAL MANAGEMENT SYSTEM GUIDELINES

A. Environmental Safeguard Policy and Procedure

1. Housing Development Finance Corporation (HDFC) will establish an environmental management system with the following guiding principles:

- (i) HDFC will formulate an environment policy.
- (ii) HDFC will establish an environmental screening, classification, and assessment system to identify and assess environmental impacts and issues such as existing and potential environmental liability, and financial implications related to such environmental impacts and issues associated with a potential customer of HDFC.
- (iii) HDFC will not finance a customer that conducts its business in a way that could have an adverse environmental impact and is therefore classified as a category A project pursuant to the *Environment Policy* (2002) of the Asian Development Bank (ADB), or could have significant impact in terms of resettlement, or significantly affects indigenous peoples.
- (iv) Prior to making any loan, HDFC will ascertain that its proposed customer is in compliance with applicable environmental laws and regulations and has no claims pending against it in connection with an environmental liability. HDFC's customers will be required to submit copies of any environmental clearance issued by an environmental authority.
- (v) HDFC will require its customers to comply at all times with applicable environmental laws and regulations. As promptly as possible after becoming aware of any customer being in breach of applicable environmental laws and regulations, HDFC will use best efforts to cause its customers to implement a corrective action plan.
- (vi) HDFC will submit an annual report on its environmental performance to ADB.

B. Staffing and Capacity Building

2. HDFC will assign an appropriate number of staff members to operate the environmental management system.

3. HDFC will send at least one of its senior representatives to ADB-sponsored or approved environmental and social safeguard training.