



# Project Information Document (PID)

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Concept Stage | Date Prepared/Updated: 18-Jul-2019 | Report No: PIDC27254

**BASIC INFORMATION****A. Basic Project Data**

Country Maldives	Project ID P171185	Parent Project ID (if any)	Project Name Maldives Capacity Building Technical Assistance Project (P171185)
Region SOUTH ASIA	Estimated Appraisal Date Sep 23, 2019	Estimated Board Date Oct 10, 2019	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) The Republic of Maldives	Implementing Agency Ministry of Economic Development, Maldives Monetary Authority, Ministry of Finance, President's Office	

**Proposed Development Objective(s)**

The development objective is to strengthen the coordination and capacity of selected Government institutions to contribute to improved fiscal management, and business environment.

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

<b>Total Project Cost</b>	3.40
<b>Total Financing</b>	3.40
<b>of which IBRD/IDA</b>	3.40
<b>Financing Gap</b>	0.00

**DETAILS****World Bank Group Financing**

International Development Association (IDA)	3.40
IDA Credit	3.40



Environmental and Social Risk Classification

Low

Concept Review Decision

Track I-The review did authorize the preparation to continue

Other Decision (as needed)

## B. Introduction and Context

### Country Context

Growth in Maldives is narrowly driven by the high-end tourism sector (gross value added of 23% in 2017) which is highly volatile. Real GDP growth over the past 5 years averaged at 6.3% supported by a mammoth government-led infrastructure investment program and it is expected to gradually decline to 5% over the medium term. The country has been experiencing persistent fiscal (3% GDP) and current account deficits (20% GDP); accumulation of domestic (43% GDP) and external (29% GDP) debts; and weak foreign reserves (2.7 months of import cover) as a result of narrow economic diversification and inward-looking policies coupled with the burden of infrastructure-heavy imports.

Maldives' financial system is shallow, dominated by banks and state ownership and serves primarily the government and the larger resorts (private credit to GDP fell from 56% in 2008 to 33% in 2017). Therefore, development of the financial sector would help Maldives invigorate its weak Small and Medium Enterprises (SME) sector, diversify the economy, boost job creation and social inclusion and help manage economic and social risks. On the other hand, extremely dispersed population across small islands and the congested capital city of Male has led to a high cost of service delivery, increased vulnerability to the impact of climate change, and difficulty in creating jobs that match youth aspirations (youth unemployment is at 15.3%).

Furthermore, there is no evidence to substantiate institutional discrimination along gender lines in access to education and health, yet, there are large gender disparities visible in labor market outcomes (Women on average earn less than their male counterparts, a 2016 survey relayed the gender pay gap for employees stood at 20%). Additionally, Government health spending at 7% of GDP (17% of total government expenditure) is a major contributor to the country's challenging fiscal environment. Maldives' healthcare system has improved albeit at a much higher cost than middle-income and small-island comparator countries.

Even though the country has achieved gender parity in health and education outcomes, disaggregation of national level data demonstrates that girls are at a disadvantage in poorer, rural areas. In fact, rural girls are almost 60% more likely than rural boys to be neither in school nor working. Educational opportunities on remote islands are scarce and parents are often resistant to sending girls to Male for educational opportunities. Similarly, for access to sexual and reproductive health and maternal health care, smaller populations in the outer atolls suffer from a disparity in access to and the quality of care (UNFPA 2018). To address this inequality, GoM will need to leverage disaggregated data to ensure resources and policies are appropriately applied to ensure geographic equity.

Maldives has made excellent progress in terms of social protection infrastructure under the National Social Protection Agency (NSPA). However, the country's social protection policy needs formalization by way of a national social protection strategy covering Aasandha, unemployment insurance, and disability and local service delivery, which would support to



rationalize costs (especially for subsidies in the longer run).

The new Government that came in to power in late 2018 envisages to decentralize service delivery to the City Councils by transferring power and assets over the next five years to develop islands. For this purpose, the Government is in the process of articulating a Strategic Action Plan integrating an M&E framework to improve transparency, accountability and to foster a culture of service delivery.

#### Sectoral and Institutional Context

**Rising fiscal vulnerabilities need rebalancing:** One key challenge for the Maldives is to strike an appropriate balance between making large investments needed to close existing infrastructure gaps potentially allowing to boost tourism, increase resilience to climate change, ease constraints in service delivery and managing the rapid accumulation of public debt. As a result, there is a need to finance large debt volumes. Hence, fiscal adjustments are needed to restore fiscal and debt sustainability. Proceeds from the airport development fee are being accumulated in the Sovereign Development Fund (SDF)- these are expected to suffice to meet the debt repayment obligations coming due in 2022 (USD 250 million sovereign bond) and in 2023 (USD 100 million sovereign bond).

**SOE Governance will be critical for socio-economic development:** Maldives is currently undergoing a multi-pronged governance transition to consolidate its young democracy covering (i) the strengthening of integrity/anti-corruption/oversight and accountability of institutions such as Parliament, local councils, the auditor general, the anti-corruption commission; (ii) the reform of the justice system; and (iii) local governance and decentralization. The Government is committed to a more open, transparent and inclusive mode of governance. The core pillars are (i) fiscal transparency, (ii) right to information (RTI), (iii) public disclosure of assets and (iv) citizen participation. While Maldives has an RTI regime its implementation is weak. Greater public participation is a key priority for the Government, who has announced a law on public petitions.

SoEs in Maldives play a critical role in the country's socio-economic development, by: (i) developing critical transport and network infrastructure; (ii) providing back bone services for the entire economy; (iii) providing essential public services on which citizens depend on, in particular the poor and the vulnerable. SOEs are also a significant component of Maldives' economy (revenues at 50 % of GDP, 20 000 employees which is 18.5% of the country's total workforce and 44% of employment within the public sector). SOEs represent an increasing fiscal risk (the public sector debt to GDP is 72%). The Government aims to strengthen the oversight of SoEs and their performance monitoring and evaluation in a participatory manner using user feedback.

**The financial sector is fragmented, especially when it comes to supporting SMEs:** Persistently shallow financial market without diversification or investment opportunities; private credit growth on limited avenues (Private Credit to GDP reduced from 56% in 2008 to 33% in 2017); pricing and risk management in the market is purely based on judgment with policy rates having little effect, which has led to inefficiencies impacting SME borrowing. On the other hand, a highly concentrated small banking sector dominated by State ownership (BML – 48% banking assets) primarily serves the State and corporates. Even though banks are profitable and adequately capitalized, non-performing loan ratios are on the rise (11% in 2017) with larger exposure to the construction sector. Overall, financing to the private sector has been lower than the pace of economic growth. Lack of competition among banks, pricing insensitivities to policy rates, and high collateralization requirements have created huge cost inefficiencies which rendered most new projects unviable and poses significant obstacles to inclusive growth-especially to SMEs and new entrepreneurs. Maldives has made progress towards improving access to finance by establishing a mobile wallet system and continues to promote the digital finance agenda. However, critical changes to the legal and regulatory framework are needed to leverage technology and fintech options



to enhance inclusion and link to markets.

**The business environment is challenging for SMEs:** even though Maldives records high FDI inflows, SMEs and new entrepreneurs face a challenging environment. Maldives pursues an open policy for foreign investments. Tourism attracts the most FDI, followed by the transportation and telecommunications sectors. In 2017, Maldives recorded the highest inflow of FDI among Small Island Developing States at USD 517 million. However, SMEs face many constraints as highlighted by Doing Business (DB). The country's ranking continued to stagnate as business regulation reform has historically not been a priority (Maldives ranked 139 in DB2019 down from 136 in 2018) and Maldives ranks the lowest against regional peers such as Sri Lanka, Nepal and India. A key priority is to identify a well-defined program of institutional and legal reforms to address the areas where Maldives is lagging behind.

#### Relationship to CPF

The proposed project would support the following two broad engagement areas of the Maldives **Revised CPF**:

- (i) Pillar 1: Promoting economic opportunities for Maldivians - This project aims to simplify business regulation, enhance financial stability and inclusion based on the 2016 FSAP findings. This will be achieved via support for legislative reforms and the institutional framework.
- (ii) Pillar 3: Strengthening Fiscal Sustainability – This project aims to use data to enhance fiscal management and ensure that the planning function of government is underpinned by solid evidence. This will be achieved by building capacity to use evidence for the design, monitoring and evaluation of government initiatives.

### C. Proposed Development Objective(s)

The development objective is to strengthen the coordination and capacity of selected Government institutions to contribute to improved macro fiscal management, and business environment.

*The selected government institutions include:* Ministry of Finance (MoF), Maldives Monetary Authority (MMA), Ministry of National Planning and Infrastructure (MoNP), Ministry of Economic Development (MoED), and the President's Office (PO).

#### Key Results (From PCN)

1. National Drug Financing Strategy adopted
2. National Social Protection Strategy adopted
3. Government open M&E framework has been developed and “operational” for selected areas (in use for xx months)
4. Submission of Insolvency law to the Parliament
5. Growth in e-transactions (as measured by # of businesses)

### D. Concept Description

#### **Component 1: Enhancing Evidence for Fiscal Management and the Planning**

This component aims to use data to enhance fiscal management and ensure that the planning function of government is underpinned by solid evidence. This will be achieved by building capacity to use evidence for the design of monitoring and evaluation of government initiatives as well as developing strategy on key human development areas (Health and



Social Protection). Priority activities include:

- (i) **Supporting the Strategic Action Plan:** in-depth analysis of modernization of public sector salaries and recruitment policies;
- (ii) **M&E policy** with simple open source web-based information system, and capacity building for M&E champions;
- (i) **Developing a National Health Financing Strategy;** (ii) drug (pricing) purchasing by Aasandha and State Trading Organization (STO), (ii) Road map/implementation options for hospital management systems, (iii) designing a reconfigured service delivery model with a greater focus on primary care in the atolls.
- (i) **Developing a National Social Protection Strategy** to formalize Aasandha, unemployment insurance, disability and local service delivery, to rationalize costs (especially for subsidies in the long run); and (ii) update the targeting methodology for the Maldives National Social Protection Agency (NSPA) programs.
- **Strengthen the national statistical system of the Maldives:** (i) assessment of existing data and a review of the statistical Act; (ii) strengthening of data management (collate, organize, and dissemination of data).

**Gender Cross Cutting Pillar:** Expenditure Analysis on the Health, Education, and Social Protection sectors: i) Targeting women/ key gender issues or gaps that have already been identified; ii) Examining whether benefits intended for women are being shared equitably across Male and other atolls; iii) Identifying key priorities for next budget; and (iv) analyse the gender wage gap and propose recommendations.

## Component 2: Supporting Policy, Legislative Reforms and Strengthening Institutional Framework:

This component aims to simplify the legal and regulatory framework affecting businesses and enhance financial stability and inclusion, thereby strengthening the overall business environment. This will be achieved through supporting both legislative and institutional reforms. Priority activities include:

- **Business Environment Simplification:** Formulation of a comprehensive legal regime for bankruptcy and insolvency including insolvency law, regulations and institutional capacity building
- **Payment System Reforms:** Assessment on Integration of Central Depository System with the payments system in order to develop the secondary market for government securities;
- **Developing the Legal and Institutional Framework of Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) of the Maldives:** Capacity building for Financial Intelligence Unit (FIU), MMA and other relevant institutions based on a road map being developed.
- **Institutionalization of Sovereign Development Fund Co (SDF):** Institutionalize effective SDF management mechanism based on transparent governance structure and proper accountability mechanisms including drafting of legal instruments.

**Gender Cross Cutting Pillar:** Digital Finance Inclusion study: Examining specific barriers to Maldivian women accessing digital finance and proposed recommendations for policies and programs.

**Note:** Financial stability and inclusion activities are based on the 2016 FSAP findings.



Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

### Summary of Screening of Environmental and Social Risks and Impacts

The project is classified to have low environmental and social risks at the concept stage, after considering, in an integrated manner, the risks and impacts of the project, the location, intended scale, and the magnitude of potential impacts at the preparatory stage. The project will finance technical assessment and capacity building interventions that will support the formulation of policies, plans, and strategies that are focused on enhancing management and service delivery activities that have low risks to the human and natural environment. No physical interventions or studies focused on the delivery of infrastructure, such as feasibility assessments, will be undertaken under project financing nor will it involve construction or interventions that involve physical interventions to the environment to be undertaken via the use of project financing. Institutional strengthening activities proposed under the project will not include the purchasing and/or replacement of IT hardware and will instead support web and cloud-based solutions. The TA will consider a more decentralized and technology-based service delivery model such as service delivery capacity in the atolls and proposed innovations such as telemedicine and a hub and spoke model whereby specialists from Male visiting atolls on fixed days could be identified. The nature of the activities of these TAs will be assessed further during project preparation to understand if there will be any resulting impacts associated with implementation of the new service delivery model to be established.

Instead, the project will be used as an opportunity to build government capacity for integrating social issues into their work. Further, to enhance gender equity and social inclusion of the reforms, the project will support: Gender based expenditure analysis on the Health, Education, and Social Protection sectors; and Digital Finance Inclusion study, which are envisaged to have positive social impacts.

**Note** To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

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**APPROVAL**

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