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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 03-Mar-2023 | Report No: PIDA35456

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

Country Maldives	Project ID P179286	Project Name Maldives Competitiveness and Growth Project	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Appraisal Date 05-Mar-2023	Estimated Board Date 22-May-2023	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Republic of Maldives	Implementing Agency Ministry of Finance	

Proposed Development Objective(s)

The project development objective is to enhance private participation in State-Owned Enterprises and competitiveness of small and medium enterprises.

Components

Component 1: Accelerating SOE Reforms
Component 2: Fostering SME Competitiveness
Component 3: Project Management

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

Total Project Cost	15.00
Total Financing	15.00
of which IBRD/IDA	15.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Development Association (IDA)	15.00
IDA Credit	7.50



IDA Grant	7.50
Environmental and Social Risk Classification	
Moderate	
Decision	
The review did authorize the team to appraise and negotiate	

Other Decision (as needed)
None.

B. Introduction and Context

Country Context

Maldives is a small island developing state (SIDS) and an upper-middle-income country with a robust growth trajectory prior to the COVID-19 pandemic. Though the three-month border closure during COVID-19 had significant adverse impacts on tourism and the economy, following the sustained rebound in tourism, the economy grew by 41.7% in 2021 and continues to show steady recovery in 2022. However, the Balance of Trade is perpetually unfavorable for Maldives since it imports nearly all consumer goods; and fiscal and debt vulnerabilities have greatly increased since 2019. In addition, domestic labor supply does not satisfy the industry demand in terms of skillset and firms depend heavily on foreign labor. While the Government has made considerable progress in implementing policy reforms, more needs to be done to sustain past gains and accelerate economic growth.

Sectoral and Institutional Context

Given the ongoing fiscal vulnerabilities, the Government aims to reinvigorate its delayed SOE reform program. This includes: (i) pursuing private participation in SOEs where feasible; (ii) dissolution of nonviable SOEs; (iii) injecting more discipline in the management of SOEs through implementing deeper program and corporate governance reforms; and (iv) subsidy reform.

In addition, small and medium enterprises (SMEs) face a volatile operating environment and are subject to many challenges that can be mitigated by enhancing firm capabilities and resolving finance market issues. These challenges include, inter alia, high vulnerabilities to exogenous shocks such as COVID-19; diseconomies of scale which limits firms' ability to establish comparative advantage; dysfunctional market structures; high transportation costs; limited natural resources; and competition with SOEs.

The project is anchored in the Government's Strategic Action Plan (2019–2023) that puts forward several reforms to facilitate a conducive business environment for trade, investments, and economic diversification. In addition, the project conforms to the priorities of the FY23-27 Country Partnership Framework (CPF). The project's goals of supporting SOE reforms and SME competitiveness are consistent with the CPF's High Level Outcome 1 (HLO 1) Objective 1 on "Increasing Efficiency and Transparency in



the Fiscal Space”, HLO 2 on “Increased Access to Economic Opportunities”, and HLO 2 Objective 4 on “Strengthening Overall Competitiveness”. These HLOs and Objectives will be achieved through, inter alia, strengthening the investment climate, access to finance, and private participation. Further, the project aims to utilize digital technologies for enabling the provision of credit of SMEs, which aligns with the CPF’s cross-cutting theme of “Fostering the Digital Economy to Promote Economic Transformation”. The project will also advance the Green, Resilient, and Inclusive Development (GRID) agenda and address climate change in the Maldives by supporting climate resilience of SOEs and climate-smart financing for SMEs in the face of increasing natural hazards.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The project development objective is to enhance private participation in State-Owned Enterprises and competitiveness of small and medium enterprises.

Key Results

The results to measure achievement of the PDO are:

- a. Number of SOEs taken to market
- b. Number of SMEs receiving alternative credit scores
 - i. Of which women-owned/led
- c. Number of SMEs supported
 - i. Of which women-owned/led

D. Project Description

The project components focus on accelerating SOE reforms, fostering SME competitiveness, and project management.

Component 1: Accelerating SOE Reforms (US\$7.0 million)

- Component 1.1: Increasing private participation in ownership of select SOEs – This Component will finance technical assistance activities such as the following: (i) support to a few SOEs to develop policies and business plans, identify specific private participation opportunities, publication in the Official Gazette, and listing on the stock exchange; (ii) support to on-board transaction advisors (including financial advisors) to advise on the private participation process; and (iii) assist in undertaking necessary technical evaluations and due diligence (environmental, social, legal, technical) of specific nominated SOEs to complement and support the work of the transaction advisors. To complement these activities, a communications program will be supported: this will involve the development of an overall communications plan, a communications plan for each individual SOE as they are brought to market, active consultation with stakeholders, preparation of supporting materials, and establishment of a digital presence.
- Component 1.2: Improving SOE regulations and governance at the program and corporate level – This Component will finance technical assistance activities such as: (i) advise on the design and implementation of SOE laws and regulations and guidelines pertaining to, inter alia, establishment, scope and governance (including on matters related to energy efficiency and climate-resilience of new infrastructure), divestment and dissolution of SOEs, building on prior and recent



recommendations made by the World Bank and other development partners; (ii) assist in capacity building of Government institutions engaged in owning and monitoring SOEs to improve overall governance of SOEs at the program level including fiscal management, as well as capacity building of SOE managers and key staff; (iii) advise on improved corporate governance plans and practices in select SOEs; and (iv) advise on increased private sector access to SOE procurement opportunities.

- **Component 1.3: SOE public service obligations (PSO) reform** – This Component will finance technical assistance that supports better targeting and accountability of operating subsidies and price and tariff subsidies. In the case of tariff and price subsidies in respect of PSOs, a core objective is to ensure that the most vulnerable populations are protected through targeting, while SOEs are transparently compensated for the cost of these PSOs to ensure their accurate financial accountability. The Component will also finance activities aimed at undertaking stakeholder consultations and communications.

Component 2: Fostering SME Competitiveness (US\$7.0 million)

- **Component 2.1: Digital Financial Infrastructure** – This Component would include support for: (i) the development of technology platforms to help collect secure SME business data from everyday touchpoints (transactions, income flows); (ii) incorporation of value-added business management features (such as predictive analytics and automated loan-reminders) in the technology platform to be used by the SMEs; (iii) establishment of a proprietary information sharing mechanism with the Credit Information Bureau (CIB) and financial institutions; (iv) the building of alternative credit scoring models based on transactions history and SME cash-flow; (v) the promotion of financial literacy and technology adoption to ensure robust collection of data; and (vi) the initiation of an extended consultation and TA program to support financial institutions' uptake of lending opportunities made possible by this fintech transformation.

- **Component 2.2: SME Growth Acceleration Program** – This Component will center around a structured, high quality, intensive business support program that will identify an agreed number of high potential SMEs (at least 50 over five years), with a special emphasis on women-owned/led SMEs and: (i) provide growth diagnostics; (ii) develop sustainable and climate-conscious action plans; (iii) offer performance-based TA from experts/mentors for structured management improvement; (iv) link to finance providers for additional finance; and (v) provide targeted capacity building support to local knowledge providers. Some support will be tailored, some provided in groups or cohorts. The program will also support the establishment and capacity building of local SME advisory networks and mentors.

Component 3: Project Management (US\$1.0 million)

- The implementing agency will be the Ministry of Finance (MoF). A dedicated Project Management Unit (PMU) will be established in MoF. The PMU will be responsible for carrying out project activities and conducting monitoring and evaluation, including: (i) preparing the annual work plans, budgets, and quarterly project reports for endorsement by the Project Steering Committee (PSC); (ii) undertaking coordination, management, procurement, financial management, communications, and environmental and social management activities under the project and related follow-up; (iii) carrying out the overall communications and dissemination of project information to key stakeholders including policymakers, SOE officials, private sector, and the public; (iv) monitoring and evaluation; and (v) reporting to the PSC, acting as its technical adviser, and liaising with the World Bank team on any matters related to project progress and the use of the proceeds of the financing. A functional management information system (MIS) will be developed early in implementation.



Legal Operational Policies

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

Summary of Assessment of Environmental and Social Risks and Impacts

The environmental and social (E&S) risk of the project is 'Moderate'. While the nature and magnitude of the potential environmental risks and impacts associated with project interventions are expected to be non-detrimental, the risk is elevated due to the limited capacity and experience of the implementing agency with implementing environmental due diligence for projects. Project activities are not expected to have large-scale or significant environmental impacts. Component 1 will only include the need to manage residual risks associated with SOE E&S risk management capacity and the need to ensure adequate provision of environmental risk mitigation into SOE operational processes in line with the Environmental and Social Framework (ESF) and National Regulations for the Maldives. Component 2 will support the development of digital platforms which may involve procurement of digital equipment such as servers that could include risks such as generation of e-waste. The social risks associated with the project are rated as 'Moderate' given that the project will not finance interventions such as civil works leading to resettlement or causing adverse social impacts, since the interventions will primarily be technical assistance and capacity building support. However, there will be social risks associated under: (i) Component 1 linked to possible resistance and opposition to SOE reforms from stakeholders and concerns linked to land ownership issues during private participation; and (ii) under Component 2.2, risks associated with exclusion of eligible SMEs from the SME Growth Acceleration Program and access to information during implementation of the services. The project has applied the Sexual Exploitation and Abuse/Sexual Harassment (SEA/SH) Risk Assessment Tool for Social Protection and determined the SEA/SH risk level to be 'low', since the project will provide only technical and capacity building support. Nevertheless, the project will include: a code of conduct for workers, capacity building for SOEs and SMEs on SEA/SH prevention, and the project GRM to address SEA/SH incidents.

The MoF has demonstrated fair capacity to successfully implement safeguards and the ESF but for projects that have not had any civil works or equipment provisions. While the Environmental laws and due diligence procedures in the Maldives are robust, there will be a need to support project specific capacity building as the capacity and experience of implementing due diligence in line with ESF. The MoF has developed, in line with the World Bank's ESF, an Environmental and Social Commitment Plan (ESCP). The ESCP Outlines all relevant measure to be undertaken in line with the applicable Environmental and Social Standards (ESSs). A Stakeholder Engagement Plan (SEP) has also been prepared and will detail the strategy and the plan to engage key stakeholders in targeted consultations and communications activities to address specific concerns, for example linked to the SOE reforms and disclose information related to the SME Growth Acceleration Program. The Labor Management Procedures (LMP) will also include provisions to protect workers affected by SOE reforms consistent in compliance with ESS2. The SEP will be disclosed by Appraisal and the LMP by project commencement.

E. Implementation

Institutional and Implementation Arrangements



The project will adopt streamlined implementation arrangements that aim to strengthen coordination across relevant stakeholders. The implementing agency will be MoF that has implemented World Bank projects and is familiar with World Bank policies and procedures. Implementation will be supported by Project Management Unit (PMU) housed in MoF. A PSC chaired by MoF, and with a proposed membership, will be established to advise on and carry out high-level monitoring of project implementation. While MoF, through the PMU, will lead overall project implementation, other agencies will also be actively involved to provide component-level technical leadership and support. These supporting partner agencies would include, inter alia, two MoF departments (Fiscal Affairs and State Shareholding), Privatization and Corporatization Board, Ministry of Economic Development (MoED), Maldives Monetary Authority, CIB, Capital Markets Development Authority, Maldives Stock Exchange, member agencies of the PSC, and the SOEs themselves. The SME growth acceleration program under Component 2.2 will be administered by a program management firm and overseen by a management committee chaired by MoED. A Project Operations Manual will be prepared and approved by effectiveness.

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World Bank

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APPROVAL

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