



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 16-Jan-2023 | Report No: PIDC34548

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

Country Maldives	Project ID P179286	Parent Project ID (if any)	Project Name Maldives Competitiveness and Growth Project (P179286)
Region SOUTH ASIA	Estimated Appraisal Date Mar 01, 2023	Estimated Board Date May 22, 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 improve the service delivery and private participation readiness of State-Owned Enterprises (SOEs) and enhance private sector opportunities in the economy.

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

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

None.

B. Introduction and 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.

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) also face a volatile operating environment and are subject to many challenges that can be mitigated by enhancing firm capabilities. 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 to promote 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.

C. Proposed Development Objective(s)

The project development objective is to improve the fiscal sustainability and service delivery of State-Owned Enterprises (SOEs) and enhance private sector opportunities in the economy.

Key Results (From PCN)



The results under consideration to measure achievement of the PDO are:

- (i) Value of private participation in SOEs
- (ii) Number of new SMEs receiving credit based on alternative credit scores
- (iii) Number of competitive SMEs supported, of which X% are women-owned/led

D. Concept Description

The project components include: (1) Accelerating SOE Reforms; (2) Fostering SME Competitiveness; and (3) Project Management. The project will be designed in close coordination with the International Finance Corporation (IFC) and other development partners who have ongoing or possible future support to SOE reforms.

Component 1: Accelerating SOE Reforms

- Sub-component 1.1: Increasing private participation in ownership of select SOEs – The sub-component will finance technical assistance activities such as the following: support to a few SOEs to develop policies and identify specific private participation opportunities; support to on-board transaction advisors to help manage the private participation process; and undertaking necessary technical evaluations / due diligence (environmental, social, legal, technical) of specific nominated SOEs to complement and support the work of transaction advisors. A communications program will be supported; this would involve the development of a communications plan, active consultation with stakeholders, preparation of supporting materials, and establishment of a digital presence.
- Sub-component 1.2: Improving SOE regulations and governance at the program and corporate level – This sub-component will finance technical assistance efforts to strengthen activities such as the design and implementation of SOE laws and regulations and guidelines pertaining to, inter alia, establishment, scope, governance, divestment and dissolution of SOEs; capacity building of Government institutions engaged in owning and monitoring SOEs to improve overall governance of SOEs at the program level including fiscal management; and improved corporate governance practices in select SOEs.
- Sub-component 1.3: SOE public service obligations (PSO) reform – This sub-component will finance technical assistance that supports better targeting and accountability of operating subsidies and price and tariff subsidies.

Component 2: Fostering SME Competitiveness

- Sub-component 2.1: Digital Financial Infrastructure – This sub-component would include: the development of technology platforms to help collect secure SME business data from everyday touchpoints; incorporation of value-added business management features in the technology platform to be used by the SMEs; establishment of a proprietary information sharing mechanism with the Credit Information Bureau and financial institutions; building of alternative credit scoring models based on transactions history and SME cash-flow; enhancing financial literacy and technology adoption to ensure robust collection of data; and initiating extended consultation and TA program to support financial institutions' uptake of lending opportunities made possible by this fintech transformation.
- Sub-component 2.2: SME Growth Acceleration Program – This sub-component will center around a structured, high quality, intensive business support program that will identify an agreed number of high potential SMEs, with a special emphasis on women-owned/led High Growth Firms (HGFs) and: provide growth diagnostics; develop action plans; offer performance-based TA from experts/mentors for structured management improvement; link to finance providers for additional finance; and provide targeted capacity building support to local providers. Some support will be tailored, some provided in groups. The program will also finance the establishment and capacity building of local SME advisory networks and mentors.

Component 3: Project Management



- The primary implementing agency will be the Ministry of Finance (MoF). A dedicated Project Management Unit (PMU) will be established in MoF. Project oversight will be provided by an empowered inter-ministerial Project Steering Committee (PSC) that could include the MoF, Ministry of Economic Development, Privatization and Corporatization Board, Capital Markets Development Authority, Maldives Stock Exchange, private sector representatives and financial institutions. 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 Screening of Environmental and Social Risks and Impacts

Environmental and social risks in line with the Environmental and Social Framework (ESF) are rated as *Moderate*. The nature and magnitude of the potential **environmental risks** and impacts are expected to be moderate: while direct impacts are low, the capacity of the MoF on handling ESF need to be built. Component 1 will support SOEs with technical interventions that will need to manage residual environmental and social risks. E&S elements will be built in project design so that selected SOEs will consider strengthening their E&S units for better and sustainable management of their projects/operations. Component 2 will support the development of digital platforms and equipment which could include risks such as generation of e-waste. **Social risks** are moderate due to the uncertainty around stakeholder reaction to SOE reform, existing issues with SOE operations (linked to land, labor, health and safety etc.) and lack of transparency in the selection of SMEs for support. Thus, the project will carry out adequate due diligence as part of its technical support and roll out an effective stakeholder engagement and communications strategy, obtain feedback from stakeholders and operationalize a Grievance Redress Mechanism (GRM) to address stakeholder concerns. The Sexual Exploitation and Abuse/Sexual Harassment (SEA/SH) Risk rating was also rated as ‘low’ as determined by the SEA/SH Assessment Tool. Overall, the project is expected to bring positive social and environmental impacts via promoting better planning and business management within SOEs and SMEs. Economic benefits from improved SOE performance could benefit Maldivians in critical sectors. In addition, increased access to finance to SMEs could generate positive productivity spillovers and women’s economic empowerment.

The primary counterpart will be the MoF that has implemented World Bank projects and is familiar with World Bank policies and procedures. In the past the MoF has been the implementing agency for projects on PFM strengthening and Technical Assistance that have used the Bank’s former Environmental and Social Safeguard Policies. Experience on ESF implementation however has been limited and will require additional capacity strengthening and support, while basic understanding does exist due to capacity building initiatives that have captured MoF and the Privatization and Corporatization Board and/or State Shareholding Department staff as well.

A dedicated Project Management Unit (PMU) housed in the MoF will include the following capabilities: Project coordination, procurement, financial management, the environmental and social framework communications, monitoring and evaluation, and technical advisors for specific topics. PMU staff could be newly hired or reassigned from (or shared with) existing projects. Retroactive financing for advance hiring of critical PMU positions will be permitted. Significant capacity building measures will have to be embedded in the project for these agencies to develop due diligence procedures, implementation, and monitoring mechanisms. There will also need to be capacity building targeted to project beneficiaries (SOEs as well as SMEs) on operational environmental and social management. Additional needs in terms of



overarching capacity building will be assessed during project preparation and built into the project specific capacity building plan and Environmental and Social Commitment Plan (ESCP).

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APPROVAL

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