

Ex-Ante Evaluation
Private Sector Investment Finance Division,
Private Sector Partnership and Finance Department, JICA

1. Name of the Project

- (1) Country: Republic of Maldives
- (2) Project Site / Target Area: Maldives
- (3) Project: Tourism Sector Support Project

Signing Date: March 27, 2023

2. Background and Necessity of the Project

(1) Current State and Issues of Tourism Sector and MSMEs in Maldives

Tourism is a major industry in the Maldives, with the industry alone (such as tourism agency, accommodation, food and beverage, etc.) accounting for 29% of GDP (2019), and including related industries such as construction, transportation, and wholesale and retail trade, it is estimated to account for around 75% of GDP (WTTC, 2020). In addition, micro, small, and medium-sized enterprises ("MSMEs") account for about 90% of the total number of private enterprises in the country. Of the MSMEs, 49.8% are classified as wholesale and retail, 12.2% as tourism, 7.3% as construction, and 5.6% as accommodation, food and beverage (UNDP, 2020). As mentioned above, these tourism-related industries account for the majority of the country's GDP, and MSMEs support the growth of the tourism sector and play an important role in securing job opportunities, improving livelihoods, and reducing poverty. However, the global outbreak of the novel coronavirus infection (hereinafter referred to as "COVID-19") has severely affected the country's tourism industry, with the inflow of overseas tourists in 2020 falling by -67.4% compared to the previous year (Maldives Ministry of Tourism, 2021) and GDP in 2020 reaching -32.0% compared to the same period (IMF, 2021). Furthermore, 12.1% of tourists in the second half of 2021 were from Russia, and the recent situation in Ukraine could lead to reduce the number of tourists from Russia in the future.

Access to finance for the private sector is a challenge in the Maldives, especially in rural areas, where it is estimated that only about one-third of MSMEs have access to bank loans (Ministry of Economic Development, 2017). Furthermore, women's access to finance is also a challenge, with an estimated 13.5% of all women-owned businesses having access to bank loans (IMF, 2020). A survey conducted after the expansion of COVID-19 confirmed that 46% of MSMEs need financial support, including concessional loans, among others. The Government of Maldives, through the SME Development Finance Corporation (SDFC), implemented the "COVID-19 Viyafaari Ehee" loan scheme to provide concessional loans to the MSMEs. SDFC also implemented the "Viyafaari Dhirun" scheme from July to October 2021 as a successor to Viyafaari Ehee, which includes consulting support in addition to loans, mainly for MSMEs in the tourism-related sector, especially those affected by COVID-19. This project facilitates loans through BML to tourism-related sector operators who are in the process of recovery after the official support for MSMEs has ended, which is in line with the

challenges of the sector and the policy of the Maldivian government.

(2) Japan and JICA's Policy and Operations in the Private Sector

JICA Country Analysis Paper for Maldives (April 2020) sets "support for sustainable economic growth with due consideration for vulnerabilities" as its major goal, and the project is in line with this policy, as the country's economic structure is vulnerable to external factors (such as global economic trends). JICA provided the "COVID-19 Crisis Response Emergency Support Loan" in 2020 to support businesses affected by COVID-19 through supporting the aforementioned "COVID-19 Viyafaari Ehee" scheme. However, the "COVID-19 Viyafaari Ehee" scheme and its successor "Viyafaari Dhirun" scheme have already been completed. Through this project, JICA will be able to supplement its existing support through yen loans, and continue and expand similar support led by the private sector without increasing the national debt. In addition, JICA has been implementing the "Information Collection and Verification Survey on Tourism Sector Reconstruction from COVID-19" since 2020.

3. Project Description

(1) Project Description

① Project Objective

The objective of the Project is to improve financial access of the tourism sector enterprises including MSMEs and women-owned businesses, and thereby contribute to the sustainable economic development of Maldives through offering long-term finance to Bank of Maldives.

② Project Components

The loan will be used to finance a loan by BML for a project to support the tourism sector, mainly for MSMEs and women-owned businesses.

③ Project Beneficiaries (Target Group)

Tourism sector worker, mainly for MSMEs and women-owned businesses

(2) Estimated Project Cost: About 41 million dollars

(3) Schedule: March, 2023-March, 2028

(4) Project Implementation Structure

① Borrower: Bank of Maldives (BML)

② Executing Agency: Bank of Maldives (BML)

③ Operation and Maintenance System: Bank of Maldives (BML)

(5) Collaboration and Sharing of Roles with Other Donors

1) Japan's Activity: N/A

2) Other Donors' Activity: Co-finance with ADB and OeEB

(6) Environmental and Social Consideration / Cross-Sectoral Issues / Gender Category

1) Environmental and Social Consideration

① Category: FI

② Reasons for Categorization: The Project is in accordance with the Japan International Cooperation Agency's Environmental and Social Consideration Guidelines (announced in

April 2010, and hereafter referred to as “the JICA Guidelines”), as the subprojects in this project could not be specified prior to JICA’s approval for financing, and they may have an environmental impacts under the JICA Guidelines.

- ③ Other: In the Project, BML plans to take environmental and social considerations into account for each project, based on its own system for environmental and social considerations and the JICA Guidelines. Also, a mutual understanding has been reached on the principle of not including subprojects in Category A.

(7) Cross-Sectoral Issues: N/A

(8) Gender Category: GI (S): Gender Activities Integration Project

<Reasons for classification> As the project contributes to improving women's access to finance, and the ratio of female business loans is set as a quantitative effectiveness indicator. In addition, 8 of BML's 15 Board of Directors (approximately 53.3%) are women, and 1 of the 3 senior managements (CEO and Deputy CEOs) (approximately 33.3%) is a woman, and therefore it has been confirmed that the borrower meets the direct criteria of "at least 30% women in senior management". In addition, the borrower is aiming to increase the share of loans to all female borrowers or businesses owned by women to 30%, which satisfies the indirect criteria. Therefore, it is planned to apply for 2X Challenge recognition.

(9) Other Important Issues: N/A

4. Targeted Outcomes

(1) Quantitative Effects:

1) Outcomes (Operation and Effect Indicators)

Indicator	Baseline (2020)	Target (2026) (2 years after the completion of disbursement)
Total loan outstanding to tourism companies	MVR 6,057 Million	MVR 7,000 Million
New loans for locally owned SMEs per annum	0 loans	6 loans
Share of loans to all female borrowers or to businesses owned by women	20%	30%

(2) Qualitative Effects: Improved financial access for tourism sector (especially MSMEs and women-owned businesses), Development of the tourism sector and job retention and creation.

5. External Factors and Risk Control

N/A

6. Lessons Learned from Past Projects

(1) Evaluation Findings of Similar Past Projects

The lesson learned from the ex-post evaluation of the ODA loan to Egypt, the Micro and Small

Enterprises Support Project, for forming a similar project to support loans to micro and small enterprises, was the importance of 1) an abundance of experience in the loan business, 2) having lots of branches in order to gain the trust of customers that are dispersed throughout the country, and 3) combining support for non-financial services such as marketing, accounting management, and asset management in addition to the support for financial services.

(2) Lessons for the Present Project

In light of these lessons learned, the project confirmed the following through the appraisal: 1) BML is considered to have an abundance of experience as it has been in the lending business for 40 years since its establishment and has led the banking sector in the Maldives as the largest bank, accounting for over 50% of total loans in the banking sector, 2) BML is considered to have a sufficient branch network, as it has 35 branches and has branches in all atolls, and 3) BML has developed its own online payment platform called BML Merchant Portal and provides it to its customers free of charge, and BML provides free training programs to improve the financial literacy of its customers, mainly in rural areas, thereby promoting financial inclusion and expanding its customer base.

7. Evaluation Results

As described above, the Project is consistent with Maldives's developmental issues and policies, as well as Japan's cooperation policies, its necessity has been acknowledged, the project plan is appropriate and there is a sufficient expectation of success. Therefore, it is highly meaningful to support the implementation of the Project.

8. Plan for Future Evaluation

(1) Indicators to Be Used: As shown in Section 4.

(2) Future Evaluation Schedule (estimate): Ex-post evaluation to be conducted 2 years after the completion of disbursement.

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