



Report and Recommendation of the President to the Board of Directors

PUBLIC

Project Number: 55156-001
April 2022

Proposed Senior Secured Loan, Administration of Senior Secured Loan, and Administration of Grant Bank of Maldives Plc BML Supporting Recovery of the Small and Medium Enterprise and Blue Economy Tourism Sector Project (Maldives)

This is a redacted version of the document approved by ADB's Board of Directors, which excludes information that is subject to exceptions to disclosure set forth in ADB's Access to Information Policy.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 2 March 2022)

Currency unit	–	rufiyaa (MVR)
MVR1.00	–	\$0.065
\$1.00	–	MVR15.420

ABBREVIATIONS

ADB	–	Asian Development Bank
BML	–	Bank of Maldives Plc
CAR	–	capital adequacy ratio
CEO	–	chief executive officer
COVID-19	–	coronavirus disease
CFPS II	–	Canadian Climate Fund for the Private Sector in Asia II
ESMS	–	environmental and social management system
GAP	–	gender action plan
GDP	–	gross domestic product
GNPA	–	gross nonperforming asset
JICA	–	Japan International Cooperation Agency
kWh	–	kilowatt-hour
MW	–	megawatt
OeEB	–	Die Oesterreichische Entwicklungsbank AG (Development Bank of Austria)
OFI	–	Oceans Financing Initiative
PSW	–	Private Sector Window
SMEs	–	small and medium-sized enterprises

NOTES

- (i) The fiscal year (FY) of the Bank of Maldives Plc ends on 31 December.
- (ii) In this report, “\$” refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 55156-001	
Project Name	BML Supporting Recovery of the Small and Medium Enterprise and Blue Economy Tourism Sector Project	Department/Division	PSOD/PSFI
Country	Maldives		
Borrower	Bank of Maldives Plc		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=55156-001-PortAtaGlance		
2. Sector		Subsector(s)	
✓ Finance	Finance sector development	ADB Financing (\$ million)	8.000
	Small and medium enterprise finance and leasing		12.000
Energy	Energy efficiency and conservation		1.000
		Total	21.000
3. Operational Priorities		Climate Change Information	
✓ OP2: Accelerating progress in gender equality		GHG reductions (tons per annum)	4200.000
		Climate Change impact on the Project	High
✓ OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		ADB Financing	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
		Cofinancing	
		Adaptation (\$ million)	1.000
		Mitigation (\$ million)	9.000
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 5.a		Effective gender mainstreaming (EGM)	✓
SDG 7.a			
SDG 8.10, 8.3		Poverty Targeting	
SDG 13.a		General Intervention on Poverty	✓
SDG 14.1			
4. Nonsovereign Operation Risk Rating			
Obligor Name		Obligor Risk Rating	Facility Risk Rating
Bank of Maldives Plc			
5. Safeguard Categorization Environment: FI Involuntary Resettlement: FI Indigenous Peoples: FI-C			
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		21.000	
Nonsovereign LIBOR Based Loan (Regular Loan): Ordinary capital resources		20.000	
Nonsovereign project grant: ADB Private Sector Window		1.000	
Cofinancing		39.000	
-Debt - Japan International Cooperation Agency (Not ADB Administered)		20.000	
Canadian Climate Fund for the Private Sector in Asia II (CFPS II) (Full ADB Administration)		9.000	
Others		10.000	
Others^a		0.000	
Total		60.000	
Currency of ADB Financing: US Dollar			

^a Derived by deducting ADB financing and Cofinancing from Total Project Cost.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed senior secured loan of up to \$20,000,000, (ii) a proposed administration of a \$9,000,000 senior secured loan from the Canadian Climate Fund for the Private Sector in Asia II (CFPS II), and (iii) a proposed administration of a \$1,000,000 grant from the Asian Development Bank (ADB) Private Sector Window (PSW) to the Bank of Maldives Plc (BML) for BML Supporting Recovery of the Small and Medium Enterprise and Blue Economy Tourism Sector Project in Maldives.

2. The ADB funding package will contribute to economic recovery in Maldives by supporting one of its most critical sectors while mitigating climate change impacts. ADB's longer-tenor loan financing will support onlending to tourism companies locally owned by Maldivian residents, of which at least 60% will be used for financing small and medium-sized enterprises (SMEs) as defined by BML and at least 10% will be onlent to firms owned by women.¹ The ADB PSW grant and concessional loan from CFPS II will be onlent to eligible projects for climate change mitigation and adaptation projects focused on the blue economy² through blended finance solutions, with BML's own funds in a ratio of up to 50:50 (CFPS II, PSW:BML).

II. THE FINANCIAL INTERMEDIARY

A. Investment Identification and Description

3. **Tourism.** Tourism directly and indirectly accounts for about 75% of gross domestic product (GDP) in Maldives.³ Tourism grew significantly, with bed capacity increasing from 280 in two resorts in 1972 to more than 54, 611 in close to 1,060 properties in 2021; tourist arrivals grew from 0.43 million in 1999⁴ to a peak of 1.70 million in 2019.⁵ Tourism is recovering, with arrivals in 2021 reaching 78% of 2019 levels and exceeding 2020 arrivals by 238%. Tourism receipts are rebounding faster than arrivals, totaling \$3.11 billion in 2021 or only 0.6% below 2019 levels.⁶ Maldives is forecast to receive 2.3 million tourists by 2023, and the anticipated increase in demand will require rapid expansion of capacity by adding about 12,000 beds, assuming 70% occupancy and an average stay of 6 nights.⁷ In 2021, guesthouses comprised 69% of total accommodations by number of properties but supplied only 22% of total beds. Since the onset of the coronavirus disease (COVID-19), and given Maldives' high dependence on tourism, the

¹ A locally owned business is one that is more than 50% owned by Maldivian nationals or where the management company is more than 50% owned by Maldivian nationals. IGI Global. [What is Tourism Industry](#). Per IGI Global, the tourism industry includes hospitality (e.g., accommodation, restaurants); transport (e.g., boat travel); travel facilitation and information (e.g., tour operators, travel agents, tourist information centers); and attractions and entertainment (e.g., heritage sites, national parks, diving activities). For the purposes of defining SMEs, BML defines as entities with less than 300 employees and with a loan of less than \$2.5 million in line with the definition used for BML's recent International Finance Corporation loan. Loans will be deemed to be for businesses owned by women if (i) the majority of shares is held by women or (ii) 40% or more of employees are women.

² The blue economy segments targeted for the project are as defined in Government of Maldives and in [ADB's Ocean Finance Framework](#). Globally, investors also reference blue economy segments as defined by the United Nations Environment Programme (UNEP). 2021 [United Nations Environment Programme, Turning the Tide: How to Finance a Sustainable Ocean Recovery](#) which is aligned to the [UNEP Sustainable Blue Economy Finance Principles](#), of which ADB is a signatory. ADB's Ocean Finance Framework defines eligible projects as those which focus on ecosystem and natural resource management, pollution control, sustainable coastal and marine development and ocean finance. See also the Government of Maldives definition in its [Strategic Action Plan 2019–2023](#).

³ World Bank. [Tcdat360—Travel and Tourism Contribution to GDP](#) (accessed 25 January 2021).

⁴ Government of Maldives, Ministry of Tourism. 2004. [Tourism Statistics—2004 Edition](#).

⁵ Government of Maldives, Ministry of Tourism. 2020. [Monthly Statistics—December 2019](#).

⁶ Government of Maldives, Maldives Monetary Authority. [Statistical Database \(accessed 5 April 2022\)](#).

⁷ Travel Trade Maldives. 2020. [TTM Report: Maldives Tourism Industry Forecast 2023](#).

country has been among the hardest-hit economies, with real GDP contracting by 33.5% in 2020 although it rebounded to grow by 31.6% in 2021.⁸

4. **Climate change and its impacts.** Maldives is highly vulnerable to climate change impacts, ranking 103 out of 182 countries in the 2019 ND-GAIN Country Index.⁹ More than 80% of the islands face erosion issues and about 30 are identified as critically eroded, with impacts including loss of beaches and vegetation, damage to human settlements, loss of critical infrastructure, as well as flooding and inundation because of storm surges.¹⁰ Maldives is highly vulnerable to natural hazards and extreme climate events because of its fragile ecological profile and low elevation. Tourism, which is spread out over 1,192 smaller islands, will continue to be under pressure from sea-level rise, temperature extremes, and changes to global tourism behavior and preferences.¹¹

5. **Climate finance and blue economy sectors.** Maldives does not have any indigenous conventional energy resources and is dependent on imported fossil fuel. It has struggled to reform the electricity sector to decrease dependency on external fuel sources and needs to increase investment in improved use of energy-efficient technologies. Because the islands are so spread out, each is electrified with its own diesel-powered grid system, resulting in expensive and unreliable supply. About 290 megawatts (MW) of diesel generation capacity are installed in 186 inhabited islands, with resort islands adding 144 MW and industrial islands 20 MW. The total installed capacity of renewable energy was only about 21.5 MW as of December 2019 or less than 5% of installed capacity, leading to extremely expensive electricity (\$0.45/kilowatt-hour [kWh] in 2019, compared with \$0.17/kWh in Sri Lanka and \$0.11/kWh in Indonesia) and requiring a subsidy of more than 50%.¹² In 2019, the country imported more than 700,000 metric tons of fuel (80% of which was diesel), translating into an import bill of \$465 million, equivalent to one-sixth of all imports and 8.3% of GDP.¹³

6. Maldives has one of the highest blue economy ratios worldwide, accounting for about 36% of GDP, compared with the Philippines (4.5%), Solomon Islands (13.3%), Samoa (25.5%), and Fiji (41.0%).¹⁴ As part of its efforts to improve the natural environment and diversify energy supply, the Government of Maldives has identified the blue economy as one of five priority areas in its Strategic Action Plan 2019–2023.¹⁵ The economy and well-being of Maldives is tied to the health and wealth of the ocean, coral reefs, beaches, and marine life. Investments in blue economy projects, which include small-scale renewable energy, energy efficiency, desalination, coastal resilience, and marine ecosystem management and restoration, are deficient, given inadequate financing and the focus on short-term revenue-increasing measures.

⁸ ADB. 2022. [Asian Development Outlook: Mobilizing Taxes for Development](#). Manila.

⁹ University of Notre Dame—Notre Dame Global Adaptation Initiative. [Rankings](#). The Notre Dame Global Adaptation Initiative Index summarizes a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience.

¹⁰ Green Climate Fund. 2018. [Building Climate Resilient Safer Islands in the Maldives](#).

¹¹ World Bank Group and ADB. 2021. [Climate Risk Country Profile, Maldives](#).

¹² ADB. 2020. [A Brighter Future for Maldives Powered by Renewables: Roadmap for the Energy Sector 2020–2030](#). Manila. See also Climate Investment Fund. 2019. [Preparing Outer Island Sustainable Electricity Project](#); and Government of Maldives, Ministry of Finance. 2020. [Budget in Statistics](#). Subsidies (including for food and health care) are the second-largest budget expenditure, totaling about \$23 million for electricity, with an additional \$24 million for fuel subsidies.

¹³ World Bank. 2021. [Maldives: Towards a Sustainable Net-Zero Future](#).

¹⁴ ADB. 2020. [ADB Working Paper Series: Drivers of Blue Economy in Asia and the Pacific Island Countries – an Empirical Investigation of Tourism and Fisheries Sectors](#).

¹⁵ Government of Maldives, The President's Office. [Strategic Action Plan 2019–2023](#). Malé.

7. **Banking.** The finance sector is still developing, with banks dominant. As of fiscal year (FY) 2020, there were eight commercial banks (three locally incorporated banks, four branches of foreign banks, and one subsidiary of a foreign bank); three nonbanking finance companies; five insurance companies; two money remittance providers; and two payment service providers. Banks controlled nearly 77% of total assets of MVR89.2 billion as of the end of 2020. Maldives is well-banked, with 97.6% of adults having a bank account and 1,070.6 debit cards issued per 1,000 adults. However, access to finance remains challenging, with only 15.6% of all adults and 13.5% of women borrowing from commercial banks.¹⁶ Banks saw cumulative asset growth of 9.3% and loan growth of 11.7% in FY2015–FY2020, driven primarily by tourism, construction, and retail. Deposit growth in FY2015–FY2020 was 6.6%, with a notable increase of 15.7% in FY2020 because residents were searching for safe assets. As of FY2020, foreign currency deposits constituted 50% of total deposits.¹⁷ The government provided loan moratoriums and concessional working capital loans to support companies reeling from the impact of COVID-19, thus containing the rise in gross nonperforming assets (GNPAs), which stood at 7.5% as of the end of September FY2021 for the banking system as a whole, below the FY2020 GNPA ratio of 8.3%, using the regulatory definition.¹⁸

8. **Small and medium-sized enterprise sector.** In 2019, an estimated 4,910 SMEs (of a total of 8,422 enterprises) were operating predominantly in wholesale and retail trade, tourism, construction, and services;¹⁹ 43.8% were small and 14.5% medium-sized. SMEs face a range of challenges, the most critical being access to finance. Most SMEs do not use bank loans as they are difficult to obtain because of restrictive credit policies, the high cost of credit, and SMEs' lack of collateral and financial literacy. In the atolls, two-thirds of entrepreneurs have never borrowed from a bank (footnote 19). The pandemic exacerbated challenges for SMEs, due to major supply disruptions, leading to reduced working hours, slowing demand, reducing sales and revenues, and, most critically, restricting access to finance.

9. **Rationale.** ADB launched the Action Plan for Healthy Oceans and Sustainable Blue Economies in 2019, setting the goal to scale up investments and technical assistance to \$5 billion during 2019–2024.²⁰ ADB's Oceans Financing Initiative (OFI) helps developing member countries catalyze financing for projects that will protect and restore marine ecosystems and promote sustainable blue economies.²¹ It has identified focus areas in ecosystems and natural resource management, pollution control, and sustainable coastal and marine development. This project

¹⁶ International Monetary Fund. 2020. [Financial Access Data 2020](#). Washington, DC.

¹⁷ Government of Maldives, Maldives Monetary Authority. 2020. [Annual Report 2020](#).

¹⁸ Government of Maldives. [Maldives Monetary Authority, Monthly Statistics](#), December 2021. The Maldives Monetary Authority defines an asset as nonperforming when (i) any portion of principal or interest is due and unpaid for 90 days or more; or (ii) interest payments for 90 days or more have been capitalized, refinanced, or rolled over into a new loan. Current account (overdrafts) and other loans not having preestablished repayment programs are considered nonperforming when any of the following conditions exist: (i) the debt exceeds the approved limit for 90 consecutive days or more; or (ii) the borrowing line has expired for 90 days or more; or (iii) interest is due and unpaid for 90 days or more; or (iv) the account has been inactive for 90 days, or deposits have been insufficient to cover the interest that was capitalized during the period.

¹⁹ Government of Maldives, The Ministry of Economic Development, with support from the United Nations Development Programme. 2020. [Rapid Livelihood Assessment: Impact of the COVID-19 Crisis in the Maldives, Part—III Micro, Small and Medium Enterprises](#). SMEs are defined as meeting criteria for annual turnover and number of employees and filing business profit tax and gross sales tax with the Maldives Inland Revenue Authority. The government defines small businesses as those with a turnover of MVR500,000–MVR5 million and 6–30 employees, while medium-sized companies have a turnover of MVR5 million–MVR20 million and 31–100 employees.

²⁰ ADB. 2019. [Action Plan for Healthy Oceans and Sustainable Blue Economies](#). Manila.

²¹ ADB. 2019. [Oceans Financing Initiative](#). Manila. In March 2022, ADB also published the [Ocean Financing Framework](#) as an output of the OFI and provides detailed ADB-specific guidance on the types of projects that ADB defines as “blue” or “ocean” investments.

contributes to ADB's action plan and is aligned with the OFI's goals by supporting post-pandemic economic recovery, which significantly depends on the recovery of blue economy tourism. As tourism returns to its full-scale growth trajectory, the project will support critically needed new investments in climate change mitigation and adaptation in blue economy sectors, especially for locally owned SMEs. The transaction supports gender equality by targeting 10% of the loan proceeds to women businesses and by adopting training modules and best practices to promote lending to women. BML is the largest bank in Maldives and has consistently supported SMEs and tourism and intends to scale the offering of new loan products for the blue economy. The capacity of BML to help revive investment in sustainable tourism, together with its strong financial position, prudent risk management practices, and capable management team, enable the bank to withstand the challenging macroeconomic situation, making it a good partner for ADB in supporting economic recovery in the country.

B. Business Overview and Strategy

10. **Overview.** BML is the largest among the eight banks in the Maldives and is the only one with majority ownership (66.3% direct and indirect) by the government and its agencies. It has the largest network (139 ATMs and 35 branches), with a presence in all 20 atolls. BML accounted for about 52% of total assets and total deposits as of the end of 2020,²² making it a systemically important bank. BML offers a full range of banking services to its over 300,000 customers, with a leading market share in retail, corporate, and SME segments. Fitch rates BML *B-* for long-term issuer default rating and *B* for short-term issuer rating, with a stable outlook.

11. **Business strategy.** BML has grown its loan book at a compound annual rate of 9.5% in FY2017–FY2020 and plans to continue growth at 6%–7% as construction and tourism begin to normalize. The corporate portfolio accounts for 46% of BML's loan book,²³ with clients active in tourism (37% of loans), construction (25%), and other import- and/or export-related businesses that require dollar funding. Most of BML's retail customers (>45% of loans) are employed in tourism and other services. SMEs and other segments comprise the remainder of the bank's loan portfolio. While BML does not yet provide tailored financing products for women, the bank is committed to increasing the share of BML loans to businesses owned by women and will be adopting a marketing campaign targeting outreach to women borrowers and businesses owned by women. BML also has supported resort projects that had sustainability components, and it recently launched small climate change–mitigating loans of less than MVR0.5 million at reduced interest rates for smaller resorts. BML now plans to grow its sustainable financing business by launching another dedicated blue economy loan product, providing longer-tenor loans to offset the repayment profile needed to generate positive returns for investments in blue economy technologies, including desalination, solar panel installation, and marine ecosystem restoration.

12. On the retail side, BML offers a comprehensive product range with conventional and Islamic banking products, including personal, vehicle, and housing loans. Growth in the retail portfolio has outperformed other segments during the pandemic. BML intends to increase the retail portfolio as a share of the overall loan book, including through Islamic banking. BML plans to introduce an SME short-term loan, and an SME commercial end user loan for (commercial real estate).

²² Government of Maldives, Maldives Monetary Authority. 2020. [Monthly Statistics](#). 21.

²³ BML classifies loans above \$2.5 million as corporate.

C. Ownership, Management, and Governance

13. **Ownership.** BML was established in 1982 as a joint venture with 60% shares held by the Government of Maldives and 40% shares owned by International Finance Investment Company Limited (IFIC Bank Limited), Dhaka, Bangladesh. Following divestment by IFIC Bank Limited in 1992, the government assumed ownership, and BML listed on the Maldives Stock Exchange in January 1993. The government retains the majority of shares, holding a total direct stake of 50.8% and total ownership of 66.3%, including through indirect stakes. The remaining shares are held by the public.

14. **Corporate governance.** BML's board of directors represents diverse public and private sector institutions. It has 11 directors (3 women), of whom 8 are nominated by the government, including 4 independent directors; 3 are elected by public shareholders. The board chair, Yooshau Saeed, is an independent director nominated by the government. The board's independent directors chair the board committees for audit; appointment, nomination, and remuneration; and risk and credit. As a state-owned enterprise and to strengthen its risk management framework, the bank constituted the board's corporate governance committee in 2020, chaired by an independent director. The board of directors meets at least 12 times a year. The company is currently audited by PricewaterhouseCoopers.

15. **Management.** The management team is composed of finance professionals with backgrounds in commercial banking and financial services and an average of more than 20 years' experience. Timothy Sawyer has been the chief executive officer (CEO) and managing director of BML since July 2019. The chief financial officer, Nandana Senevirathne, joined in 2014. The CEO and chief financial officer were recruited internationally. Other senior management team members have deep experience across leading financial institutions; 11 out of 15 have worked for BML for more than 5 years and 7 of the 15 members for more than 10 years.

16. **Risk management.** BML has a comprehensive risk management framework, with risk appetite and governance defined by its board of directors and implemented via board and management committees. The framework is composed of (i) governance and compliance risk; (ii) credit risk; (iii) capital, liquidity, and market risk; and (iv) operational risk. BML has a comprehensive governance and compliance framework comprising policies on conflict of interest, combating of money laundering and financing of terrorism, business continuity management, insider trading, fraud management, anti-bribery and anticorruption measures, and politically exposed persons. BML strengthened its risk management function, which led to the appointment in 2019 of an internationally recruited chief risk officer, who reports to the CEO and drives the bank's risk strategy.

D. Confidential Information Deleted

III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

17. The ADB assistance consists of a senior secured loan facility of up to \$20 million with a tenor of up to 4 years, a grant of \$1 million from the PSW, and a concessional loan of \$9 million from CFPS II, with a tenor of up to 7 years. ADB financing will be in the form of nonrecourse grant and loan with pari-passu charge on the security provided with other senior secured creditors.

B. Implementation Arrangements

18. **Use of proceeds.** BML will use the proceeds of ADB's facility to support onlending to tourism corporates and SMEs that are majority owned by Maldivian residents; at least 60% of the proceeds will be onlent to SMEs and 10% to businesses owned by women. To help Maldives pursue sustainable, low-carbon development, the additional concessional loan from CFPS II and grant from the PSW will support onlending to tourism enterprises majority-owned by Maldivians for blue economy projects that promote climate change mitigation and adaptation uses.²⁴

19. **Reporting arrangements.** ADB will monitor the project throughout its duration. BML will provide (i) quarterly unaudited financial statements, (ii) quarterly prudential ratios reported to the Maldives Monetary Authority, (iii) quarterly management reports and covenant reports, (iv) half-yearly subloan reports, (v) annual audited financial statements, (vi) annual development indicators agreed between ADB and BML, and (vii) annual reports on safeguards and social protection compliance.

C. Value Added by ADB Assistance

20. **Supporting economic recovery for a small island developing state and expanding access to finance for tourism.** After the initial pandemic lockdown, Maldives reopened for tourism in July 2020.²⁵ However, due to the macroeconomic shock caused by the pandemic, tourist inflows reduced by 67.4% in 2020 and real GDP contracted by 33.5% in 2020 (footnote 8). Tourism is expected to return to pre-pandemic levels, with an estimated 2.3 million tourists by 2023, compared with a peak of 1.7 million in 2019. The ADB loan package supporting tourism will provide much-needed longer-term dollar financing to continue operations and to refurbish establishments in preparation for increased tourism flows in 2022, including blue economy investments. The focus on smaller resorts helps ensure strong linkages to the domestic economy and more jobs for locals working in tourism.

21. **Improving climate risk mitigation and adaptation through the blue economy.** The \$9 million concessional loan from CFPS II and \$1 million grant from the PSW will build BML's capacity to promote climate change adaptation (coastal resilience, marine ecosystem preservation and restoration, and desalination plants) and mitigation projects (adoption of energy efficiency and small-scale renewable energy systems) focused on the blue economy. BML will pass through the benefits of the lower-cost and longer-term funding to help firms overcome some of the upfront cost barriers to encourage tourism investments in climate technologies.²⁶

22. **Gender additionality.** ADB has worked with BML to design a gender action plan (GAP),²⁷ supporting and expanding BML's commitment to promote greater access to finance and participation of women in tourism. The project aims to increase BML's capacity to finance businesses owned by women, complemented with measures to strengthen BML's nonfinancial capacity to serve women borrowers. At least 10% of the ADB loan will be onlent to firms owned by women.

²⁴ Climate adaptation uses include coastal resilience, marine ecosystem preservation/restoration, and desalination plants. Climate change mitigation uses include energy efficiency measures, as well as distributed solar generation involving small-scale solar photovoltaic panel installations for corporates and SMEs with multiple layers of supply chain between the borrower and end users.

²⁵ Government of Maldives, Ministry of Tourism. [Daily-Updates](#) (accessed 10 January 2021).

²⁶ The pass through of lower cost is ensured by capping BML's on-lending margin at 3% above the concessional tranche loan rate.

²⁷ Gender Action Plan (accessible from the list of linked documents in Appendix 2).

23. **Catalyzing development finance.** BML has engaged ADB to arrange a larger financing package. ADB expects to mobilize parallel loans of up to \$20 million from the Japan International Cooperation Agency (JICA) and \$10 million from Development Bank of Austria (OeEB). The ADB, JICA, and OeEB loans will form a single financing package to be documented under a common terms agreement. The ADB, JICA, and OeEB parallel loans totaling up to \$50 million will collectively support financing tourism SMEs (60%) and businesses owned by women (10%).

D. Confidential Information Deleted

IV. DEVELOPMENT IMPACTS AND STRATEGIC ALIGNMENT

A. Development Impacts, Outcomes, and Outputs

24. **Impacts.** The project is aligned with the following impacts: Maldives' tourism sector revived, SMEs and sustainable blue economy investments supported.²⁸ The project is aligned with government policy (Plan of Action, Ministry of Tourism) and the Maldives Strategic Action Plan 2019–2023.²⁹

25. **Outcomes.** The project will have the following outcomes: (i) much-needed dollar funding provided to enable locally owned firms and SMEs to continue operations and to refurbish tourism businesses; and (ii) sustainable investments in the blue economy supported with new loan products designed to support increased use of renewable energy, energy-efficient technologies, desalination, improved coastal resilience, and improved marine ecosystem management and restoration.

26. **Outputs.** By 2025, the following outputs are expected: (i) BML's capacity to serve locally owned and women-owned tourism businesses improved, (ii) gender equality in BML's operations promoted, and (iii) BML's focus on lending and developing products for blue economy and climate change financing in the tourism industry enhanced.

B. Alignment with ADB Strategy and Operations

27. The project will contribute to the following operational priorities of ADB's Strategy 2030:³⁰ (i) accelerating progress in gender equality; and (ii) tackling climate change, building climate and disaster resilience, and increasing environment sustainability. The project will help achieve the long-term cofinancing target of 2.5:1, as set out in ADB's Strategy 2030, by mobilizing JICA and OeEB parallel loans. According to ADB's country partnership strategy, 2020–2024, ADB's nonsovereign operations will (i) strengthen competitiveness and diversify the economic base by supporting private sector development, strengthening human development in health and education, and improving the international trade environment; and (ii) improve the quality of life of island communities while ensuring environmental sustainability by investing in clean energy, preservation of the marine environment, climate adaptation, and disaster risk management (footnote 31). The project complements ADB's sovereign-guaranteed operations supporting

²⁸ Maldives Marketing and PR Corporation. 2020. [Maldives Will Re-open for International Tourists on 15th July 2020](#); and Government of Maldives, Ministry of Tourism. 2020. [Restarting the Maldives Tourism—Resort Reopening Dates](#).

²⁹ Government of Maldives, The President's Office. [Strategic Action Plan 2019–2023](#).

³⁰ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

coastal resilience and increased access to renewable energy and climate change initiatives.³¹ The project is aligned with ADB's Climate Change Operational Framework 2017–2030 and the OFI.³²

V. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

28. ADB has categorized the investment in compliance with ADB's Safeguard Policy Statement (2009) as follows: environment, FI; involuntary resettlement, FI; and indigenous peoples, FI treated as C.³³

29. ADB has assessed the loan's potential environmental and social impacts, the risks associated with BML's existing or likely future portfolio, and BML's commitment and capacity for environmental and social management. During due diligence, ADB identified actions to strengthen the environmental and social management system (ESMS) as discussed in detail in the ESMS arrangement. Due diligence findings and corrective actions have been discussed and agreed with BML. BML will (i) apply ADB's prohibited investment activities list, (ii) ensure that investments using ADB funds comply with ADB's Safeguard Policy Statement and abide by national laws and regulations, and (iii) establish and maintain an ESMS satisfactory to ADB before disbursement.³⁴ The ESMS will set out requirements for compliance with national labor laws and measures to comply with internationally recognized core labor standards, pursuant to ADB's Social Protection Strategy. The ESMS will require information disclosure and consultation with affected people in accordance with ADB requirements. BML will include in its regular reporting information to ADB (i) the nature and categorization of subprojects, (ii) compliance with safeguard and social requirements, and (iii) compliance with national and international laws and standards.

30. BML will exclude activities with category A environmental impacts and involuntary resettlement and categories A and B indigenous peoples impacts. BML's business activities are considered to have minimal site-specific environmental impacts. Land for tourism hotel construction is allocated by the government in tourism-designated zones, which have no residents or users, and smaller hotels are expected to be developed on owners' existing land or acquired through willing buyer–seller arrangements. Involuntary resettlement screening will include a review of potential displacement impacts on islands designated by the government for tourist development; any such impacts will be managed by the subborrower. Maldives does not have any groups that self-identify as indigenous peoples and, therefore, no impacts on indigenous peoples are anticipated.

31. The borrower is required to comply with ADB's Safeguard Policy Statement and ADB's Social Protection Strategy (2001). Up to 15% of loan proceeds will help locally owned companies

³¹ ADB. 2020. [Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant for Additional Financing to the Republic of Maldives for the Preparing of Islands for Sustainable Energy Development Project](#). Manila (Project 46122-005); and ADB. 2021. [Technical Assistance to the Republic of Maldives for Building Coastal Resilience through Nature-Based and Integrated Solutions](#). Manila (Project 54212-001). Ongoing complementary sovereign operations are (i) Preparing Outer Islands for Sustainable Energy Development, which helps Maldives reduce reliance on costly, polluting diesel oil through the buildout of solar generation capacity; and (ii) a regional project to support building coastal resilience through nature-based integrated solutions.

³² ADB. 2017. [Climate Change Operational Framework, 2017–2030. Enhanced Actions for Low Greenhouse Gas Emissions and Climate-Resilient Development](#). Manila; and ADB. 2021. [Oceans Financing Initiative](#). Manila.

³³ ADB. [Safeguard Categories](#). Manila.

³⁴ Summary Poverty Reduction and Social Strategy; Environmental and Social Management System: Audit Findings and Details of the Arrangement (accessible from the list of linked documents in Appendix 2).

install small-scale solar photovoltaic panels on rooftops of tourism facilities as part of the blue economy facility. Given that each solar rooftop subproject is small and the end subproject borrower's negotiation power over the supply chain limited, extended due diligence requirements and representations are not anticipated, in line with ADB's coordinated approach with the International Finance Cooperation.

32. **Effective gender mainstreaming.** The project is classified as *effective gender mainstreaming*. Gender analysis indicated that BML has a balanced workforce (50/50) and complies with national gender laws.³⁵ BML does not yet provide tailored financing products for women, resulting in a limited share of women borrowers across its financing portfolio. BML commits to implement measures to promote gender equality in its activities following ADB's Policy on Gender and Development (1998). Key features of the GAP include (i) allocating a portion of ADB financing to tourism SMEs owned by women, (ii) increasing the share of BML loans to businesses owned by women, (iii) adopting a marketing campaign targeting outreach to women borrowers and businesses owned by women, (iv) conducting an awareness campaign for staff on nondiscrimination and zero tolerance for sexual and any form of harassment, and (v) training staff annually on the needs of women borrowers and businesses owned by women. BML will submit periodic reports on implementation of the gender measures to ADB.

B. Anticorruption Policy

33. **Integrity due diligence.** ADB conducted integrity due diligence on BML and its board of directors, managers, and shareholders.³⁶ None of the companies or individuals appear to constitute a significant or potentially significant integrity risk to ADB. ADB's review of the company does not give ADB cause to believe it has been established or is being used for money laundering or terrorism financing in the jurisdiction involved in the project. No tax due diligence was required.

C. Confidential Information Deleted

D. Assurances

34. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),³⁷ ADB will proceed with the proposed assistance upon establishing that the Government of Maldives has no objection to the proposed assistance to BML. ADB will enter suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the ADB Board of Directors.

VI. RECOMMENDATION

35. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve:

- (i) the senior secured loan of up to \$20,000,000 from ADB's ordinary capital resources;
- (ii) the administration by ADB of the senior secured loan of up to \$9,000,000 to be provided by the Canadian Climate Fund for the Private Sector in Asia II; and

³⁵ Government of Maldives Act Number: [18/2016. Gender Equality Act](#) (unofficial translation) and [Act Number: 16/2014 Sexual Harassment and Assault Prevention Act](#).

³⁶ ADB. 2003. [Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism](#). Manila.

³⁷ ADB. 1966. [Agreement Establishing the Asian Development Bank](#). Manila.

- (iii) the administration by ADB of the \$1,000,000 grant from ADB Private Sector Window

to the Bank of Maldives Plc for the BML Supporting Recovery of the Small and Medium Enterprise and Blue Economy Tourism Sector Project in Maldives, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Masatsugu Asakawa
President

4 April 2022

DESIGN AND MONITORING FRAMEWORK

Impacts the Project is Aligned with Maldives tourism sector revived as intended by the Government of Maldives ^a (Plan of Action, Ministry of Tourism) SMEs and sustainable investments in the blue economy supported in line with the priorities of the Government of Maldives Strategic Action Plan 2019–2023 ^b			
Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
Outcomes Much-needed dollar funding provided to enable locally owned ^c firms and SMEs to continue operations and to refurbish tourism businesses ^d Sustainable investments in the blue economy ^e supported, with new loan products designed to support increased use of renewable energy, energy-efficient technologies, desalination, improved coastal resilience, and improved marine ecosystem management and restoration	By 2025: a. Total outstanding portfolio of BML to tourism companies increased to MVR7,500 million (2020 baseline: MVR6,057 million) b. BML approved at least nine new loans annually for locally owned SMEs (2020 baseline: 0) c. Investment in the blue economy increased by \$15 million (2020 baseline: 0)	a.–c. BML annual development effectiveness monitoring report	A: Continued growth of investment in tourism A: Continued government focus on blue economy priorities as part of the country's strategic plan R: Global COVID-19 pandemic recovery is protracted and interruptions to the recovery of tourism flows are extended.
Outputs 1. BML's capacity to serve locally owned and women-owned tourism businesses improved ^f	By 2025: 1a. BML approved at least five new loans annually for locally owned tourism companies (2020 baseline: 0) 1b. Amount of BML lending to women-owned and tourism SMEs reached at least \$2 million (2020 baseline: 0)	1.–3. BML annual development effectiveness monitoring report	A: Continued growth of investment in tourism A: Increased government focus on sustainability and CO ₂ reduction R: Prolonged macroeconomic stress

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
<p>2. Gender equality in BML's operations promoted</p> <p>3. BML's focus on lending and developing products for blue economy and climate change financing in the tourism industry enhanced</p>	<p>1c. Share of loans to all female borrowers or to businesses owned by women increased to at least 30% of total BML loans (2020 baseline: 20%)</p> <p>2a. One (1) marketing campaign on BML credit schemes targeting women borrowers and businesses owned by women introduced by 2023^g (2020 baseline: Not applicable) (OP 2.3.2)</p> <p>2b. One (1) awareness campaign on nondiscrimination and zero tolerance for sexual and any form of harassment using BML internal communication platforms implemented by 2023 (2020 baseline: Not applicable) (OP 2.2.3)</p> <p>2c. Number of branch staff with better understanding of the needs of women borrowers and businesses owned by women through annual training increased to 80%^h (2020 baseline: 0)</p> <p>3a. BML introduced a new blue economy loan product (Baseline: Not applicable) (OP 3.3.4)</p> <p>3b. At least two climate adaptation loans disbursed (2020 baseline: 0)</p> <p>3c. At least 18 climate mitigation loans</p>		<p>A: Increased government focus on sustainability and CO₂ reduction</p> <p>A: Government continues to give priority to blue economy.</p> <p>R: Company's lack of awareness or technical capacity to target investments in climate adaptation and/or</p>

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
	<p>disbursed (2020 baseline: 0)</p> <p>3d. Total annual carbon dioxide (CO₂) emissions reduced or avoided increased to 4,200 tonsⁱ (2020 baseline: Not applicable)</p>		climate risk mitigation technologies

Key Activities with Milestones

1. BML's capacity to serve locally owned and women-owned tourism businesses improved

1.1 ADB executes loan agreement with BML Maldives by Q2 2022

2. Gender equality in BML's operations promoted

2.1 Content and material for the marketing campaign targeting women customers and women-owned businesses developed by Q4 2022

2.2 Content and material for the awareness campaign on nondiscrimination and zero tolerance for sexual and any form of harassment developed by Q4 2022

2.3 Awareness-training course on women clientele and client-relationship management developed and implemented by Q4 2022

3. BML's focus on lending and developing products for blue economy and climate change financing segments in the tourism industry enhanced

3.1 New loan product to support blue economy investments approved by BML by Q4 2022

Inputs

ADB: \$20 million loan

Japan International Cooperation Agency: \$20 million in cofinancing

Development Bank of Austria: \$10 million in cofinancing

ADB-administered Canadian Climate Fund for the Private Sector in Asia II: \$9 million loan

ADB-administered Private Sector Window—Asian Development Fund: \$1 million grant

A = assumption, ADB = Asian Development Bank, BML = Bank of Maldives Plc, CO₂ = carbon dioxide, COVID-19 = coronavirus disease, MVR = rufiyaa, OP = operational priority, Q = quarter, R = risk, SMEs = small and medium-sized enterprises.

^a Maldives Marketing and PR Corporation. 2020. [Maldives Will Re-Open for International Tourists on 15th July 2020](#); and Government of Maldives, Ministry of Tourism. 2020. [Restarting the Maldives Tourism—Resort Reopening Dates](#).

^b Government of Maldives, The President's Office. [Strategic Action Plan 2019–2023](#).

^c A locally owned business is one where more than 50% ownership is held by Maldivian nationals or where the management company is more than 50% owned by Maldivian nationals.

^d IGI Global. [What is Tourism Industry](#). The tourism industry includes hospitality (e.g., accommodation, restaurants); transport (e.g., boat travel); travel facilitation and information (e.g., tour operators, travel agents, tourist information centers); and attractions and entertainment (e.g., heritage sites, national parks, diving activities).

^e The targeted blue economy segments are as defined in Government of Maldives and United Nations Environment Programme. 2021. [United Nations Environment Programme, Turning the Tide: How to Finance a Sustainable Ocean Recovery](#). Blue economy projects typically include investments in clean technologies, renewable energy, and circular material flows. The government's definition of blue economy includes tourism, fisheries, and SMEs, as the well-being of the entire economy is tied to the health and wealth of the natural environment, primarily the ocean. Government of Maldives. [Strategic Action Plan 2019–2023](#).

^f Loans will be deemed to be for businesses owned by women if (i) the majority of shares is held by women or (ii) 40% or more of employees are women.

^g New marketing communications will be made more responsive to attract women and to guide potential female clients on suitable BML products.

- ^h A training module will be introduced to raise awareness of BML staff on understanding (i) specific needs of women clients according to their industry and household responsibilities, and (ii) expected interaction with female clientele based on women customers' feedback and complaint-handling practices.
- ⁱ CO₂ emission reduction to be considered for rooftop solar projects financed by BML during the project using ADB's proceeds and BML's own resources. Emission reduction to be calculated by multiplying a factor of 0.40 kilogram of CO₂ emissions for every dollar invested in rooftop solar panels.

Contribution to Strategy 2030 Operational Priorities

Expected values and methodological details for all OP indicators to which this project will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 2).

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=55156-001-4>

1. Sector Overview
2. Ownership, Management, and Governance
3. Details of Implementation Arrangements
4. Contribution to Strategy 2030 Operational Priorities
5. Confidential Information Deleted
6. Country Economic Indicators
7. Summary Poverty Reduction and Social Strategy
8. Environmental and Social Management System: Audit Findings and Details of Arrangement
9. Gender Action Plan

Supplementary Document

10. Confidential Information Deleted