

# State of Microfinance in Maldives



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By



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## Disclaimer

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Any opinions expressed and policy suggestions proposed in the document are the authors' own and do not necessarily reflect the views of Institute of Microfinance (InM). The report also does not represent the official stand of the Government of the countries studied.

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## List of abbreviations

ACDBP	The Atolls Credit and Development Banking Project	MoFT	Ministry of Finance and Treasury
ADB	Asian Development Bank	MoGF	Ministry of Gender and Family
ADC	Atoll Development Committee	MoHA	Ministry of Home Affairs
ADF	Atoll Development Fund	MoHF	Ministry of Health and Family
ADSLP	Atoll Development for Sustainable Livelihood Project	MoPND	Ministry of Planning and National Development
AFTRF	Agriculture & Fisheries Tsunami Rehabilitation Fund	MoWASS	Ministry of Women Affairs and Social Security
ATM	Automated Teller Machine	MPBP	Mobile Phone Banking Project
BDO	Business Development Offices	MSME	Micro, small and medium enterprise
BDS	Business Development Service	MTCC	Maldives Transport and Contracting Company Plc.
BML	Bank of Maldives	NBFI	Non Bank Financial Institution
CAR	Capital Adequacy Ratio	NBFIS	Non Bank Financial Institutions Supervision Division
CBS	Credit and Bank Supervision Division	NGO	Non Government Organisation
CBO	Community Based Organisation	OPEC	Organisation of Petroleum Exporting Countries
CDR	Credit Deposit Ratio	NRRP	National Recovery and Reconstruction Plan
CGAP	Consultative Group to Assist the Poor	PAR	Portfolio at Risk
CPI	Consumer Price Index	PKSF	Palli Karma Sahayak Foundation
CRIB	Credit Information Bureau	PPP	Purchasing Power Parity
DBC	Development Banking Cell	RSW	Refrigerated Sea Water
EC	European Commission	SAARC	South Asian Association for Regional Cooperation
ECHO	European Community Humanitarian Office	SADP	Southern Atolls Development Project
EMI	Equated Monthly Instalment	SAGF	South Asia Governance, Finance, and Trade Division
FD	Fixed Deposits	SBI	State Bank of India
FSD	Financial Sector Division	SME	Small and Medium Enterprises
GDP	Gross Domestic Product	SMFLDC	Special Measures Fund for the Least Developed Countries
GoM	Government of Maldives	STO	State Trading Organisation Plc.
HDFC	Housing Development Finance Corporation	TIA	Tsunami Impact Assessment
HDI	Human Development Index	UNDP	United Nations Development Programme
IBRD	International Bank for Reconstruction and Development	UNICEF	United Nations International Children and Educational Fund
IDA	International Development Association	USD	United States Dollar
IFAD	International Fund for Agricultural Development	VPA	Vulnerability and Poverty Assessment
IFC	International Finance Corporation		
IFIC	International Finance Investment and Credit		
IGA	Income Generating Activity		
ILRDP	Island Livelihood Revitalisation Development Programme		
IM	Invest Maldives		
InM	Institute of Microfinance		
IsDB	Islamic Development Bank		
IPF	Indicative Planning Figure		
IWDC	Island Women's Development Committee		
JICS	Japan International Cooperation Systems		
LDC	Least Developed Country		
MDG	Millennium Development Goals		
MFI	Microfinance Institution		
MFLC	Maldives Finance Leasing Company		
MFW	Maldivian Rufiyaas		
MHD	Medium Human Development		
MIFCO	Maldives Industry Fishery Company		
MIPS	Maldives Interoperable Payments System		
MMA	Maldives Monetary Authority		
MoAD	Ministry of Atolls Development		
MoEDT	Ministry of Economic Development and Trade		
MoFAMR	Ministry of Fisheries, Agriculture and Marine Resources		

Note

USD 1 = Rufiya 12.75

## **Glossary**

Capital adequacy ratio: Capital adequacy ratios are a measure of the amount of a bank's capital expressed as a percentage of its risk weighted credit exposures

Gini coefficient: A measure of statistical dispersion used as a measure of inequality of income or wealth distribution

Loan portfolio: Total of all the loans outstanding (total loans disbursed minus total principal repaid by client) that a financial institution holds at a given time

Portfolio at risk: Ratio of unpaid principal balance on all loans with overdues to the total loan portfolio outstanding

Purchasing Power Parity: The value of a country's currency in terms of what it can actually buy – relative to a stated standard (such as what the USD can buy in US).

## Overview

### 1 The Maldives and ‘microfinance’

The Maldives is a unique country in S Asia – low population (300,000) and high per capita GNI at \$3,510 in 2007, it is nearly an “upper middle income” country (as defined by the World Bank: at \$3,707-11,455), having had substantial economic growth over the past two decades. The country is made up of nearly 1,200 islands, grouped into 26 atolls across 900 square kilometres. About 200 islands are inhabited. The capital of Male accounts for one-third of the total population, and is largely urban. The islands are at precariously low altitude (around 1.5 metres above sea level).

The economy depends largely on tourism and fishing. Basic food items are largely imported. Though Maldives has grown economically, it faces employment problems. The Census 2006 reveals that 8.3% of adult population is unable to find suitable employment or lacks employment opportunities, thereby being officially unemployed.<sup>1</sup> Of the people who are employed about 34% are women, 38% are employed in agriculture, fishing, manufacturing and tourism sectors, 21% are involved in community, social and personal services, 9% in communication and just 2% in financing, insurance, business and real estate.<sup>2</sup>

There is no microfinance programme or model as such in the Maldives, no microfinance institutions. Historically there have been a number of credit programmes or credit components of wider development programmes, including special programmes following the Tsunami in December 2004. The Development Banking Cell (DBC) which started within the Bank of Maldives in 1990, provides financial services to more distant atolls. Following the Finance Act, 2006, the DBC manages the credit component of all international and bilateral programmes – and refers to credit provided under these programmes as targeted credit.

**Box 1** maps the different programmes involving targeted financial services.

<b>Box 1 Targeted financial services in the Maldives</b>	
<b>Year</b>	<b>Programmes</b>
1980s	Start of the Atoll Development Project funded by UNDP, which included the provision of rural credit and livelihood promotion.
1990	<b>Development Banking Cell</b> (DBC) established within the Bank of Maldives (BML) to extend formal banking services to people living in far off atolls. DBC was set up within BML as a separate entity with financial autonomy to undertake various development projects with funding from IFAD and UNDP
1990-96	The <b>Atolls Credit and Development Banking Project</b> (ACDBP) funded by Government of the Maldives, IFAD and UNDP to lay the foundations of

<sup>1</sup> MoPND 2007. “MGDS Maldives Country Report”

<sup>2</sup> MoPND 2005. “25 years of statistics”

	development banking for the Maldives, reduce income disparities between Male and the outer atolls by providing employment opportunities; and develop a framework for supporting future nutritional programmes
1996-2006	<p>The second phase of ACDBP was initiated as the <b>Southern Atolls Development Project (SADP)</b>, funded by IFAD, OPEC, UNDP, UNICEF, GoM and BML - to create and expand income generation and employment opportunities.</p> <p><b>Micro-Credit Loan Scheme</b> in 2000 by the Ministry of Women Affairs and Social Security (MoWASS) to lend to women for micro-enterprise and livelihoods.</p> <p>Projects initiated by other GoM ministries, including: <b>agricultural revolving fund</b> for economic development (loans disbursed for agriculture, tailoring, embroidery, operation of clinics); <b>credit to fisheries sector</b> (1998) for fishing boats and fish processing; <b>atoll electrification project</b> (1999) - loans disbursed for electrification of smaller islands</p> <p>UNDP's <b>Atoll Development for Sustainable Livelihood Project (ADSLP)</b>, included a credit component for income generation activities. Implemented in five atolls through the Ministry of Atolls Development (MoAD).</p> <p><b>Tsunami Recovery Livelihoods Project</b>, a multi-donor project implemented by UNDP and Government of Maldives, targeting the vulnerable population, especially women.</p> <p>Other projects supported by IFAD (for agriculture and fisheries) and ADB (for small and cottage industries, new livelihoods for Tsunami affected fishermen)</p> <p>ADB sponsored <b>Small and Medium Enterprise (SME)</b> development programme, targeting the more vulnerable in the atolls and outer islands, women and young people.</p>

Targeted financial services start with a minimum loan size of Rf15,000 (US\$1,175). This compares to the average micro-credit loan size of US\$200-300 in other South Asian countries. However, this level is 33% of per capita GNI for the Maldives, representing relatively low income lending.

The microfinance methodology for delivering targeted financial services differed with programme. The most common methodology seems to be individual lending which is collateral free. In a couple of programmes including BML's ADSLP and MoWASS loans were also given to a group of borrowers for establishing micro-enterprises. The interest rates charged from the borrowers also varied with programmes. In MoFAMR programme for promoting fish processing and interest rate of 7.0% p.a. was charged from the borrowers, MoWASS charged 6.0% p.a. from women entrepreneurs while BML rate of interest varied from 7.0% to 11.75% depending on the project.

Current programmes involving financial services are:

- the “Social Housing Scheme” initiated in 2004 with a revolving fund of Rf70 million provided by GoM to the Housing Development Finance Corporation (HDFC), to provide affordable housing following the damage of the Tsunami.
- project for Gender and Economic Empowerment, started in 2008, by Ministry of Health and Family, Ministry of Economic Development and Trade and UNDP – to facilitate skills training and small business initiatives for women
- project for medium small and micro enterprise development, supported by Invest Maldives (a government organisation), to help entrepreneurs access finance from BML (also since 2008)

## **2 Maldives – low poverty rates, but issues of exclusion**

Maldives is ranked 100 out of 178 countries on the Human Development Index, and is classified as being at medium human development, just below Sri Lanka, but above other countries in the S Asia region.

Three successive surveys carried out in 1997, 2004 and 2005 form the main source of vulnerability and poverty assessment in Maldives. All these surveys used at four poverty lines Rf7.5, Rf10, Rf15 and Rf21 for estimating the head-count ratios. The overall data indicates a significant decline in the poverty ratio in the Maldives between 1997 and 2004, and again to 2005. According to this data, 26% of the population were below the highest poverty lines in 2005, compared to 55% in 1997. Just 6% were below the lowest line in 2005, compared to 21% in 1997. But poverty ratios are higher in the Atolls compared to Male, although in all areas there has been a substantial decline since 1997.

In 2005, poverty incidence was highest for North and Central North and lowest in Male and Central Maldives. While in 1997, headcount ratio for North and South were almost same for various poverty lines, in 2004 and 2005 the headcount ratios in South were significantly lower than the North. The poverty incidence at PPP\$1 and PPP\$2 lines stand at 4% and 7% respectively, by far, the lowest in South Asia.

Income disparities between Male and the Atolls have been wide and increasing over time. In 1997, 25% of the population living in Male had 38% share of the income while in 2004 30% of the population living in Male had 48% share of the income. The Gini coefficient of Maldives in 2004 (0.41) was also notably higher than its neighbouring countries and comparable more to countries like USA where income disparities are high.

## **3 Outreach**

For the outreach of targeted financial services in the Maldives, the primary source of data comes from the Bank of Maldives (BML) for the Development Banking Cell. **Table 1** below summarises the outreach achieved by BML and changes over the years.

**Table 1**  
BML outreach

<b>Targeted financial services</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
No. of loans/borrowers	5,818	17,748	21,364	21,623
Average loan O/s (US\$)	1,710	1,462	1,234	1,341

BML has more than 80% of total branch network of the six commercial banks operating in Maldives with a total loan outstanding of US\$495.4 as on 31 December 2007. While number of accounts in atolls is almost the same as that in Male, the total outstanding loan in Male is significantly higher due to much higher average loan size. BML also segregates its loan portfolio in terms of loans provided under special credit components of development programmes or the targeted financial services. Special credit rose from US\$10.0 million in 2004 to US\$29.0 million in 2007, but as a proportion of total loans declined from 7.0% to around 5.9% over the same period. The average loan outstanding of overall BML loans in 2007 was \$9,526 in comparison to \$1,341 for special credit which indicates small size financing by DBC.

BML has also mobilised deposits of about US\$457.3 million with about 205,000 deposit accounts as on 31 December 2007. About 35% of the total deposits come from the Atoll branches, 65% from Male (which is the inverse of the population ratio). Average deposits per customer was around \$2,231 as on 31 December 2007 (for both Atoll and Male residents).

In terms of BML staff productivity, the ratio of borrowers/staff member is relatively higher in the Atolls, but with lower portfolio/staff member, reflecting lower individual credit demand, compared to Male’.

For previous credit programmes – or credit components of development programmes, undertaken in Maldives, we have limited data. **Table 2** summarise the outreach of other programmes.

**Table 2**  
Outreach of earlier credit programmes in Maldives

<b>Project</b>	<b>Duration</b>	<b>No. of loans Disbursed</b>	<b>Total loans disb. (Rf million)</b>	<b>Average loan size (Rf)</b>
ACDBP	1990 to 1996	2,515	51.00	20,278
Micro-credit for women	2000 to 2006	93	1.39	15,000
UNDP poverty reduction	Upto 2005	500		
Fisheries	Upto 2001	256	2.19	8,555

## **4 Inclusion**

There is no data on depth of outreach of targeted financial services. There are also no recent studies on impact of targeted credit programme in Maldives – a 1999 study by IFAD indicates beneficiary households on average were living on an income below Rf10/day in 1996 which was below a median poverty line of Rf15/day. At the time of evaluation, three years later the average household income was equivalent to over Rf122/day.

Estimates made in this study shows that the penetration of targeted financial services to below Rf15 poverty line population is just 9% and even lower at 5.5% for Rf21 poverty line, indicating that there is ample scope of increasing this coverage.

The coverage of Atolls in terms of savings services seems much better in comparison to targeted credit penetration. Estimates show that about 32% population of Atoll and about 55% of Maldives are banked. CGAP survey results also showed similar results – banks accounts with 35% of the Atolls residents and 65% of Male residents.

Access to finance and therefore financial inclusion is one of the issued faced in Maldives that has restricted private sector development.

The GoM is keen on improving the access to finance in the remote atolls. A number of recent projects indicate a shift in the focus of the policymakers towards this agenda. This includes mobile banking project of the World Bank, credit bureau initiative of IFC, small and micro-enterprise promotion by ADB and low cost housing by HDFC.

## **5 Regulation**

The financial sector of Maldives consists of the Maldives Monetary authority (MMA), six commercial banks, several NBFIs. Regulation of all financial institutions in the Maldives are carried out under the guidelines of the MMA Act, 1981 which requires all local and foreign financial institutions to obtain a license from the MMA. All companies are registered under “Companies Act of Republic of Maldives” and there is a high degree of government participation in terms of ownership in all major financial institutions.

For targeted financial services, the same regulations apply. Prior to 2006, different Government ministries were allowed directly to undertake financial intermediation (for credit programmes). However, the Finance Act 2006 has restricted this and now any financial intermediation has to be done through the banking system.

## **6 Challenges**

The geographical spread and the low population density offer significant challenges to delivering financial services as it does not allow economies of scale. The widely dispersed population has also prevented banks to open branches in many of the far flung islands – there are about 200 inhabited island out of which 23 island (apart from

Male) have bank branches – due to viability issues. Access to finance thus remains a major issue.

Targeted credit programmes undertaken through local agencies that did not have adequate capacities to monitor projects and provide guidance to borrowers to utilize credit. Even the project teams of various ministries had their limitations. As a result the credit repayment experience of some of these projects was not as expected. However, credit programmes that were managed by BML directly seem to have performed better as indicated by repayments of around 90% in ACDBP in an evaluation study by IFAD. The new Finance Act, which requires all credit intermediation activities to be done through the banking system is expected to lead to better monitoring of funds as well as capacity building of local agencies.

Two MMA initiatives are underway: to introduce mobile banking for increased financial access (with the World Bank), and to set up a credit bureau (with IFC) which is intended to provide an opportunity to the borrowers to negotiate better with banks in absence/shortage of collateral. This facility will be particularly useful for small borrowers who cannot offer collateral to banks.

BML was able to deliver loans (without collateral) mainly because of the funds provided by various international agencies (through GoM) for this purpose. It will be a challenge to increase the loan size further without any collateral. It is expected that the credit information bureau will be an important tool used by banks for selecting creditworthy customers for whom collateral requirements could be made flexible.

## **7 Future**

The Maldives has progressed remarkably well on economic as well as social indicators in the last two decades. Though development and economic opportunities remain skewed to the central area around the capital of Male', the Government of Maldives supports financial inclusion through the Bank of Maldives, with the aim of deepening services to the less developed Atoll regions, especially in the north. Targeted credit components of various development programmes are now linked to the Development Banking Cell of the BML. Whilst financial services may increasingly cater to the urban employed in Male, there is scope for efficient banking services to support remittances back to the Atolls, where additional strategies to promote livelihoods and enterprise development will be critical to supporting deeper financial inclusion.

The Government of Maldives is aware and committed to improving financial inclusion in the country as reflected through current efforts in establishing a mobile banking system and a credit bureau. Strategies for promotion of small and medium enterprises and development of low cost housing also reflect increasing emphasis on financial inclusion linked to local economic and social needs. It will become clearer in the fairly near future as to how the challenges mentioned above have been addressed for greater financial inclusion in the country.

## Chapter 1

### Country context

This chapter describes the macroeconomic environment of Maldives highlighting various economic and social indicators of development since mid-1990s. Also discussed is the poverty situation in Maldives and the changes since the first poverty and vulnerability study undertaken by UNDP in 1997.

#### 1.1 Macroeconomic environment<sup>3</sup>

The Maldives has a very unique geography comprising a chain of Indian Ocean islands spread over 900 sq.km. The country has 1,190 islands, that form 26 natural atolls;<sup>4</sup> 198 islands are inhabited. The population is roughly 300,000. Most of the inhabited islands have a population of less than 1,000 (with one-third at less than 500). The islands are at a very low altitude, around 1.5 metres above sea level. There are limited land-based natural resources, of water and agricultural land.

The Maldives has recorded remarkable economic growth over the past two decades, especially compared with other South Asian countries, and is on the threshold of graduating from Less Developing Country (LDC) status to the middle-income group – **Exhibit 1.1**. In 2007 it reached an impressive GNI per capita of USD 3,510, up from USD 771 in 1984 which reflects more than fivefold increase during the past two and a half decades. The Maldives has enjoyed strong economic performance over a sustained period of time, with GDP per capita average annual growth rate of 5.5% during 1990–2007 (UNICEF, Maldives Statistics 2007<sup>5</sup>).

**Exhibit 1.1**  
Economic indicators

Indicators	1996	1997	2002	2003	2004	2005	2006	2007
GDP growth rate	9.1%	10.4%	6.5%	8.5%	8.8%	-5.5%	13.0%	6.6%
GNI per capita			2,094	2,197	2,482	2,350	2,757	3,510
Inflation – CPI	6.2%	7.6%	0.9%	-2.9%	6.5%	3.3%	7.0%	10.3%
Total external debt (% GDP)	38.5%	35.6%	40.4%	40.7%	42.0%	48.9%		

Source: Maldives - Ministry of Planning & National Development; MMA, IMF & World Development Indicators

Maldives, is economically ahead of its neighbouring South Asian countries and other lower-middle income countries as indicated by the World Bank (**Exhibit 1.2**). The economic success of Maldives is attributed mainly to continued stable political environment and strong leadership and commitment to liberalization policies, all of which have attracted foreign direct investments. At the same time the island state has focussed on human development aspects as well as indicated by high literacy, declining poverty levels and improvement in service delivery in the past decade (**Exhibit 1.3**). However, regional disparities still exist and the government's policy is to emphasise regional development so as to ameliorate these disparities.

<sup>3</sup> Related information from:

World Bank, 2006. "Social Protection in the Maldives: Options for Reforming Pensions and Safety Nets"

World Bank, 2006. "Sustaining Growth & Improving the Investment Climate"

MoPND, 2004. "Vulnerability & Poverty Assessment". In Collaboration with World Bank, UNDP and IBRD.

<sup>4</sup> Administratively the country is divided into 20 Atolls and 6 Provinces

<sup>5</sup> [http://www.unicef.org/infobycountry/maldives\\_maldives\\_statistics.html](http://www.unicef.org/infobycountry/maldives_maldives_statistics.html)

**Exhibit 1.2**  
Maldives in comparison with other South Asian countries

Indicators	Maldives	South Asia	Lower middle Income
Population, mid-year ( <i>millions</i> )	0.31	1,520	3,437
GNI per capita ( <i>Atlas method, US\$</i> )	3,510	880	1,887
GNI ( <i>Atlas method, US\$ billions</i> )	1.1	1,339	6,485

Source: The World Bank, 2007. "Maldives at a glance"

The economy of the Maldives is largely dependent on the services sector (including tourism, transport & communication and construction) which accounts for over 75% of GDP (2003 data). Agriculture accounts for under 10% (down from 19% in the 1980s), and industries/manufacturing for 15%.

The country has high reliance on imports, including essential food items (rice, flour, fruit and vegetables) accounting for 68% of GDP. Exports are primarily in fish (accounting for 16% of GDP). The flourishing tourism industry though has provided indirect impetus to other sectors like transport, construction and import trade but it continues to be heavily reliant on imports. Urbanisation has increased – essentially in Male', with growing economic opportunities in and around the capital.

### 1.2 Social development

On the human development index (that combines life expectancy, adult literacy, school enrolment rates along with GDP per capita) the Maldives is ranked 100, just below its neighbour Sri Lanka. The population growth rate is at 1.7% in 2007, down from 2.1% in 1997. Life expectancy is an estimated 68 years (compared to 65.5 for developing countries – UN Human Development Report 2007/8). Social indicators show a positive trend over the past decade – with declining child mortality rates and maternal mortality rates (Exhibit 1.2). Primary schooling is near universal (97% for girls, 96% for boys). Secondary education enrolment is 69% (71% for girls, 67% for boys). The incidence of HIV/AIDS is very low and malaria is officially eradicated.

**Exhibit 1.3**  
Social indicators

Indicators	1996	1997	2002	2003	2007 (estimate)
Infant mortality (per 1000 live births – under 1 year)	28	27	18	14	26
Child mortality (per 1000 live births – under 5 year)	39	39	23	18	30
Adult literacy rate (% of people ages 15 & above)	96.1%	96.4%	97.2%	-	98.0%
Public education expenditure (% GDP)	4.6%	5.4%	7.8%	8.1%	-

Source: Maldives - Ministry of Planning & National Development; Ministry of Education & World Development Indicators

### 1.3 The Tsunami <sup>6</sup>

The Maldives was one of the countries directly impacted by the Tsunami in December 2004. The Tsunami affected virtually the entire Maldivian population of 300 million. The Tsunami Impact Assessment report indicates fourteen islands were completely destroyed leading to abandonment of

<sup>6</sup> Related information from

MoPND & UNDP, 2005. "Tsunami Impact Assessment"

UNDP, 2008. "Restoration of livelihoods – sharing experiences"

MoPND 2005. "National Recovery and Reconstruction Plan – Programmes and Projects"

some of them. However, some islands including the capital Male', had scarcely any effect, and in the atolls in the extreme north and south there was only limited physical damage. Though the loss of life was not as great as in several other countries there were approximately 100 fatalities the tsunami's impact on the Maldivian economy was unparalleled, washing away 62% of gross domestic product (GDP) in a matter of minutes. By comparison, other tsunami-affected countries suffered losses of 3 to 5% of GDP.

The tsunami, apart from damage to infrastructure and causing death and injury, also damaged the coastal protection system, electricity supplies and sanitary infrastructure as well as to the all-important water-collection systems and storage tanks. The floods destroyed most agricultural crops and many large trees and turned the land saline making it unsuitable for immediate replanting. In addition, the tsunami resulted in the contamination of groundwater – by penetrating the land with salt water as well as by destroying sewerage systems or causing them to overflow – and all this on small islands where population growth had already made water supplies precarious. Education was also affected by the loss of students' personal property including uniforms, schoolbooks, notes and other school materials. Another effect of the tsunami was an increase of household size. Before the tsunami, average household size had been falling, though it was still quite large: between 1997 and 2004 it declined from 6.7 to 6.6 persons. After tsunami the average household size was estimated at 7.0 persons in 2005.

The National Recovery and Reconstruction Programme of the Government estimated total losses at US \$ 470.1 million, or 62% of GDP. The major loss was in terms of loss of earnings from tourism (estimated at US\$230.0 m, followed by housing (US\$64.8 m) and loss of livelihoods (US\$30.0 m), including fishing equipment and agricultural land. Families also lost their cash savings. There was considerable migration out of the main affected islands, resulting in relocation of 17% of the Atolls population. At the same time, the Maldives attracted significant international funding and support. The total aid received by the Government of Maldives (GoM) under the Tsunami Reconstruction and Relief Fund (TRRF) as on 30 June 2009 was around US\$72.05 million (Rf98.86 million). The aid was received from bilateral sources (17 countries<sup>7</sup>), multilateral sources<sup>8</sup>, foreign organisations (official and private), national organisations (official and private) and local private parties.

Although people's incomes initially fell after the tsunami, it seems that they recovered quite quickly with a rapid inflow of aid and investments, with a continuing reduction in poverty (discussed in the next section). This is partly because of people from the most-affected islands moving to islands with facilities that were upgraded to meet the needs of the expanded population.

#### **1.4 Poverty<sup>9</sup>**

There have been a series of poverty surveys in the Maldives since 1997 when the first Vulnerability and Poverty Assessment (VPA-1) was undertaken by the Government (MoNPD) with UNDP, followed by the second in 2004 (VPA-2). And in 2005 the MoPND with UNDP conducted Tsunami Impact Assessment (TIA, with similar methodology as VPA-2) but focussed on affected regions. These three successive surveys are the main source of poverty data in the Maldives.

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<sup>7</sup> Including Bhutan, Brunei, China, Cyprus, Egypt, Greece, Hong King, Japan, North Korea, South Korea, Portugal, Malaysia, Mauritius, Nepal, Thailand, Turkey and USA

<sup>8</sup> Including Asian Development Bank (ADB), World bank, United Nations Development Programme (UNDP), UN World Food Programme (UNWFP), Islamic Development Bank (IDB), European Community, International Fund for Agriculture Development (IFAD), Japan Social Development Fund (JSDF) and UN High Commissioner for Refugees (UNHCR)

<sup>9</sup> Information available in

MoPND & UNDP, 1998 and 2004. "Vulnerability and poverty assessment"  
ADB, 2007. "Country poverty assessment"

There is no single, nationally accepted poverty line in the Maldives. The VPA-1, VPA-2 and TIA surveys apply a range of per capita expenditure levels, with the lowest at Rf7.5 per person per day (US\$0.6 at market exchange rate), the highest at Rf21 (US\$1.6 at market exchange rates).

The overall data indicates a significant decline in the poverty ratio in the Maldives between 1997 and 2004, and again to 2005 (**Exhibit 1.4**). According to this data, 26% of the population were below the highest poverty lines in 2005, compared to 55% in 1997. Just 6% were below the lowest line in 2005, compared to 21% in 1997.

**Exhibit 1.4**  
Declining poverty ratios (%) in the Maldives (1997–2005)

Poverty lines	Maldives (%)		
	1997	2004	2005
Rf7.5	21	12	6
Rf10.0	26	17	8
Rf15.0	46	28	16
Rf21.0	55	41	26

Source: ADB, 2007. “Country poverty assessment”

Poverty ratios are higher in the Atolls compared to Male, although in all areas there has been a substantial decline since 1997. Thus 32% of the population in the Atolls are below the highest poverty line in 2005, which is a reduction from 64% in 1997, but compares with just 13% in Male. Extreme poverty appears to have been eliminated in Male, but still exists in the Atolls (**Exhibit 1.4**).

**Exhibit 1.4**  
Poverty ratios (%) in Malé and the Atolls (1997–2005)

Poverty lines	Male			Atolls		
	1997	2004	2005	1997	2004	2005
Rf7.5	10	10	0	25	13	8
Rf10.0	12	11	0	31	20	11
Rf15.0	18	15	7	50	34	20
Rf21.0	27	20	13	64	50	32

Maldives has 26 natural atolls - an island consisting of a circular coral reef surrounding a lagoon. Administratively the country is divided into 20 Atolls and 6 Provinces/Regions<sup>10</sup>. Regionally, poverty incidence is highest in the two northern regions – North and Central North. Male’ is located in the central region – with the lowest poverty ratio (**Exhibit 1.5**). The poverty profile is reflected in income disparities between Malé and the atolls. In 1997, 25% of the population lived in Male’ and had 38% of national income. In 2004, 30% of the population lived in Male’ with 48% of national income.

**Exhibit 1.5**  
Poverty ratios by region (2005)

Regions	Population (2000 data)	Head count ratios			
		Rf7.5	Rf10	Rf15	Rf21
North	42,523	11	14	25	40
Central North	43,912	10	14	24	37
Central	102,617	4	7	11	19
Central South	34,871	5	9	15	27
South	46,178	7	10	18	28

Sources: TIA 2005 and MoPND 2008 “Statistical Yearbook of Maldives”

<sup>10</sup> North region comprised 2 atolls, Central North region 5 Atolls, Central region 4 Atolls, Central South region 7 Atolls and South region of 2 Atolls.

In terms of the international poverty lines, available data for 2005 indicates 4% of the population living below \$1/day at purchasing power parity (PPP) and 7% living below \$2/day at PPP. In terms of median poverty line of Rf15/day (~US\$1.18/day) 16% of the population was living below this line in 2005.

Nearly 50% of households are reported to be women headed according to the definition (applied in VPA-2) that includes divorced or widowed women who did not remarry, but also women whose male breadwinner is working and residing away from home, for example, in a resort. Women headed households without a male earner, probably 8% of households, are more likely to be poor, facing lack of income and difficulty in providing for their children.

## **Summary**

The Maldives recorded a remarkable economic growth over the past two decades, especially compared with other South Asian countries, and is on the threshold of graduating from Less Developing Country (LDC) status to the middle-income group.

In 2007 it reached an impressive GNI per capita of USD 3,510, up from USD 771 in 1984 which reflects more than fivefold increase during the past two and a half decades.

The economy of the Maldives is largely dependent on the services sector (75% of the GDP; including tourism, transport & communication and construction) followed by industries/manufacturing (15%) and agriculture (10%). The country also has high reliance on imports (65% of GDP), including essential food items.

On the human development index (that combines life expectancy, adult literacy, school enrolment rates along with GDP per capita) the Maldives is ranked 100, just below its neighbour Sri Lanka.

The Maldives was also one of the countries directly impacted by the Tsunami in December 2004. Though there were around 100 fatalities, the tsunami had a much greater devastation in terms of losses of 62% of the GDP. However, the country was able to recover rather quickly with a rapid inflow of aids and investments.

Years of growth in Maldives improved the economic situation in the country, resulting in sharp decline in poverty levels but despite these improvements, disparity exists. In 2005, poverty incidence was highest in the two northern regions – North and Central North – and lowest in Malé and in the Central Region. Income disparities between Malé and the atolls are large and increasing over time. In terms of median poverty line of Rf15/day (~US\$1.18/day) 16% of the population was living below this line in 2005.

## Chapter 2

### Targeted financial services in the Maldives

In the context of the macroeconomic environment of the Maldives, as a country close to ‘higher middle income status’, ‘microfinance’ refers to a different level of finance compared to other countries in the South Asian region. There are no MFIs, nor model of microfinance as such.

What we have are

- Credit programmes of the Bank of Maldives, targeting specific sectors like agriculture, fisheries and small and micro-enterprises.
- Credit components of development programmes,
- Low cost housing finance (HDFC), and
- Related initiatives: credit bureau development, and small and micro-enterprise promotion

In this report therefore we refer to targeted financial services.

#### 2.1 Evolution

The first experience of targeted credit in the Maldives dates back to the late 1980s and coincides with the period when Maldives’ economy started to transform from one of the world’s least developed countries (UN Ranking) to a status of middle-income group. The late 1980s marked the fourth country programme<sup>11</sup> for Maldives approved at the thirty-fifth session (June 1988) of the Governing Council of UNDP. The programme was based on resources from the Special Measures Fund for the Least Developed Countries (SMF/LDC), for the four-year period 1988-1991. UNDP resources were meant for three primary objectives:

- (a) Skilled manpower development
- (b) Planning for decentralization; and
- (c) Atoll development.

In one of the sub-components of the Atoll development project, the country programme provided support to the private sector through rural credit (through revolving credit) and livelihood promotion that included handicraft promotion & skills development through training. It also included promotion of rural banking in collaboration with the International Fund for Agricultural Development (IFAD).

This experience was enhanced with the involvement of Bank of Maldives (BML). BML established a Development Banking Cell (DBC) in 1990 specifically for the purpose of targeting clients (in some 50 islands) in far off atolls for bringing them into the formal banking system. Since its inception, the DBC has played a key role in providing and promoting development-banking activities targeted mainly to the Atolls. The bank had the responsibility of undertaking two major projects funded by IFAD.

- (i) The Atolls Credit and Development Banking Project (ACDBP) from 1990 to 1996 and the
- (ii) Southern Atolls Development Project (SADP) from 1996 to 2004.

After the end of above projects BML has continued targeted financing through its own funds. Following the experience of BML, several ministries of GoM started to implement their own projects that had some credit component for the target clientele (usually low income segment living in the outer Atolls). One of these was the “Micro-Credit Loan Scheme” offered by the Ministry of Women Affairs and Social Security, MoWASS (now known as Ministry of Gender and Family). The

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<sup>11</sup> Online: [www.undp.org](http://www.undp.org)

programme started in 2000 for providing loans to women borrowers for promoting micro-enterprises/livelihoods. The loans were directly managed by MoWASS and DBC (BML) only provided technical support to the project team. The aim was empowerment of women, and expanding their role in the society. This programme came to an end in 2006. Projects initiated by other ministries included agricultural revolving fund for economic development, Atoll electrification project (1999) and credit to fisheries sector (1998).

In April 2004, UNDP launched Atoll Development for Sustainable Livelihood Project (ADSLP) which included a microfinance component for promoting income generation activities (IGA). The project was implemented in five selected Atolls through Ministry of Atolls Development, MoAD (now merged with the Ministry of Home Affairs, MoHA).

The Tsunami in December 2004 that affected almost all islands in Maldives led to a number of donor initiatives in the country, some of which focused on livelihoods (including grants/small credits components). One such project was initiated by UNDP ‘Tsunami Recovery Livelihoods Project’ for targeting the vulnerable population particularly women. Other donor agencies like Asian development Bank (ADB) and IFAD also came up with projects, some of which had micro-credit components. Most of these projects were implemented through various ministries, with the donor agency playing the role of a facilitator. Like IFAD<sup>12</sup> projects were for supporting the agriculture and fisheries sector and implemented through Ministry of Fisheries, Agriculture and Marine Resources (MoFAMR). ADB’s<sup>13</sup> strategy has been to work together in partnership with other bilateral/multilateral agencies. It supports the small scale pilot programmes microcredit in outer Atolls (UNDP), promotion of small and cottage industries (European Commission, EC), microcredit in Atolls (Islamic Development Bank, IsDB) and support new livelihoods for tsunami affected fishermen and farmers (Japan).

The Finance Act in 2006 directs that all financial intermediation must be done through a formal banking system. This brought an end to a number of projects undertaken by various ministries of Government of Maldives (GoM) as well as from multilateral agencies like UNDP, in which credit was managed directly by the implementing agency. Now for most of the projects that have credit component, BML is involved to manage the credit part. There are other foreign commercial banks in the country but BML is an automatic choice considering that it has substantial outreach through 25 branches covering all except 2 Atolls, and is the only indigenous bank partially owned by the GoM. At present DBC (BML) is managing about 13 projects (with credit components) that have originated from various ministries.

In the past, the projects were formulated by the National Planning Ministry. However, since the formation of the new government in November 2008 this ministry has been brought under the Ministry of Finance and Treasury (MoFT). Therefore, now each ministry is supposed to formulate their projects and propose through a Cabinet Committee to MoFT. For budgetary purposes MoFT prioritizes projects and allocates the budget to respective ministries. The process of project approvals and implementation in Maldives is shown in **Box 2.1** below

At present there are three projects being implemented that have micro-credit components. Island Livelihood Revitalisation Development Programme implemented by Sectoral line ministries, Agriculture and Fisheries Tsunami Revitalization Programme of MoFAMR and SME Development project of Ministry of Economic Development and Trade (MoEDT). In all these projects the credit component is being managed by BML. Apart from this BML continues providing credit to clients in outer Atolls through its own funds.

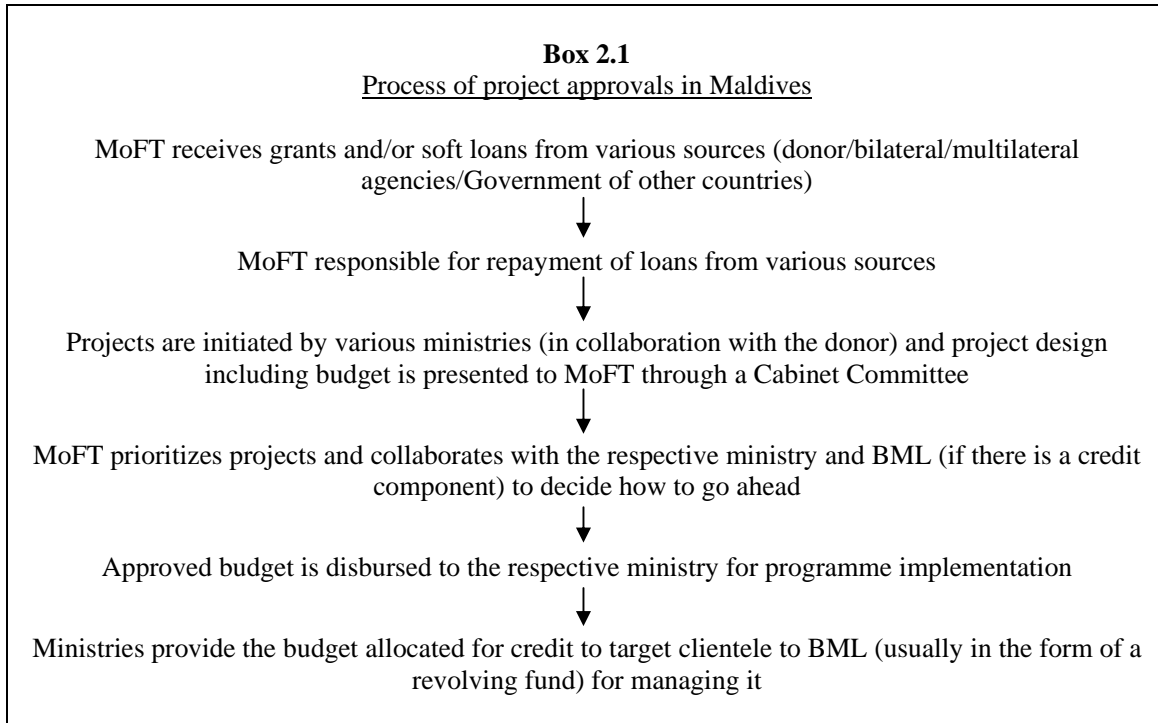
The methodology for delivering targeted financial services differed with programme. The most common methodology seems to be individual lending which is collateral free. In a couple of

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<sup>12</sup> Online: [www.ifad.org](http://www.ifad.org)

<sup>13</sup> Online: [www.adb.org](http://www.adb.org)

programmes including BML's ADSLP and MoWASS loans were also given to a group of borrowers for establishing micro-enterprises. The interest rates charged from the borrowers also varied with programmes. In MoFAMR programme for promoting fish processing and interest rate of 7.0% p.a. was charged from the borrowers, MoWASS charged 6.0% p.a. from women entrepreneurs while BML rate of interest varied from 7.0% to 11.75% depending on the project.



## 2.2 Credit projects <sup>14</sup>

Credit programmes in Maldives, in the past, have been implemented by various agencies including Bank of Maldives, government agencies/departments and multilateral agencies like UNDP. While BML charged interest on credit provided to the borrowers (under its targeted financial services through DBC) the interest was subsidised by IFAD. Some government and donor programmes also provided grant based funds to the borrowers for promoting their livelihoods. All this played a very significant role in developing the credit experience (borrowings and repayments) of target population living in Atolls as also of BML in providing collateral free small credit. More recently, after the Finance Act 2006 there seems to be a shift in approach of implementing credit programmes. Now all credit programmes would be managed by BML, though credit terms & conditions may be largely guided by the project design.

### 2.2.1 Bank of Maldives

BML was established in November 1982 as a joint venture between the government (60% share) and the International Finance Investment and Credit (IFIC, later IFIC Bank Ltd) Bank of Bangladesh (40% share) and by 1993 it was 100 % state-owned and since has remained a bank fully owned by the

<sup>14</sup> Largely based on:

- Personal interviews with senior officials of various institutions in Maldives
- BML, 2000 to 2007. “Annual Reports”
- IFAD ([www.ifad.org](http://www.ifad.org)) and UNDP ([www.undp.org](http://www.undp.org)) websites
- Country Paper for SAARC Finance Seminar for Microcredit Operations, 2002. Abdullah, Hassan, BML & Ismail, Zulaikha, MMA. “An Overview of Micro credit and SME financing activities in the Maldives”.

people and the Government of the Maldives. At present BML has 25 branches (19 in 18 Atolls and 6 in Male) covering almost the entire country except 2 Atolls.

In 1990, the Government of Maldives and BML had entered into an agreement to initiate a development banking project on broader scale, named “Atolls Credit Development Banking Project” with the participation of IFAD and UNDP. In order to implement this project, a Development Banking Cell with separate entity and financial autonomy was established in the BML. The Cell was established to supervise and control the activities of the project. Ever since its inception, the DBC has played a pivotal role in providing and promoting development-banking activities targeted mainly to the Atolls.

### ***Atolls Credit and Development Banking Project***

Atolls Credit and Development Banking Project (ACDBP) carried out since 1990 is probably one of the first microfinance experiences in Maldives and which catalysed the promotion of DBC in BML which is still furthering the microfinance initiatives in the country.

The project was designed to cover 15 out of 19 outer atolls in the Northern (first phase) and South-Central regions (second phase) through Southern Atolls Development Project (SADP). The project area comprised:

*Northern atolls* - Haa Alifu, Haa Dhaalu, Shaviyani, Noonu, Raa, Baa and Lhaviyani  
*South-Central atolls* - Vaavu, Meemu, Faafu, Dhaalu, Thaa, Laamu, Gaafu Alifu and Gaafu Dhaalu

At the time of designing the project, the project atolls contained 16,800 households with 97,700 inhabitants. This represented about 73 % of the total population in the outer atolls.

ACDBP was designed as the first phase of a long-term program to build up the BML as a development finance institution and help it to widen its geographic coverage to provide financial service to the population in outer atolls. The project cost was USD 6 million with IFAD contributing 3 million (as a loan), GoM 2.5 million and UNDP 0.5 million. These funds are received by BML from the GoM at 1% interest p.a. during the six year project period and 3% p.a. thereafter, over the repayment period. The interest and principal shall be repayable in 40 semi annual installments in Rufiyaa beginning May 2000 and ending November 2019. The project set out to:

- (i) lay the foundations of development banking in the Maldives and develop a credit delivery capability in the outer atolls;
- (ii) reduce income disparities between the outer atolls and Male by increasing the employment opportunities and income levels, with a particular focus on the lower income groups; and
- (iii) develop a framework for supporting future programs to improve nutritional standards in the outer atolls.

The project comprised five components:

- Creation of a Development Banking Cell in BML to establish credit delivery mechanism and mobilise savings in the outer atolls;
- Credit to individuals and groups to finance investment in fishing boats, fish processing, agricultural activities, trades and cottage industries;
- A pilot nutrition education program in an atoll to initiate a process of nutrition demonstration an education integrated with agriculture and extension;
- Training of the project beneficiaries, assistance to NGOs for training in agriculture, handicrafts and other income generating activities; and
- Provision of consultants for setting up a monitoring and evaluation system and to assist in design and analysis of baseline and impact evaluation surveys.

MoFT was the co-ordinating agency. BML through DBC was the implementing agency. Ministry of Atolls Administration, the Ministry of Fisheries and Agriculture and the Department of Women's Affairs were designated as co-operating agencies to implement the training and nutrition components.

The project aimed to assist 3,250 atoll households directly from credit access and to benefit 6,000 indirectly through improved earning opportunities. The target group comprised households with a per capita income below Rf 2,000 per annum, equivalent to Rf1,000 per month for a family of six persons. This poverty line was based on the average household income in the outer atolls derived from the various surveys. In 1993, the income ceiling for the target group was raised to Rf2,000 per month reflecting the trends in economic and social change.

### ***Southern Atolls Development Project***

The Southern Atolls Development Project (SADP) was the second phase of the ACDBP. It was initiated in 1995 with a loan of US\$ 2.9million from IFAD with the objective of creating and expanding income generation and employment opportunities by expanding development-banking facilities. The total project fund was of US\$8.1 million comprising contributions from IFAD (US\$2.9million), OPEC (US\$1.5million), UNDP (US\$165,000), UNICEF (US\$70,000), Government of Maldives (US\$ 613,000), Bank of Maldives (US\$1.64 million) and the beneficiaries (US\$1.179 million).

BML entered into another subsidiary Agreement with the GoM to execute SADP in December 1996. Under this agreement BML received funds to be disbursed under refinance schemes sponsored by IFAD and Organisation of Petroleum Exporting Countries (OPEC). These funds obtained from the GoM carried 5% interest p.a. for the first six years and the subsequent rate of interest (every year) were determined based on the market deposit rates, the sustainability of development banking operations and the need for the Bank to cover its transaction costs from the available spread. The principal is repayable in 30 equal semi annual installments starting from March 2002 until September 2016. SADP was formally closed in 2004 but BML has continued its microfinance lending activities from its own funds since then.

### ***Other credit projects managed by BML***

After, its successful microfinance experience under ACDBP and SADP, the DBC of BML became the focal point for undertaking microcredit programme in a country. After tsunami struck Maldives in December 2004, several projects were initiated by donor agencies having credit schemes and BML was engaged in implementation of many of these projects. **Exhibit 2.1** summarise the loans schemes in which BML was the administrator and custodian for receiving funds from various donors and disbursing such funds to the beneficiaries.

**Exhibit 2.1**  
**Projects (with credit schemes) managed by DBC/BML**

<b>Project</b>	<b>Donor/ Liaison agency</b>	<b>Purpose</b>
Fisheries development program	ADB MoFAMR	Small loans for development of fishing communities
Island livelihood revitalisation development programme	World Bank, JICS and ECHO/UNDP; Sectoral line ministries	Revitalizing the livelihood of the tsunami affected population focusing on tsunami affected small & medium businesses
Island livelihood revitalization and development program 2	World Bank, JICS and ECHO/UNDP; Sectoral line ministries	Promote and facilitate fisheries development in the tsunami affected islands & fisher folks and marketing cooperatives. Cooperatives working

		capital
Agriculture & Fisheries Tsunami Rehabilitation Fund	IFAD; MoFT, MoHA, MoNPD and MoFAMR	Agriculture and Fisheries Tsunami Rehabilitation Fund for the tsunami affected farmers & Fisher folks. Cooperatives working capital population
Fisheries Development Program - RSW scheme	MoFAMR	To promote & facilitate refrigerated seawater (RSW) systems & other post harvest chilling systems on board Maldivian fishing vessels to improve the post harvest quality assurance of fish.
Loan Scheme of the Agriculture Development Program	MoFAMR	To promote & facilitate agriculture development in agrarian communities
Microfinance project	IFAD	Poverty alleviation program to promote employment and income generating activities. Reduce income disparity within and between outer atolls & Male.
Development banking program	ADB MoEDT	Long term fund for development of individuals, businesses (small & medium enterprises) that were hit by tsunami. To Refinance loans granted by Bank

Source: based on BML annual reports, Donor websites, discussions with donor/ministry representatives

Most of the above projects are ongoing at present – further details on some of them are in **Section 2.3**.

### **2.2.2 Stand alone programmes through government ministries**

Before 2006, the government ministries also implemented projects with credit components themselves. In most cases the ministries worked with the community based organisations in Atolls for implementation. Each Atoll has an Island Development Committee (IDC) and Island Women’s Development Committee (IWDC). The first women’s committees were established in 1983. These are community based organisations (CBOs) having 10-20 community representatives, which work under the Ministry of Atolls Development (now a department under Ministry of Home Affairs) and in collaboration with the respective ministry implementing the programme.

After the Finance Act 2006, all financial intermediation must be through a banking system. Therefore the ministries have stopped direct implementation of credit programmes and collaborate with DBC/BML for this purpose. It is understood that DBC in some places takes support of the island committees for their projects. Some of the stand alone programmes implemented by various government ministries is documented below

#### ***Agricultural revolving fund for economic development***

The loans from this account ranges from Rf25,000 and to Rf7.6 million. The loans were disbursed for agriculture, printing, embroidery and tailoring, launderette and dry cleaning, operation of clinics, filming, graphic designing, electrification, taxi service, repair and maintenance service centres.

#### ***Atoll electrification project***

Atoll electrification project started in 1999 with a revolving fund of Rf10 million with the objective of electrifying smaller islands. As on June 2002, 36 islands were electrified under this project. Loans under this project ranged from Rf120,000 to Rf500,000 with a service charge of 8% p.a.

#### ***Credit to fisheries sector***

The government channels credit to the fisheries sector through two schemes – the first being the allocation of funding that is made for fishing boats. A total of about 200 loans have been provided for fishing boats (boats, mechanization etc) of which over150 were financed from external donor funds and about 60 out of government budget. Financing of Rf641,300 is currently provided for fishing

boats constructed by Maldives Industrial Fishery Company (MIFCO). The financing term was 10 years with bi-monthly payments calculated as a hire purchase arrangement with title passing to the lessee upon full and final payment. The full cost of the boat is financed under the scheme. Since 1998, 60 boats have been financed at the request of MoFAMR for a total cost of Rf35.7million. MoFT maintained the loan repayment records.

Credit has also been provided by MoFAMR for fish processing. By the end of 2001 from an allocation of Rf3 million, Rf2.19 million was disbursed to 256 borrowers in 33 islands in 8 atolls. The loan size ceiling was Rf25,000 and loan term for borrowers was two years including a six-month grace period. The interest rate was 7% p.a. that included the 6% charged by MoFT to MoFAMR and 1% administrative charge by MoFAMR. Loan disbursements were by cheques (encashable at BML branches) while loan repayment was in cash and collected through the Island or Atoll Office.

### ***Credit for women empowerment***

Ministry of Women's Affairs and Social Security (MoWASS), launched a microcredit programme in 2000 for improving the role of disadvantaged women through economic empowerment. The overall budget for the programme was Rf1 million. The programme was implemented in three phases – in the first three phases (2000, 2001 and 2006) loans amounting to Rf87,000 were disbursed in Male to 58 borrowers. In the third phase (2006) loans of Rf525,000 was also disbursed to 35 women borrowers in *Gafu Alif* Atoll. The loan size varied from Rf10,000 to Rf15,000 depending on the requirement of the borrower. The loan term was 3 years with a grace period of 2 months. The interest rate charged was 6% p.a. and the loans were repayable in equated monthly instalments (EMI).

The implementation process started with a public announcement of the loan scheme. The announcement generated some interest and subsequently loan applications. All loan applications were scrutinised by the loan committee which comprised representatives from MoWASS, Ministry of Planning and National Development (MoPND), Ministry of Atolls and BML (Asst. GM). Applications were shortlisted on the basis of ability of the applicant to do a particular economic activity, repayment capacity and the targeting criteria. The role of BML was mainly to provide technical support in implementation (like guidance in loan appraisal and monitoring to the MWASS project team). In the Atolls, the IWDC were engaged in day-to-day monitoring of the project in their islands. MoWASS monitored the activities of IWDC on an annual basis.

MoWASS opened a project account in BML for the purpose of micro-credit project. Disbursements were made by MWASS directly through cheques payable at BML branches. In some cases the project team purchased sewing machines/other assets and provided to the borrowers instead of cash. Loans were taken for the IGA like tailoring, cake making, arecanut packet making, bakery and hawking (fruits and vegetable). Repayment (EMIs) by borrowers was done to the ministries' bank account. The borrowers were also support to produce the bank deposit counterfoil to MoWASS as a proof of repayment. Every quarter MoWASS bank account was reconciled with the counter foils as a measure to monitor repayments.

The project was closed in 2006. MoWASS (now Ministry of Gender and Family (MoGF) is at present preparing a hand-book on micro-credit for women entrepreneur.

### ***UNDP livelihoods project***<sup>15</sup>

Before the tsunami, under UNDP regular poverty reduction programme, micro-credit was administered in five Atolls. Each Atoll Development Committee (ADC) managed an Atoll Development Fund (ADF), from which disbursements were made according to eligibility criteria set by ADC. Following tsunami, the livelihood project injected additional resources into each ADF. More than 500 direct beneficiaries received micro-credit loans under the special tsunami fund within

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<sup>15</sup> UNDP, 2008. "Restoration of livelihoods – sharing experiences"

the existing micro-credit programme. Among the activities funded were small enterprises, family businesses, fish processing, trade, handicraft, shops and cafes.

### **2.3 Current credit initiatives**

#### **BML continuing with own fund**

Almost two decades of experience in managing credit programmes and revolving funds provided by various ministries/donors has led to a creation of a credit fund which DBC uses for continuing the targeted financial service initiatives in the country. Over the years BML has added to this fund from its operational surpluses to meet the credit demand of its customers in the outer Atolls, expanding from 10 Atoll branches in 2001 to 19 as on April 2008, plus 6 branches in Male. Banking services include credit and savings – as discussed in Chapter 3.

The present credit facility from BML is provided at a rate of interest (reducing balance) of 11.75% p.a., repayable in maximum period of 5 years through monthly equated instalments (EMIs). The loans are provided mainly for productive purposes like fish processing, sea boutiques, handicraft and tailoring.

#### **BML management of other credit initiatives**

BML also implements other credit projects initiated by various ministries/donors. Most of these programmes were started as part of the National Recovery and Reconstruction Plan (NRRP) prepared by MoPND based on the joint needs Assessment carried out by the World Bank, the Asian Development Bank, the UN System and GoM. NRRP outlined the objectives and strategies for meeting urgent immediate needs in housing and infrastructure development, reviving livelihoods, and creating the conditions for sustained economic recovery. The plan contained projects and programmes proposed by different sectors to restore key industries and provide social and economic services and facilities.

Some of the projects with continuing credit components are highlighted below.

#### ***Credit projects initiated as part of the National Recovery and Reconstruction Plan (post Tsunami)***

<sup>16</sup>

Following the Tsunami, an important strategy for macro-economic recovery and livelihoods revival was to provide credit for repair/replacement of equipment and other productive assets. The projects (with credit components) for revival of fisheries, agriculture and livelihoods were as under.

#### Fisheries

There were two projects in fisheries which had credit component.

- Replacement of damages to equipments and facilities Maldives fish production
- Micro-credit facility to support small and medium scale Maldives fish processors

Both these projects were implemented by MoFAMR and targeted the small and medium scale Maldives fish processors affected by the tsunami. A large number of these were fishing communities who depend on cottage based processing of Maldives fish for their livelihood. The estimates showed loss of fish processing equipment and facilities to over 650 small scale (cottage-based) fish processors and 37 medium scale processors. Loss of stocks and productive assets had a negative impact on cash

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<sup>16</sup> MoPND 2005. “National Recovery and Reconstruction Plan – Programmes and Projects”

flows of affected fish processors and therefore required immediate assistance to restore their livelihood or to establish income-generating activities. As such it was important to provide these processors with fish processing utensils and necessary credit to recommence processing operations.

The first project provided financial assistance (small cash grants) as working capital to fish processors. The second project complemented the first by providing credit assistance to the target group for restoring their livelihoods. The projects were jointly financed by ADB and GoM.

### Agriculture

Agriculture initiatives also had two projects with credit component

- Provision of credit for small scale and commercial farmers
- Development of agricultural infrastructure in uninhabited islands

These projects were also implemented by MoFAMR. Agriculture sector was among the worst hit sectors, as the basic natural resources of agriculture (soil and water) were affected by tsunami waves causing temporary, semi-permanent or even permanent damage to these resources. The first project targeted the agriculture communities and credit was expected to be made available to 20 small scale farmers and 6 commercial farmers. The second project targeted the rural segment of the population depending on agriculture as their livelihood. This project focus was on asset replacement and provision (to a minimum of 25 active farmers in the most severely affected islands) of micro credit to replace the lost inputs and resume farming activities.

For the second fisheries and the above agriculture project, a fund was initiated by IFAD – Agriculture & Fisheries Tsunami Rehabilitation Fund (AFTRF). The fund is being managed by BML under the supervision of an independent steering committee comprising representatives of the Ministries of Finance and Treasury, Atoll Development, National Planning and MoFAMR. The overall goal of the programme is to contribute to restoring agricultural gross domestic product to pre-tsunami levels, returning the economy to a stable, long-term growth trend and reducing the fishery sector's vulnerability to natural disasters. Specifically, it will help to re-establish the country's fishing operations and augment the household income of fishers by restoring their livelihoods.

### Livelihoods

GoM initiated Island Livelihood Revitalisation Development Programme (ILRDP) targeting the micro and small business enterprises in fisheries, agriculture and trade related sectors, which were affected by tsunami. ILRDP activities were proposed to be implemented in a two pronged manner. Phase I activities, the focus of which will be geared towards addressing the more pressing needs, were to be implemented during the first 10 months (2005) while Phase II was to be spread over a period of three years (2006 – 2008) following the completion of phase I. The Phase II included a loan component and a grant component.

The programme implementation was BML (loan component) and sectoral line ministries (in-kind grant assistance component). The loan component of ILRDP (approximately 30 percent of the entire project) had to be repaid by the beneficiaries to a revolving fund at BML over a period of 5-10 years with a interest rate of 6% p.a. The maximum grace period allowed on the loan component is 12 months. The grant component of ILRDP (approximately 70 percent of the entire project) included in kind assistance provided under funding from donors and the government of Maldives.

This project was financed through a consortium of donors and contribution from the GoM. The donors included the World Bank, Japan International Cooperation Systems (JICS) and European Community Humanitarian Office (ECHO) in partnership with UNDP.

### *SME development programme*<sup>17</sup>

Employment opportunities are limited in the atolls and outer islands. Private sector development and improving economic opportunities in the atolls and outer islands are among the current development priorities for the Government. Thus the Government requested ADB for technical and financial support to encourage and strengthen private sector development, and the growth and improved viability of small- and medium-sized enterprises (SMEs), particularly in the atolls and outer islands.

The project aimed at developing sustainable SME support networks, SME entrepreneurial & employment opportunities, and enhanced human capital through entrepreneurial and business development skills training. It targeted the more vulnerable in the atolls and outer islands with participation and involvement of women and the young.

The Ministry of Atolls Development (now under Ministry of Home Affairs) was identified by the GoM as the executing and implementing agency. In addition, the MoFT and MoWASS (now Ministry of Gender and Family) were also actively engaged. Financial assistance to the project was provided by the South Asia Governance Finance and Trade Division (SAGF) of ADB.

**Exhibit 2.2** presents the funds allocated to various projects for credit.

**Exhibit 2.2**  
Allocated funds for credit under NRRP

<b>Project</b>	<b>Total project cost (US\$ million)</b>	<b>Donor</b>
Replacement of damages to equipments and facilities Maldives fish production	1.29	ADB
Agriculture & fisheries tsunami rehabilitation fund for micro-credit facility for small and medium scale agriculturist & fish processors	10.00 (2005/6)	IFAD
Island livelihood revitalisation development programme	5.00	JICS
	1.00	GoM
	8.60	WB
	1.34	ECHO/UNDP
SME development programme	6.0	ADB

Source: MoPND 2005 Opcit, pg 9; IFAD website. [www.ifad.org](http://www.ifad.org); ADB 2005.

### **Conclusions**

The ‘microfinance’ experiences in Maldives, have been programme centric rather than the institutionalised efforts found in other SAARC nations. In most cases, credit has been seen as a smaller component of a larger programme with a wider mandate. However, there have been some focussed efforts as well like the atolls credit development project implemented by BML and micro-credit project of MoWASS.

The experience of BML in the atolls credit project, led to its emergence as the main development bank in the country. Though the project has ended, BML now offers financial services through its own funds. The Finance Act 2006 has also strengthened its role as the apex development bank, which requires the credit component of any project to be managed by the commercial bank. BML being the only indigenous bank and due to its long experience and wide branch network is the preferred bank.

The GoM is keen on improving the access to finance in the remote atolls and is supporting a number of projects - small and micro-enterprise promotion by ADB and low cost housing by HDFC, and new initiatives discussed in Chapter 4.

<sup>17</sup> ADB, 2005. “Country Strategy and Program Update – Maldives 2006-8”

## Chapter 3

### Outreach

This chapter presents data on targeted financial services available from the annual reports of the Bank of Maldives (BML), as from 2006 when BML became the institutional channel for all credit programmes in the Maldives. Available data on credit activities prior to 2006 is also presented.

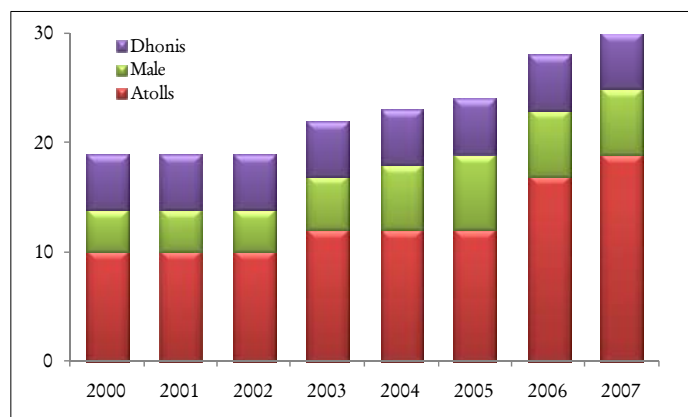
#### 3.1 Outreach of BML – credit services to the atolls

The outreach of the Development Banking Cell of the Bank of Maldives represents the current profile of targeted financial services in the country.<sup>18</sup>

##### Branch network

BML is the largest bank in the country with a country wide network of 25 branches covering all but 2 Atolls. The BML network accounts for the majority of the total 31 branches of six commercial banks in the country. BML considers its Atoll branches as part of its development banking initiative under DBC since 1990. In addition to the branches BML also has a fleet of five mobile banking boats called *Dhonis* which are used to provide financial services to regions/islands not easily accessible to its atoll branches. Over the years the branch network of BML has increased steadily in the Atolls as shown in **Exhibit 3.1**.

**Exhibit 3.1**  
Growth of branch network of BML



##### Customer base and portfolio

The total loans outstanding with BML as on 31 December 2007 were US\$495.4 million (Rf6,316 million)<sup>19</sup>. This has increased at a rate of 36% p.a. (8.4 times) since 2000 when the loans outstanding was US\$58.8 million (Rf750 million). In comparison loans in Atolls has increased by about 15% p.a. during the same period and currently stands at US\$34.9 million (Rf444 million, estimated) as on December '07. This is roughly 13% of the total loans outstanding as on December '07 indicating that 19 Atoll branches provide just 13% of the business in comparison to 87% of business by 6 branches in Male.

<sup>18</sup> Largely based on data available in BML annual reports (2006-7) and discussions with BML and MMA officials

<sup>19</sup> Exchange rate of US\$1 = Rf12.75 has been used for analysis

However, in terms of proportion to total loan accounts the Atoll branches share was a high 94% in 2003 and 2004. This may have decreased to about 50% (estimated) in 2007. This indicates that the average loan size in Atoll branches was much lower than that of loans in Male, thereby corroborating small financing under the DBC. This is evident from the average loan outstanding as on 31 December '07 at BML of US\$9,526 (Rf121,457) compared to US\$1,341 (Rf17,093) in Atoll branches. **Exhibit 3.2** presents portfolio analysis of BML in comparison to Atolls from 2004 to 2007.

### Exhibit 3.2

#### Portfolio analysis: Overall BML in comparison to Atoll (2004 to 2007)

	2004	2005	2006	2007
<b>BML overall</b>				
Portfolio O/s (US\$ million)	142.8	221.8	325.5	495.4
No. of loans O/s	14,671	30,850	50,000	52,000
Average loan O/s (US\$)	9,736	7,189	6,510	9,526
<b>Atolls</b>				
Portfolio O/s (US\$ million)	23.5	27.4	30.8	34.9
No. of loans O/s	13,756	18,510	25,000	26,000
Average loan O/s (US\$)	1,710	1,462	1,234	1,341
<b>Comparison</b>				
Atolls portfolio to overall BML portfolio (%)	16	15	14	13
Loan accounts at Atolls to total loan accounts at BML (%)	94	60	50	50
Average loan O/s at Atolls to overall average O/s at BML (%)	18	20	19	14
<b>Trends: increase or (decrease) in</b>				
No. of loan accounts with BML (%)	25	110	62	4
No. of loan accounts with Atolls branches (%)	25	35	35	4
Loan O/s at BML (%)	71	55	47	52
Loan O/s at Atolls branches (%)	43	15	14	13
Average loan O/s at BML (%)	37	(26)	(9)	46
Average loan O/s at Atolls branches (%)	14	(15)	(16)	9

**Note:**

All figures in italics are author's estimate (as not reported in the annual reports) based on certain assumptions. It should be noted that the estimations have been done to provide a sense of progress/change over the years. The assumptions are based on past trend of the BML outlined as follows.

- The growth in the number of overall loan accounts with BML was 25% in 2004, 110% in 2005, 62% in 2006 and just 4% in 2007. During this period the loan O/s increased by 71%, 55%, 47% and 52% respectively.
- Since 2000 (6,042 loan accounts), the increase in number of loans accounts in atolls has shown a fluctuating trend. The highest increase was in 2001 of 40% and the lowest 2003 of 12%. It is assumed that increase in no. of loan accounts at Atolls would have been around 35% p.a in 2005 and 2006 but around 4% in 2007.
- Also, the ratio of loans accounts in Atolls to total loans accounts in BML was 94% in 2003 and 2004. Assuming that financing activities in Male increased in the period after this, the ratio of Atoll loan accounts to total loan accounts in 2005, 2006 and 2007 would be around 60%, 50% and 50% respectively.
- The proportion of loan outstanding in Atolls to total loan outstanding has shown a declining trend since 2000 (23% in 2000, 21% in 2001, 19% in 2002, 20% in 2003 and 16% in 2004). On the basis of this it has been assumed that the ratio of loans O/s in Atolls branches to total loans in 2005, 2006 and 2007 would have been 15%, 14% and 13% respectively.

### 3.2 BML – targeted credit programmes

BML also segregates its loan portfolio in terms of loans provided to the 'target group' of clients receiving credit under various government/donor programmes. In 2004 the loans outstanding to target group clients was US\$10.0 million (Rf127 million) and this has increased to US\$29.0 million (Rf370 million) in 2007. Target group loans in proportion to total loans was around 7% in 2004 but has declined to about 5.9% in 2007. **Exhibit 3.3** presents this analysis.

### Exhibit 3.3

#### Portfolio analysis of target loans (2004 to 2007)

Target loans	2004	2005	2006	2007
Loans O/s (US\$ million)	10.0	25.9	26.4	29.0
No. of loans O/s	5,818	17,748	21,364	21,623
Average loan O/s (US\$)	1,710	1,462	1,234	1,341

Note: All figures in italics are author's estimate. It is assumed that the average loan O/s of the target loans would be similar to the loans O/s in Atolls branches. On this basis the number of target loans O/s has been estimated

It is clear from the above analysis that the microfinance requirements in Maldives are much higher than in comparison to other South Asian Association for Regional Cooperation (SAARC) countries. In India the average loan balance in 2008 was about US\$100. The loan balances in Maldives is 13 times more (for target loans shown in Exhibit 3.3) and about 37 times more (for loan under special schemes shown in Exhibit 3.4) in comparison to the Indian benchmark. However, average loan outstanding as a proportion to GNI per capita in Maldives for 2007 was 38.2% (still much higher in comparison to 13.0% in India) indicating targeting of the lower-income segment.

As part of targeted loans, BML also administers the following loan schemes. The coverage under these projects is shown in **Exhibit 3.4**.

- Island Livelihood Revitalization and Development Program (ILRDP), coordinated by National Disaster Management Centre.
- Loan Scheme of the Fisheries Development Program (LSFDP) and Loan Scheme of the Agricultural Development Program (LSADP) coordinated by the Ministry of Fisheries Agriculture Marine Resources.
- Loan Scheme of the Livelihood Revitalization Program (LSLRP) which is a joint initiative funded equally by the Bank, Maldives National Chamber for Commerce and Industries (MNCCI) and Maldives Association of Tourism Industry (MATI).

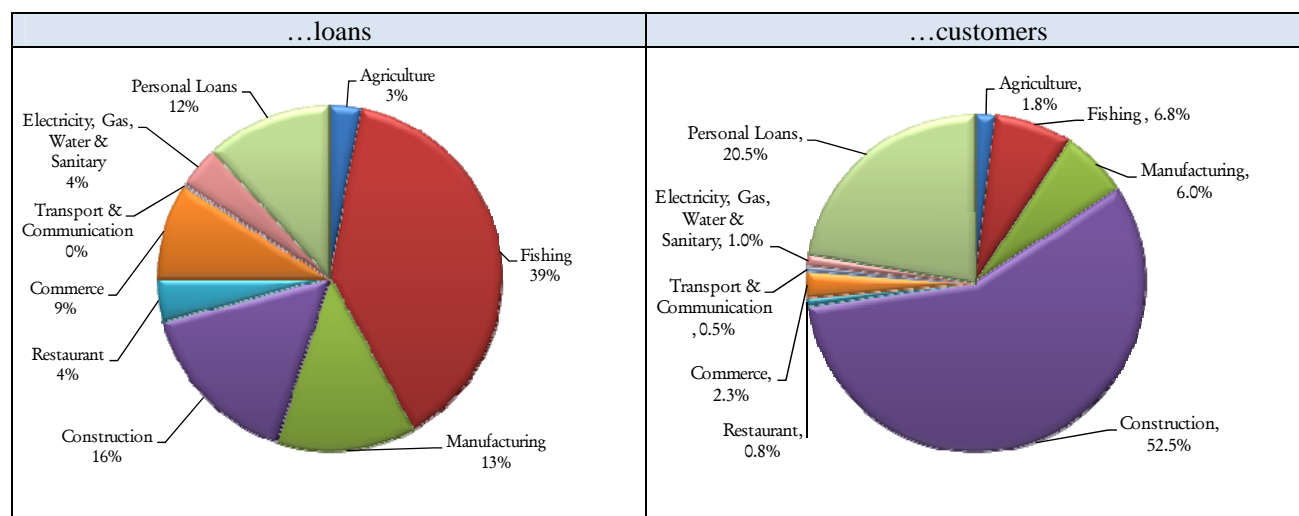
### Exhibit 3.4

#### Coverage under ILRDP, LSFDP, LSADP and LSLRP loan schemes (2006 to 2007)

Micro-credit loans	2006	2007
Portfolio O/s (US\$ million)	0.81	10.20
No. of loans O/s	261	2,716
Average loan O/s (US\$)	3,095	3,754

The portfolio outstanding of US\$10.2 million (Rf130 million) in 2007 of the loans under above schemes (Exhibit 3.4) has been diversified well into 9 sectors. The maximum exposure is to the fisheries sector (39%) followed by construction (16%), manufacturing (13%), personal loans (11.8%) & commerce (9.0%). However in terms of customers, construction sector leads at 52.5% followed by personal loans (20.5%), fishing (6.8%) and manufacturing (6%). **Exhibit 3.5** presents the distribution of loans and borrowers.

**Exhibit 3.5**  
Loan diversification



**3.3 BML - deposits**

BML has an estimated 205,000 deposit accounts with total deposits of around US\$457.3 million (Rf5,831 million) as on 31 December '07. It is understood that there are about 10-15% of clients having multiple accounts. BML estimates that 35% of the total deposits amounting to US\$169.2 million (Rf2,157 million) come from the Atolls branches. In 2007, the average deposit per customer at Atolls branches was slightly higher - about US\$2,358 (Rf30,067) - compared to the overall average deposit of US\$2,231 (Rf28,442). A senior officer at BML mentioned that in Maldives even savings accounts are used as current accounts.

It is worth mentioning that overall credit provided by BML is well leveraged by deposits as indicated by an overall credit-deposit ratio (CDR) of 92%. But in Atolls this drops down significantly at just 21% showing that access to credit is not so easy for Atolls population. **Exhibit 3.6** analyses BML deposits in recent years.

**Exhibit 3.6**  
Deposit analysis (2004-2007)

	2004	2005	2006	2007
<b>BML</b>				
Deposits (US\$ million)	217.7	277.6	344.6	457.3
No. of depositors	135,000	160,000	175,830	205,000
Average deposits/customer (US\$)	1,613	1,735	1,960	2,231
<b>Atolls</b>				
Deposits (US\$ million)	71.8	89.8	118.9	169.2
No. of depositors	33,750	43,200	53,658	71,750
Average deposits/customer (US\$)	2,129	2,079	2,216	2,358
<b>Comparison</b>				
Deposits mobilised at Atolls to total deposits at BML (%)	33	32	33	37
Deposit accounts at Atolls to total deposit accounts at BML (%)	25	27	31	35
Average deposits/customer in Atolls to overall average at BML (%)	132	120	107	106
Credit deposit ratio (BML) %	152	125	106	92

Credit deposit ratio (Atolls) %	33	30	27	21
<b>Trends: increase or (decrease) in</b>				
No. of deposit accounts with BML (%)	29	19	10	17
No. of deposit accounts with Atolls branches (%)	34	28	24	34
Deposits mobilised at BML (%)	44	28	24	33
Deposits mobilised at Atolls branches (%)	112	25	25	25
Average deposit/customer at BML (%)	12	8	13	14
Average deposit/customer at Atolls branches (%)	58	(2)	1	6

Note:

All figures in italics are author's estimate (as not reported in the annual reports) based on certain assumptions (based on past trends). The estimations have been done to provide a sense of progress/change over the years.

- The growth in deposits mobilised at Atolls was 24% in 2000, 52% in 2001, 27% in 2002, 34% in 2003 and 112% in 2004. It is assumed that the increase in 2005, 2006 and 2007 have been at 25% p.a.
- Deposits mobilised at Atolls as proportion to total deposits mobilised increased steadily every year from 15% in 2000 to 23% in 2003 and 33% in 2004. The increase in the subsequent year has been assumed at 32%, 33% and 37% respectively
- The number of deposit accounts (savings & current) in 2001 was 80,000 which increased to 94,400 in 2002 to 175,719 in 2006 & 205,000 in 2007. No. of deposit accounts in 2004, 2005 have been estimated on this basis. This is reflected in the calculations of average deposits/customer at BML
- Number of depositors in Atolls as proportion to total depositors in 2006 and 2007 was 31% and 35% respectively. The number of depositors at Atolls in 2004 and 2005 has been estimated on this basis. This is reflected in the calculations of average deposits/customer in Atolls

### 3.4 BML - staff

The staff strength of BML has increased steadily over the years. Staff in Atoll branches have remained around the 35-40% mark in the initial part of the 2000 decade, but has dropped down to 31% in 2007. Staff productivity in terms of borrower per staff has increased up to 2006 but dipped in 2007. Staff productivity in terms of loans outstanding per staff has increased at BML from US\$0.43 million to US\$0.75 million. Though staff productivity (borrower per staff) is higher in Atolls in comparison to overall BML performance, the outstanding portfolio per staff has remained more or less at the same level, reflecting the much lower loan size (**Exhibit 3.7**).

**Exhibit 3.7**  
BML staff strength and productivity (2004 to 2007)

	2004	2005	2006	2007
<b>BML</b>				
Total staff	336	418	504	663
borrower per staff	44	74	99	78
Portfolio per staff (US\$ million)	0.43	0.53	0.65	0.75
<b>Atolls</b>				
Total staff	129	150	181	206
Borrower per staff	107	123	138	126
Portfolio per staff (US\$ million)	0.18	0.18	0.17	0.17
% of total staff in Atolls	38	36	36	31

### 3.5 Outreach of earlier programmes

Very limited data is available on outreach of earlier credit programmes undertaken in the Maldives. Among the past projects, the most notable ones have been the IFAD projects (The Atolls Credit and Development Banking Project & Southern Atolls Development Project), UNDP livelihoods project

and the micro-credit project of MoWASS. **Exhibit 3.8** summarise the outreach of other micro-credit programmes

**Exhibit 3.8**  
Outreach of earlier credit programmes in Maldives

Project	Duration	No. of loans Disbursed	Total loans disb. (Rf million)	Average loan size (Rf)
ACDBP	1990 to 1996	2,515	51.00	20,278
Micro-credit for women	2000 to 2006	93	1.39	15,000
UNDP poverty reduction	Upto 2005	500		
Fisheries	Upto 2001	256	2.19	8,555

The ACDBP was closed in 1996. IFAD conducted an evaluation mission<sup>20</sup> in 1999 to analyse the final performance of this programme. The following were the main observations on outreach

- By the time the project ended, 96% of the total loans had been disbursed and the total value exceeded the initial estimates. At the end of the project period, a total of Rf116 million was disbursed (against estimated Rf77 million). The target group loans accounted for 43% of the total loan amount disbursed and 80% of the number of loans disbursed.
- The total target group loans amounted to Rf51 million in 2,515 accounts.. These households representing 70-80% of the total number of households in the project area would have obtained credit. These households would not have been able to access credit without the project intervention.
- The economic activities funded by DBC comprise fishing, small enterprises, trade/transport (boats) and agriculture. Lending to fisheries related activities was considerably lower than expected. The share of agriculture, small enterprise, trade and transport increased significantly reflecting growing importance of tourism related activities.
- DBC/BML has consistently moved towards attaining sustainability of operations. The credit recovery has been excellent – repayments rates hovering around 90%. Non-performing assets constitute less than 1% of the total loan disbursement. All branches mobilised savings though at a limited rate and made profit.
- The interest rate on loans was negative in real terms, or (1.5%), during the initial phase of the project. But in 1994, DBC/BML raised the lending interest rate to 12% for its development banking lending; profit margins improved further since the inflation rate declined from 10% in 1994 to 6% in 1996; this meant a positive interest rate on lending of 6%.

The micro-credit project of MoWASS ended in 2006 and the following was its outreach <sup>21</sup>

- Loans were disbursed in three phases in Male (2000, 2001 and 2006) and Gafu Alif Atoll (2006) amounting to US\$109,412 (Rf1.39 million) to 93 borrowers/
- Average loan size was Rf15,000 (US\$1,176)
- The project has not been able to recover about US\$68,469 resulting in an overall Portfolio at Risk (PAR) of 51%. Most highly affected have been the loans disbursed in 2006, having a PAR of 70%.

The outreach of UNDP and MoFAMR projects were as follows

<sup>20</sup> The mission conducted a survey with 114 households (that included both beneficiaries and non- beneficiaries as control group) in 18 islands representing all the 15 atolls serviced under the project. Fifty-eight beneficiaries and fifty-six non-beneficiaries were interviewed. The mission also used several sources of data to analyse the performance of credit and other components including BML financial data, economic indicators of the GoM, and the Poverty Assessment Data collected by UNDP Maldives

<sup>21</sup> Based on data provided by Ministry of Gender and Family (erstwhile MoWASS)

- UNDP programme for poverty reduction provided credit assistance to 500 borrowers for various income generation activities
- MoFAMR provided credit for fish processing. By the end of 2001 from an allocation of Rf3 million, Rf2.19 million was disbursed to 256 borrowers in 33 islands in 8 atolls. The loan size ceiling was Rf25,000 and loan term for borrowers was two years including a six-month grace period.

## **Conclusions**

BML has been the main institution in the country involved in microfinance activities for a considerable period of time and continually. It has a network of 25 branches covering all but 2 Atolls and comprises >80% of total branch network of all commercial banks in Maldives. The targeted credit outreach achieved by BML (through DBC in Atolls) is therefore fairly representative of the country.

Microfinance requirements in Maldives are much higher than in comparison to other South Asian countries. However, average loan outstanding as a proportion to GNI per capita in Maldives for 2007 was 38.2% (still much higher in comparison to 13.0% in India) indicating targeting of the lower-income segment.

The outreach of targeted financial services in Maldives is about 26,000 borrowers in Atolls with loans of \$34.9 million and 71,750 depositors with total savings of \$169.2. Overall, BML has 52,000 borrowers with loans of \$495.4 million and 205,000 deposits with savings of \$457.3 million. This indicates that credit to Atoll borrowers is highly leveraged by savings.

## Chapter 4

### Financial inclusion

This chapter presents the coverage of targeted financial services in Maldives in relation to target clientele in Atolls and poor households. There are no recent studies on impact of targeted credit programme in Maldives – a 1999 study by IFAD indicates beneficiary households on average were living on an income below Rf10/day in 1996 which was below a median poverty line of Rf15/day. At the time of evaluation, three years later the average household income was equivalent to over Rf122/day. Also discussed are other initiatives in the country for promoting financial inclusion – these include a mobile banking project, creation of a credit bureau and low cost housing project.

#### 4.1 Depth of outreach

There is no data on depth of outreach in terms of poverty levels of clients (of targeted financial services) in Maldives. The depth of outreach has therefore been analysed by estimating the level of penetration achieved by the targeted financial services. For this data of BML on credit and savings services has been used. **Exhibit 4.1** shows the microfinance penetration in the country.

**Exhibit 4.1**  
Microfinance penetration (2007)

		<Rf15/day	<Rf21/day
a	Population of Maldives	300,000	
b	Productive population in Maldives (>14 years age)	190,000	
c	Proportion of population below Rf15/Rf21 a day	16%	26%
d	Productive population in Maldives with earnings < Rf15/Rf21 (b*c)	30,400	49,400
e	No. of targeted credit loans (BML) in 2007	2,716	
f	Coverage by targeted financial services (e/d)	8.9%	5.5%

**Note:** Author's estimate based available data on population (HDR 2007-8), poverty line (VPA-1 & 2, TIA) and microcredit loans (BML)

TIA 2005 estimates that 16% and 26% population of Maldives lives below the poverty line of Rf15 and Rf21 per day respectively. The estimated population of Maldives is about 0.3 million of which the working population (age >14 years) is about 0.19 million. Labour force constitutes 0.09 million. Taking all this into account it can be assumed that productive population in Maldives who require microfinance is about 30,000 for <Rf15 per day earning class and around 50,000 for <Rf21 per day earning class. BML figures show that about micro-credit 2,716 loans were outstanding in 2007. This means that the penetration of targeted financial services to below Rf15 poverty line population is just 9% and even lower at 5.5% for Rf21 poverty line, indicating that there is ample scope of increasing this coverage.

The coverage of Atolls in terms of savings services seems much better in comparison to targeted credit penetration. About 2/3<sup>rd</sup> of the population lives in Atolls and assuming that each person is a potential savings customer, the coverage of savings services is about 32%. The coverage at the country level is comparatively better at around 55%. Consultative Group to Assist the Poor (CGAP) survey results (MoPND 2005, Key indicators) also showed that about 35% of the Atolls residents and 65% of Male residents have bank accounts. **Exhibit 4.2** presents the coverage of savings services.

**Exhibit 3.12**  
Coverage of savings services (2007)

		<b>Atolls</b>	<b>Maldives</b>
a	Population living in Atolls/Maldives	200,000	300,000
b	No. of savings accounts in Atolls/Maldives	71,750	205,000
c	Assumption on overlap – No. of persons having multiple accounts	10%	20%
d	No. of persons having savings accounts in Atolls/Maldives (b*c)	64,575	164,000
e	Coverage of savings services (d/a)	32.3%	54.7%

Note: Author's estimate based on BML data on savings accounts

## 4.2 Other initiatives

For a population of around 0.3 million spread across 120 islands in 20 Atolls, there are six commercial banks with 31 branches in Maldives. Many islands have populations below 1,000 and the economies of scale have prevented the banks to open branches. Though a large proportion of population (about 1/3<sup>rd</sup>) is located in Male/nearby islands, there are a number of sections which are totally unreachable.

The World Bank appraisal document for mobile banking project cites that the single largest impediment to private sector development in Maldives was access to finance followed by cost of financing. With banked population in Male of about 65% and 30% in the islands, most people in the Maldives remain without a safe place to save money, and those working away from their home islands find it expensive and time-consuming to send money to family. Insurance products are unavailable to most in the atolls, and the nearly universal use of cash means that people's basic earnings are vulnerable to loss, theft and natural disasters such as the recent tsunami.<sup>22</sup>

In such a situation, it was imperative to find a way of providing banking services to the people that is cost effective, does not affect the profitability of the bank, easily accessible and user friendly. There are two projects – mobile banking and establishment of a credit bureau – currently being undertaken in the country which tries to address the access to finance issues.

Apart from mobile banking and credit bureau, some other initiatives include micro-, small and medium enterprise (MSME) development and social scheme on housing finance. These are described below

### ***Mobile banking project***<sup>23</sup>

A mobile banking project was initiated at the express request of the GoM after being exposed for the first time to mobile banking systems in other parts of the world at a regional microfinance workshop sponsored by the World Bank in December 2005. Since 2006, Maldives Monetary Authority (MMA) has worked with CGAP to develop a concept and a proposal for the Maldives that forms the basis of this project. The objective of the Mobile Phone Banking Project (MPBP) in the Maldives is significantly to increase the use of banking system transactions for effecting or receiving payments for labour, goods and services nationwide through the implementation of a national inter-operable payments system that facilitates access to financial services and allows users access to their bank account using any mobile phone operator and cashing through any banking agent. The project has two main components:

<sup>22</sup> World Bank, 2008. "Project appraisal document: Report No.: 40947-MV". South Asia Region, Finance and Private Sector Development Unit

<sup>23</sup> [www.web.worldbank.org](http://www.web.worldbank.org)

- (i) Create, establish and operationalize the Maldives Interoperable Payments System (MIPS): the payment system is a single currency system operating in Maldivian Rufiyaa that will be capable of interoperating with all local mobile network operators and integrating all the banks. The system will offer a set of mobile telephone based accounts that include mobile payment accounts, mobile agents accounts, mobile card accounts and mobile airtime reseller accounts.
- (ii) Building an enabling environment and the capacity to support successful mobile phone banking systems.

The estimated total cost of the project is US\$10.55 million<sup>1</sup>. The project led by the World Bank will be supported under a parallel financing arrangement between International Development Association (IDA) and CGAP and some contributions from MMA and GoM.

### How will it work?

This project is implemented by a separate unit that has been created in the MMA. An important basis of the project was the vast outreach of telecom sector in the country, which can be used to enhance access to finance. Traditionally, communication services were provided solely by Dhiraagu Private Limited, a joint venture between the Government and a United Kingdom based company. To create more competition, the sector was opened in 2004 to a second player, Wataniya<sup>24</sup>, a Kuwait based company whose market share has increased significantly during this short period of time. Together the penetration (in terms of number of subscriptions) of these two companies is estimated to be more than the population of Maldives. The 2005 Investment Climate Assessment indicated that 50% of the population in the atolls has at least one mobile phone. This has now reached to nearly 100% as informed by an MMA official.

MMA is now almost ready to pilot test the mobile banking system by the end of this financial year. The operations of mobile banking system is explained below

- The system (MIPS) will allow mobile phone users to create and operate mobile phone accounts held in one of the local banks.
- The mobile phone accounts can be used to receive and transfer funds and make payments between mobile phone accounts.
- The subscriber can also link the mobile account to an existing bank account for transfer of funds between the local bank account and the mobile phone account.
- Through a network of local agents (who will be like human ATMs, could be small retailers/shopkeepers having direct contractual relationship with the bank for which he/she performs cash functions) the mobile subscriber can deposit cash to and withdraw cash from the mobile account. New customers will be able to enroll through the mobile handset with the aid of an agent.
- Through the automatic clearing house, the mobile phone subscriber can also choose to nominate the mobile phone account for salary payments (direct credits from employers) and can choose to set up direct debits drawn on the mobile account for payment of regular services (utility bills etc). This will improve access to finance for everyone, particularly residents of the atolls.
- The phone banking system will allow for real time access to a wide range of financial services from anywhere in the Maldives. The automated payment system will lower the costs of inter-bank transactions and settlements, reduce systemic risk, and allow for better targeting of liquidity instruments by the MMA.
- The system will be a dual currency system operating in Maldivian Rufiyaa (MRF) that will be capable of interoperating with all local mobile network operators and integrating all the banks.

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<sup>24</sup> International Finance Corporation (IFC), is an investor in the privately owned mobile operator Wataniya and is helping the MMA to develop a Credit Information Bureau (CRIB)

### ***Credit bureau***

In Maldives, another issues related to access to finance is lack of knowledge on credit history of clients. It is for this reason that (apart from sponsored micro-credit programmes) all credit from commercial banks in Maldives is collateralised (by regulations). Since credit demand is very high for various large, medium and small business activities, lack of collateral has restricted access to a large proportion of the needy population.

MMA believes that establishment of a Credit Information Bureau (CRIB) will provide an opportunity to the clients to negotiate better with banks in absence/shortage of collateral. This will be more relevant for smaller credits for which the banks are not so willing to provide loan without collateral. International Finance Corporation (IFC) is providing technical assistance to MMA for the formation of a CRIB. ADB is financing this project through a loan to GoM.

### ***Project on Gender and Economic Empowerment***<sup>25</sup>

The Department of Child and Family Protection of the Ministry of Health and Family (MoHF), MoEDT and the UNDP have signed a project on Gender and Economic Empowerment under the UNDP Country Programme Action Plan 2008-2010.

The main objective of the new project between UNDP and the government is to address the high level unemployment among women by advocating, mainstreaming and strengthening economic opportunities for vulnerable women with a focus on business and entrepreneurship development. The main strategy involves research, advocacy and mainstreaming of women's economic activities, facilitating small grants schemes for skills training and small business initiatives and capacity building of organizations implementing and promoting these activities. Through the project, preparatory work will also be undertaken to facilitate the set up of a SME development bank in the Maldives. This project has just recently started implementation in February 2009 and will run to December 2010.

### ***SME promotion programme***

In a sectoral and regional study on MSMEs undertaken by Invest Maldives<sup>26</sup>, it was found that MSME in Maldives face a number of road blocks that has limited their development. Some of the constraints include lack of technically skilled labour, high utility prices, low access and high cost of financing, lack of thrust/incentives from the government and insufficient current legal framework to promote MSMEs, lack of capacities of domestic business development service (BDS) providers and weak business linkages.<sup>27</sup>

Invest Maldives (IM), initiated a project on MSME development in Maldives and is the focal point for all government agencies (MoGF, Ministry of Youth, MoHA etc) for all activities related to MSME promotion. For this IM has established two business development offices (BDO) in Southern and Northern province excluding Male island. It is targeting all sectors except tourism and boat building as there is already a lot of initiatives ongoing for them. The responsibility of the BDO is to identify entrepreneurs, support them in developing business plans and help them in accessing finance from BML. The BDO will also assist the entrepreneurs in developing their capacities to run the businesses in a profitable manner.

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<sup>25</sup> [www.mv.undp.org](http://www.mv.undp.org)

<sup>26</sup> Invest Maldives, is a government agency under MoEDT which is entrusted with promoting, licensing and registering foreign investments in the country, is the first port of call for all foreigners keen to invest in the Maldives. Invest Maldives also plays an active role in supporting investors in their establishment and operations. Source: [www.investmaldives.org](http://www.investmaldives.org)

<sup>27</sup> Invest Maldives, 2008. "SME Development Project"

The proposals would be generated by BDOs and sent to IM Project Coordinator, based at its Head Office in Male. After a thorough appraisal the proposal will be recommended for loans from BML. According to an arrangement with BML, the bank will share a 20% risk on loan. However, for large loan size the risk sharing by BML will be only 10%. This will effectively reduced the collateral requirement to a much lower level than the 180% collateral ratio practiced at BML. Funds will be provided to BML for financing the SME projects at 3% p.a. BML is expected to charge a rate of interest of 7% p.a. thereby giving them a spread of 4%. The loan size per MSME will be upto US\$40,000 for general enterprise and upto US\$80,000 for cluster based enterprises.

The total project cost is US\$8 million – through a loan of US\$6 million from ADB and contribution of US\$2 million from GoM.<sup>28</sup> This includes US\$3 million for MSME financing, US\$1 million for grant support, US\$1.5 million for private public partnership (PPP) initiatives and US\$75,000 to MMA for technical assistance support in establishing CRIB.

### *Affordable housing*<sup>29</sup>

HDFC Limited was incorporated on 28 January 2004 by a Presidential Decree under the Companies Act, Law No: 10/96. Commercial operations commenced on March 29, 2004. It is a financial institution that focuses on housing loans

Apart from high value housing finance, HDFC is also part of the affordable housing initiative in the country. After the tsunami, there was high migration of population into the larger islands, including the capital Male'. There was severe pressure placed on housing, whilst average costs of construction and rental increased. In response to this the GoM initiated a “Social Housing” scheme, providing a revolving fund of Rf70 million (~\$5.5 million) to HDFC to provide loans for building homes.

Two schemes were introduced in April 2008. Total applications received were 758 amounting to demand of Rf157.9 million. Out of these 332 applications were approved for housing finance of ~Rf66.1 million. The following criteria were used for screening applicants

- The applicant should be living in the island (where the house is proposed to be build) for past 5 years
- Should have a house on the piece of land where house is proposed
- Should not earn an income of more than Rf6,000/month
- Should not have a loan/grant provided by the government

During the screening of applications it was observed that a majority of applicants were men living in Male for their livelihood but their wives were living in the islands. In some deserving cases (like where there was a likelihood of husbands going back to their home islands), HDFC accepted the application. The loan scheme was to build a one bedroom house. In outer islands the loan limit was Rf16,000/person while in Greater Male the limit was Rf24,000/person. Grace period for repayment of principal was 1 year (estimated time for building a house). The loan tenure was 10-20 years at an interest rate of 5% p.a. on reducing balance. At present (April 2009) 266 clients have Rf15.4 million (~US\$1.2 million) outstanding loans. The portfolio break-up shows that 25% of the housing loans are above US\$75,000 while 75% is around US\$25,000. The average outstanding loan is about US\$40,000.

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<sup>28</sup> ADB, 2006. “Country operations business plan: Maldives 2007-2009”

<sup>29</sup> Housing Development Finance Corporation PLC. “[www.hdfc.com.mv](http://www.hdfc.com.mv)”

## **Conclusions**

There is no data on depth of outreach of targeted financial services. Estimates made in this study shows that the penetration of targeted financial services to below Rf15 poverty line population is just 9% and even lower at 5.5% for Rf21 poverty line, indicating that there is ample scope of increasing this coverage.

The coverage of Atolls in terms of savings services seems much better in comparison to targeted credit penetration. Estimates show that about 32% population of Atoll and about 55% of Maldives are banked. CGAP survey results also showed similar results – banks accounts with 35% of the Atolls residents and 65% of Male residents.

Access to finance and therefore financial inclusion is one of the issued faced in Maldives that has restricted private sector development.

The GoM is keen on improving the access to finance in the remote atolls. A number of recent projects indicate a shift in the focus of the policymakers towards this agenda. This includes mobile banking project of the World Bank, credit bureau initiative of IFC, small and micro-enterprise promotion by ADB and low cost housing by HDFC.

## Chapter 5

### Regulation

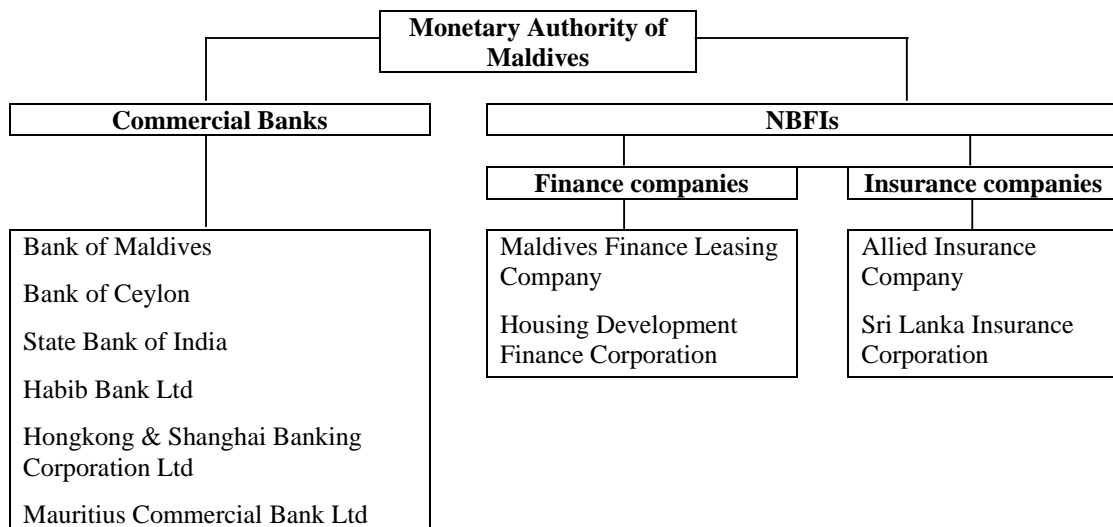
This chapter presents the structure of the financial sector in Maldives, regulated and supervised by the Maldives Monetary Authority – the Central bank of Maldives. The chapter also describes the existing regulatory regime for the three types – commercial bank, non-bank finance institutions and insurance companies - of institutions engaged in financial intermediation.

#### 5.1 Financial sector of Maldives

The financial sector<sup>30</sup> of Maldives consists of the Maldives Monetary Authority (MMA), six commercial banks and several non-bank financial institutions (NBFIs). The MMA, established in 1981, undertakes the role of a central bank with the principal functions of issuing currency, licensing, supervising and regulating commercial banks operating in the Maldives. It also undertakes banking activities on behalf of the Government; provides domestic financing for Government operations and manages the country’s international reserves and the exchange rate.

During the recent years there have been significant developments in the activities of non-bank financial institutions in the country. However, the financial sector continues to be dominated by commercial banks. **Exhibit 5.1** shows the existing structure of financial sector in Maldives.

**Exhibit 5.1**  
Existing structure of financial sector



Among the commercial banks in Maldives, BML is the only domestic bank which is jointly owned by the government (51%), general public (29%), Government Employees’ Provident Fund (7%), State Trading Organisation Plc. (STO), Maldives Transport and Contracting Company Plc. (MTCC) and Island Communities (4% each). It also has the largest branch network in the country, created with the objective of providing banking services to the highly dispersed population of the country.

All other banks are foreign commercial banks with branches located in Male. Each of them has one branch located in Male and recently SBI has opened a new branch in the southernmost Atoll.

<sup>30</sup> Based on discussions with MMA authorities; MMA, 2007. “Annual Report”

Non-bank financial institutions in Maldives can be broadly divided into Finance Companies and Insurance Companies. The finance companies include two major institutions: Maldives Finance Leasing Company (MFLC) and Housing Development Finance Corporation (HDFC). MFLC, formed in 2001 is jointly owned by IFC (25%), NDB Bank Srilanka (25%), BML (10%), MTCC (15%) and three individual shareholders (15%). It is principally into asset financing which includes boats, taxis and computers. HDFC was formed in 2004 with 100% government stake but privatised in 2009 and is currently jointly owned by IFC (18%), ADB (18%), HDFC India (15%) and government (49%). It focuses on housing finance. There are a few (three) financial auxiliaries as well involved in transfer of money.

The insurance companies comprise of State Trading Organization (STO) owned Allied Insurance Company (incorporated in 1985 as a joint venture Company between STO and Commercial Union Assurance Company of the United Kingdom<sup>31</sup>) and Sri Lanka Insurance Corporation represented through insurance brokers (Ceylinco Insurance Company and Amana Takafur Insurance) and agents (four).

There are no microfinance institutions (MFIs) in Maldives and the Development Banking Cell of BML is involved in providing micro-credit services to target groups in Male and Atolls.

## 5.2 Existing regulatory regime<sup>32</sup>

Regulations of bank and financial institutions in Maldives are carried out under the guidelines of MMA Act 1981. According to the Article 29 Section (1) of the MMA Act, a local financial institution is not allowed to do business in Maldives or abroad nor any foreign financial institution can do business in Maldives without a license granted by MMA. The license shall indicate the type of banking business licensee is authorised to do and are regulated as per the guidelines for that particular institution. **Exhibit 5.2** presents the regulatory norms for various types of financial institutions operating in the country.

**Exhibit 5.2**  
Summary of existing regulatory framework for financial institutions in Maldives

	Commercial banks	NBFIs	Insurance companies
Type of registration	All companies are registered under "Companies Act of Republic of Maldives" <sup>33</sup> Private (Pvt Ltd) or Public Limited Companies (PLC) can be formed under this act		
No. of organisations	1 local bank (BML PLC) 5 foreign banks licensed to operate in Maldives	MFLC (Pvt Ltd) HDFC (PLC) 3 money transfer companies	Allied Insurance (Pvt Ltd) Two insurance brokers Four agents
Ownership	High govt. stake (51%) and general public (29%) in the local bank	High govt. stake in HDFC (49%) but privatised; MFLC is fully privatised	Fully owned by STO – which is 90% owned by GoM and falls under MoEDT.
Inspection and supervision arrangements	Under MMA Act  Credit and Bank Supervision (CBS) division under Financial Sector Division (FSD) is responsible for supervising banks	Under MMA Act  Non-Bank Financial Institution Supervision (NBFIS) division under FSD is responsible for supervising NBFIs	In accordance with the provisions of the Presidential Decree no 2002/6 dated 16th January 2002, the MMA as the designated competent authority has sole responsibility for the regulation and supervision of the insurance industry. <sup>34</sup>

<sup>31</sup> Source: Allied Insurance Company. [www.alliedmaldives.com](http://www.alliedmaldives.com)

<sup>32</sup> MMA, 2000. "Regulations for banks and financial institutions" Reprint No. 3

<sup>33</sup> Company Act (unofficial translation). Source: MoEDT, [www.trade.gov.mv](http://www.trade.gov.mv)

<sup>34</sup> Insurance industry regulations. Source: MMA, [www.mma.gov.mv](http://www.mma.gov.mv)

	<b>Commercial banks</b>	<b>NBFIs</b>	<b>Insurance companies</b>
Licensing regime	Any 2 or more persons having a limited liability of its members can form a private company Any ten or more persons, having the limited liability of its members, can form a public company Licensing for financial intermediation by MMA under MMA Act		
Minimum capital requirements	Min. paid up capital of Rf30 million	Min. authorized capital of Rf2,000 for Pvt Ltd & Min. paid-up capital of Rf1 million for PLC	Rf250,000 (for underwriting non-life insurance business) Rf350,000 (for underwriting life insurance business)
Prudential norms	Maintain a CAR of not less than 8% of risk weighted assets. Core capital ratio should be at least 4%.  <u>Provisioning</u> Good loans: 1%  Upto 3 mth past due (watch list): 1%  3-6 months (especially mentioned): 5%  6-12 months (substandard): 10-20%  12-24 months (doubtful): 35-50%  >24 months (loss): 100%	Maintain a CAR of at least 12% of risk weighted assets  <u>Provisioning</u> Same as banks	Maintain a CAR of at least 12% of risk weighted assets
Mobilisation of financial resources	Equity contributions, member and non-member deposits, grants and borrowings	Equity contributions, grants and borrowings  HDFC is allowed to accept fixed deposits only from institutions after it has been given a banking licence but it is yet to start deposit services	Equity contributions, grants and borrowings
Interest norms	Lending: 5.5 to 13% for US\$; 8 to 13% in Rf lending  Savings: 1.25 to 3.0% for US\$; 2.5 to 3% for Rf  FD: 1.5 to 6.5% for US\$; 2.25 to 6.5% for Rf	Same as that for banks However for special projects like social housing interest rates may vary  MFLC is not allowed to collect deposits	
Fixation of limits on loans and advances	Any single loan/advance to individual cannot exceed 15% of the aggregate amount of the financial institution's unimpaired capital and the unimpaired balance in its Reserve Account.		

Source: MMA, 2000.

Note: The minimum capital and CAR requirements are in the process of being revised. It is proposed that the minimum capital for banks be raised to Rf150 million. MMA is also planning to draft a separate legal act for NBFIs. (discussion with MMA officials)

There are no separate regulations/norms for regulating the micro-finance activities in the country. Prior to 2006, the various ministries were allowed to directly undertake financial intermediation (for micro-credit loans). However, Finance Act 2006 has restricted this and now any financial intermediation has to be done through a banking system.

## **Conclusions**

The financial sector of Maldives consists of the MMA, six commercial banks and several NBFIs. There are no MFIs in Maldives and the DBC of BML is involved in providing targeted credit services. The MMA, established in 1981, undertakes the role of a central bank with the principal functions of issuing currency, licensing, supervising and regulating commercial banks operating in the Maldives.

The financial sector is dominated by the commercial banks though in recent years the NBFIs have also shown significant development. Among the commercial banks only BML is a public bank while all other banks are foreign commercial banks operating in Maldives.

The NBFIs can be broadly divided into Finance Companies and Insurance Companies. The finance companies include two major institutions - MFLC and HDFC. The insurance companies comprise of Allied Insurance Company and Sri Lanka Insurance Corporation represented through insurance brokers and agents.

Regulations of bank and financial institutions in Maldives are carried out under the guidelines of MMA Act 1981. There are no separate regulations/norms for regulating the micro-finance activities in the country but after the Finance Act 2006, there has been a significant change in how financial intermediation for micro-credit loans is undertaken. After 2006, any type of financial intermediation has to be done only through a banking system.

## Chapter 6

### Challenges to financial inclusion

The basic challenges to financial inclusion in the Maldives lie in the unique geography of this island country, and the limited opportunities for self-employment in the more distant atolls. These challenges are discussed here together with two specific initiatives under way.

#### 6.1 Main challenges

##### Geographical spread and scale

Maldives is a small country (dry land area of 300 sq.km.) but spread over an area of 90,000 sq.km of the Indian Ocean. The country has 1,190 islands, formed into 26 geographic atolls; 198 islands are inhabited. Population is roughly 300,000 people. One third of the inhabited islands have a population of less than 500, and 70% of the inhabited islands have a population of less than 1,000 inhabitants. This gives the Maldives a geography that is challenging, even by the standards of small archipelagic states.

Microfinance activities, as generally understood, thrive on economies of scale. In case of Maldives, both its geographical spread as well as population does not offer a large scale for viably running a long-term micro-credit programme. So far, BML has been undertaking these initiatives under DBC through years of financial support/funds received under various programmes. Nevertheless, 32% of the population living in Atolls and about 13% in Male need small credit to sustain their livelihoods. It continues to be a big challenge to provide (micro/small) financial services to this section of the population.

##### Infrastructure

The geographical spread and dispersal of population has also led to issues related to access to finance. Commercial banks cannot open branches at many islands to provide financial services to Atolls population and still remain viable. At present BML has the largest branch network which along with its mobile banks (*Dhonis*) cover all the Atolls. But still access to financial services, has been identified one of the main problems in various studies conducted by various international agencies.

Two recent initiatives – mobile banking and credit bureau – by MMA in collaboration with World Bank its partner agencies are expected to address the issue of access to finance.

##### Inadequate capacity of local agencies

Most of the previous microfinance programmes were undertaken through local agencies based in Atolls – Island Development Committees and Women Island Development Committees. The experience of other agencies apart from BML was not so good in implementing the programmes as reflected by high PAR for MoWASS's micro-credit programme.

The main reason for this has been the lack of capacity of the local agencies to monitor projects and at the same time provide guidance to the borrowers to utilize credit for enhancement of their livelihoods. As a result repayments suffered and there was reported mis-utilisation of credit for purchasing assets than for investing in livelihoods. Also post-tsunami, many projects were launched in the country in which these local agencies were also involved – it is understood that they did not have sufficient trained/experienced manpower to handle so many projects.

Similarly, the project teams of various ministries also lacked capacity to monitor the programme and provide guidance to the local organisations in implementing the programmes. In some projects BML provided technical assistance to the project teams but it may not have been sufficient. However, after the new Finance Act, all credit intermediation activities have to be done through a banking system and it is expected that this would lead to better monitoring of funds as well as capacity building of local agencies.

### **Demand supply gap & collateral requirement**

The per capita income of Maldives is very high in comparison to other South Asian countries. GDP per capita (1995 prices) (MoPND, 2005) was about US\$2,439 (Rf28,495) in 2004 and further increased to US\$3,510 (Atlas method; World Bank, 2007) in 2007. The targeted credit loans provided under many programmes was around Rf15,000 (US\$1,176) which some of the senior officials met during the study believed may not have been sufficient to start a gainful income generating activity. Microfinance in Maldives context, in this sense is quite different from its neighbouring countries where the average loan size of US\$200 is sufficient to support initial cycle borrowers.

Credit in Maldives has also historically been collateral based and BML was able to deliver loans (without collateral) to the clients mainly because of the funds provided by various international agencies (through GoM) for this purpose. It will be a challenge to increase the loan size further without any collateral. It is expected that the credit information bureau will be an important tool used by banks for selecting creditworthy customers for whom collateral requirements could be made flexible.

### **6.2 Pilot initiative – mobile banking**

The banking sector of Maldives covers barely 40% of the population. This varies sharply in Atolls (35% have bank accounts) and Male (65% have bank accounts). The access to financial in the island country is more pronounced due to its geographical limitations which do not provide scale to the financial sector to operate viably. Lack of access to facility to save money, expensive and time consuming options to send money, lack of access to insurance for households living in Atolls has promoted a high use of cash which is vulnerable to loss, theft and natural disasters.

At the same time, mobile usage has spread very fast in the country and covers nearly the entire population. Given the highly literate population and high coverage of the mobile phone network, there is great potential to use technology to overcome the barriers of geography, low population density and a small population, and deliver financial services at low cost across the country.

The Government of Maldives recognizes this potential for enhancing access to finance and therefore private sector development. On its request, The World Bank in partnership with IDA and CGAP are piloting a project on mobile banking. MMA is its implementing partner.

The target group that will most directly benefit from for this project is the people who live and work in the Atolls. It will be a huge challenge for the implementers first to set-up a secure system for mobile banking, draft regulations for usage and supervision, identify and train a network of local agents who will serve as exchange points and develop financial literacy of users. However, since there are successful examples of mobile banking systems in several countries, it is expected that mobile banking in Maldives will soon become a reality and provide an impetus to inclusive finance initiatives.

### **6.3 In the pipeline – credit bureau**

In Maldives, another issues related to access to finance is lack of knowledge on credit history of clients. Commercial banks are reluctant to provide credit to borrowers whose credit profile is not

known, unless they can provide equivalent collateral. This directly affects about 50% of the households (32% below the poverty line Rf21 a day) of living in Atolls who neither have credit history nor can provide collateral.

It is believed that setting up of a credit information bureau would provide an opportunity to the clients to negotiate better with banks in absence/shortage of collateral. This facility will be particularly useful for small borrowers who cannot offer collateral to banks.

The challenge will be to collect information from small borrowers who live in Atolls and develop their profiles that reflect their creditworthiness. Experiences from other countries show that collecting and maintaining profiles of small borrowers is not so viable. However, together with mobile banking project it is expected that the credit bureau could function in a sustainable way.

IFC is providing technical assistance to MMA for the formation of a CRIB and ADB is financing this project through a loan to GoM.

## **Future**

The Maldives has progressed remarkably well on economic as well as social indicators in the last two decades. Though development and economic opportunities remain skewed to the central area around the capital of Male', the Government of Maldives supports financial inclusion through the Bank of Maldives, with the aim of deepening services to the less developed Atoll regions, especially in the north. Targeted credit components of various development programmes are now linked to the Development Banking Cell of the BML. Whilst financial services may increasingly cater to the urban employed in Male, there is scope for efficient banking services to support remittances back to the Atolls, where additional strategies to promote livelihoods and enterprise development will be critical to supporting deeper financial inclusion.

The Government of Maldives is aware and committed to improving the financial inclusion in the country as reflected through their proactive efforts in establishing mobile banking system and credit bureau. Strategies for promotion of small and medium enterprises and development of low cost housing also reflect increasing emphasis on financial inclusion. It will become clearer in near future how the challenges mentioned above have been addressed and overcome for greater financial inclusion in the country.

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## Annex

### List of people met

<b>Division/Organisation</b>	<b>Name</b>	<b>Designation</b>
Financial Sector Division Maldives Monetary Authority	Abdul Ghafoor Abdul Latheef	Senior Executive Director
Non Bank Financial Institution Supervision Division MMA	Hassan Fiyaz	Deputy Manager
NBFIS, MMA	Ms Aishath Asna Hamdi	Assistant Manager
Mobile Banking, MMA	Ms Aishath Haifa	Assistant Manager
Credit and Bank Supervision, MMA	Ms Hamida Shakila	Deputy Manager
Credit and Bank Supervision, MMA	Ms Aishath Abdul Gadir	Assistant Manager
Maldives Finance Leasing Company Pvt Ltd	D Soosaipillai	CEO/Director
Invest Maldives	Mohamed Luveiz	Director
Bank of Maldives PLC	Ms Fathimath Manike	Assistant General Manager
	Ibrahim Ali	Head of Operations
Housing Development Finance Corporation PLC	Ms Raheema Saleem	Advisor
The World Bank	Ms Najma Shaheem Razee	Senior Operations Officer
Poverty Reduction UNDP Maldives	Ms Aishath Raniya Sobir	Assistant Resident Representative
Ministry of Fisheries, Agriculture and Marine Resources	Abdulla Naseer	Permanent Secretary
	Ms Nazima	
Ministry of Gender and Family	Shiham Mohammed	Senior Admin Officer
	Akram Hussain	Community Development Officer
Society for Health Education	Mohamed Zuhair	Executive Director
Ministry of Finance and Treasury	Ismail Shafeeq	Permanent Secretary