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Enabling poor rural people
to overcome poverty

President's report

Proposed grant to the Republic of Maldives for the

Mariculture Enterprise Development Project

Note to Executive Board representatives

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For: **Approval**

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Abbreviations and acronyms

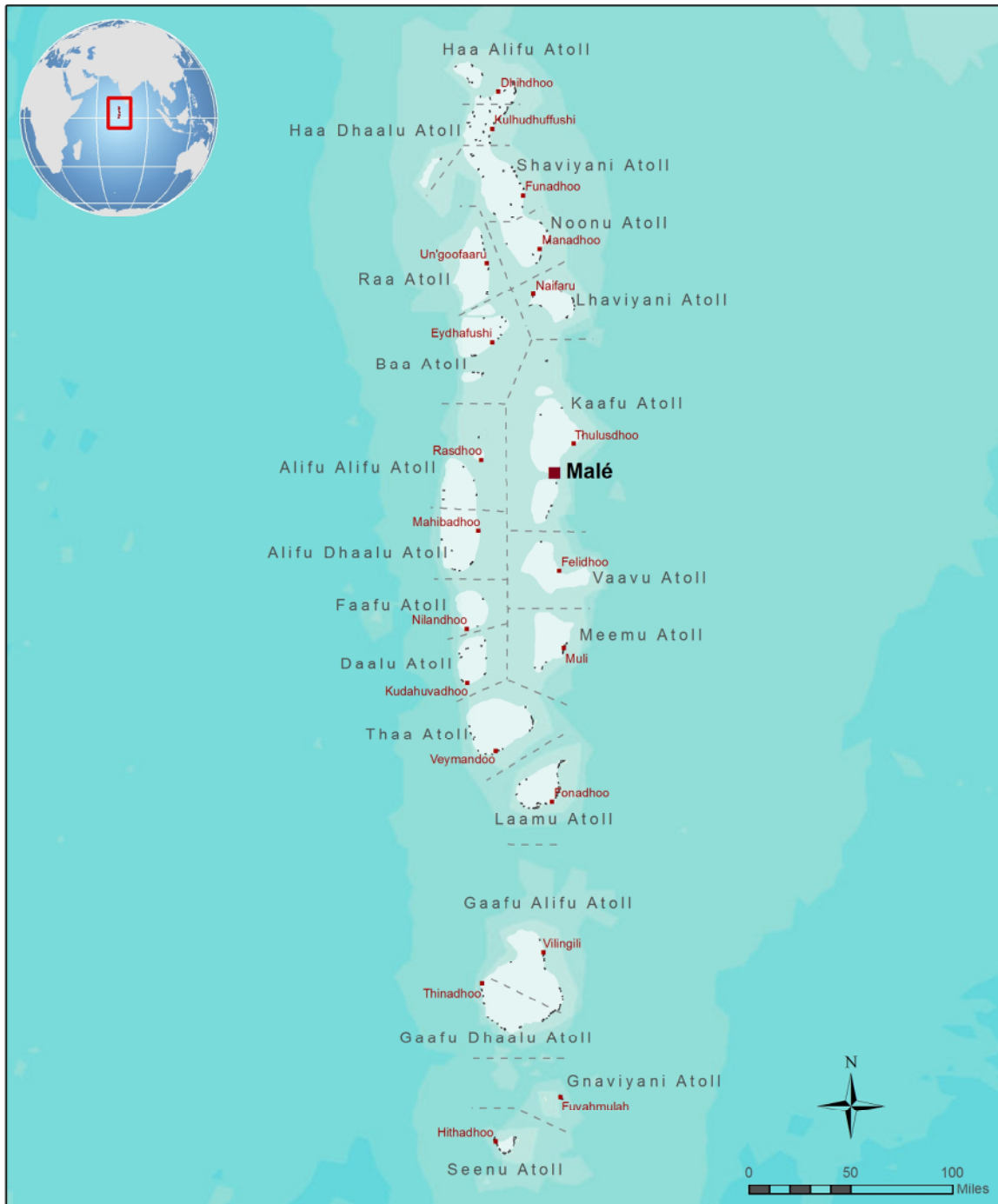
AWP/B	annual workplan and budget
EIRR	economic internal rate of return
M&E	monitoring and evaluation
PIU	project implementation unit
SMEs	small and medium enterprises

Map of the project area

Republic of Maldives

Mariculture Enterprise Development Project (Nationwide)

President's report



05-06-2012



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD

Republic of Maldives

Mariculture Enterprise Development Project

Financing summary

Initiating institution:	IFAD
Recipient:	Republic of Maldives
Executing agency:	Ministry of Fisheries and Agriculture
Total project cost:	US\$7.13 million
Amount of IFAD grant:	SDR 1.65 million (equivalent to approximately US\$2.48 million)
Cofinancier(s):	Private sector
Amount of cofinancing:	US\$2.76 million
Terms of cofinancing:	Direct investment
Contribution of recipient:	US\$1.12 million
Contribution of beneficiaries:	US\$0.77 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed grant to the Republic of Maldives for the Mariculture Enterprise Development Project, as contained in paragraph 24.

Proposed grant to the Republic of Maldives for the Mariculture Enterprise Development Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. The Maldives is a small island economy, dependent primarily on tourism and fisheries. The national unemployment rate is 12 per cent; unemployment among young people is 22 per cent and for young women it is even higher, at 30.5 per cent. The geographical set-up is characterized by remote islands scattering across the country. Consequently, implementation of socio-economic policies becomes expensive and cumbersome, with low performance and low levels of success. To address these issues, the country has adopted a decentralized form of administration with elected island and atoll councils with legal powers. Fishery is a main foreign exchange earner and provides the principal source of animal protein for the population. Almost half of the catch is consumed locally. Poverty is mainly related to unequal development in different islands. The national poverty line has been declining, going from 19 per cent in 2003 to 7 per cent in 2010, while income inequalities among the urban and rural communities have been increasing over the years. Men and women have relatively equal access to education, health services, employment and equal pay. Island communities represent typical IFAD target groups with high poverty and economic vulnerability.

B. Rationale and alignment with government priorities

2. Fisheries used to be the highest contributor to the Maldivian GDP. However, the sector's performance is highly cyclical and unpredictable, and is constrained by the limited range of export species. In recent years, fisheries' contribution to GDP has declined due to poor fish landings, increased fuel prices and illegal fishing by foreign vessels. The decline in captured fish is one of the causes of rising levels of poverty for rural households. Investments in mariculture can revive this sector, which forms a key part of the traditional livelihoods in the country. Support to mariculture is also being recognized as a major means for the development of small and medium enterprises (SMEs) in a country where the land base is limited. IFAD's contribution to the mariculture sector under the project is aligned with the Government's Strategic Action Plan 2009-2013, which highlights the promotion of the sustainable development of fisheries and aquaculture. The project is especially designed to empower poor rural people by strengthening their links with the market, and is therefore closely aligned with the strategic objectives of IFAD's country programme.

II. Project description

A. Project area and target group

3. The project will be national in scope, with the exclusion of Malé, which has a high employment rate. Islands included in the project area meet various criteria, including presence of suitable lagoons for mariculture, limited employment opportunities for local people, willingness of local communities to participate in

mariculture, supportive island councils, and willingness of the private sector to invest in these islands. The target group includes (i) young women and men interested in mariculture; (ii) small entrepreneurs along the mariculture value chain; and (iii) private-sector firms willing to invest in mariculture. The project is expected to directly benefit about 3,000 households, or about 18,000 people.

B. Project development objective

4. The overall goal of the project is to expand livelihood opportunities and reduce vulnerability. Its development objective is to enhance incomes and employment from mariculture activities, especially for young people and women.

C. Components/outcomes

5. The project has two components: (i) institutional strengthening; and (ii) mariculture value chain development. The objective of the institutional strengthening component is to enhance the capacity of the Ministry of Fisheries and Agriculture (Ministry of Fisheries) to regulate and manage the mariculture industry. The objective of the mariculture value chain development component is to create employment for poor households by promoting private-sector participation in the mariculture value chain.

III. Project implementation

A. Approach

6. The project will adopt a value chain approach and support mariculture activities along the value chain to ensure the development of mariculture on a sustainable basis. It will identify the "missing links" currently constraining the industry's development and take remedial action. Specifically, it will strengthen the participation of rural island communities in the lower end of the value chain, and the private and SME sectors along the full value chain.

B. Organizational framework

7. The Ministry of Finance and Treasury has oversight of donor-supported programmes. It will be responsible for ensuring the timely flow of funds to the Ministry of Fisheries, which is the lead project agency. The Bank of Maldives or other financial institutions will administer a revolving credit fund under the project. The Ministry of Economic Development will be responsible for encouraging SMEs participate in mariculture development. The local government authority and atoll councils will provide support and facilitation to project implementation. The private sector will take the lead in hatchery establishment, grow-out mariculture production, feed supply and other inputs, and in the transport, marketing and trading of mariculture products. The resort owners will support mariculture activities in their surrounding islands as consumers of mariculture products. They will also provide support to the sector through suppliers' advances, grants, and visits by tourists to islands to generate additional income. The Government will establish a project steering committee with the Ministry of Fisheries as the chair. The committee will also include representatives from the Ministry of Economic Development, the Ministry of Finance and Treasury, and the Local Government Authority. Representatives from the private sector will attend meetings as observers. A project implementation unit (PIU) will be established in the Ministry of Fisheries.

C. Planning, monitoring and evaluation, and learning and knowledge management

8. The annual workplan and budget (AWP/B) is the primary planning document for the project. The AWP/B process will be initiated three months prior to the start of each project year and will be prepared with the participation of all key stakeholders. The monitoring and evaluation (M&E) system is a central project management tool and will serve the primary purpose of providing data and feedback to improve the

effectiveness, efficiency, sustainability, relevance and impact of project activities. The overall responsibility for M&E will lie with the PIU. In addition to the regular monitoring system, participatory monitoring will be adopted to solicit views on the project from key stakeholders, including island council members, local communities and mariculture entrepreneurs. The annual impact monitoring will focus on indicators at outcome and impact levels. Given the emerging nature of the mariculture sector, the project represents a good opportunity for learning and knowledge management. The PIU will develop learning notes, and explore contributions from interested resort owners to support the project's knowledge-sharing and dissemination initiatives.

D. Financial management, procurement and governance

9. The financial reporting and accounting practices of the Government are acceptable to IFAD.
10. In accordance with the project design document, the Government, as the recipient, is required to open a bank account denominated in United States dollars, in the Maldivian monetary authority (which is the central bank) to receive grant resources in advance. Upon entry into force of the financing agreement and fulfilment of conditions precedent to withdrawal, and based on the Government's request, the Fund will make one (or more) withdrawal(s) of up to the authorized allocation in the aggregate, and deposit this amount into the designated account. The Government will submit withdrawal applications to replenish the designated account from time to time, based on expenditures. The PIU will maintain a full set of accounts in accordance with IFAD's procedures and internationally accounting standards. The project will use the existing national procurement guidelines and its amendments for procurement as long as these are not in contradiction with the IFAD Procurement Guidelines and Procurement Handbook. The project will adopt standard good accounting practices as well as the Government's system of oversight and review. The following measures are intended to enhance the governance aspects of IFAD financing: (i) regular progress reports; (ii) annual independent audits in accordance with IFAD's audit guidelines; and (iii) application of the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations.

E. Supervision

11. The project will be directly supervised by IFAD. For the first two years, it is expected that a supervision mission will visit the project every six months; for the last three years, there will be one mission each year.

IV. Project costs, financing, benefits

A. Project costs

12. The total project costs are estimated at US\$7.13 million over five years. The institutional-strengthening component will be allocated US\$0.89 million or 12.5 per cent of the total project cost; the mariculture value chain component, US\$5.61 million or 78.6 per cent. The cost for project management will be US\$0.63 million or 8.9 per cent of the total cost.

B. Project financing

13. The project will be financed by an IFAD grant of SDR 1.65 million (about US\$2.48 million), the Government's contribution of US\$1.12 million, private-sector investment of US\$2.76 million, and a contribution of about US\$0.77 million from SMEs and individual beneficiaries.

C. Summary benefit and economic analysis

14. The project will create direct and indirect employment for 3,000 households consisting of 18,000 people along the mariculture value chain. The growth of the

mariculture sector will also generate employment in providing ancillary services including feed preparation, live feed and algae production, supply of inputs (such as nets and cages), transportation, processing and trading. The project will lead to a more efficient use of lagoon resources and help island councils generate additional income from these resources for local development. Non-quantifiable benefits include the empowerment of rural communities, particularly women, through a range of capacity-building initiatives. The project's overall economic internal rate of return (EIRR) is estimated at 59 per cent. With sensitivity analysis applied to both swings with 20 per cent reduced benefits and a 20 per cent increase in investment costs, the EIRR is still above 50 per cent in all cases tested. An exception arises when the benefits are delayed by two years; then the EIRR is only 19 per cent. Overall, however, the project is robust and will remain economically viable under adverse conditions.

D. Sustainability

15. Sustainability is being built into the project design in several ways. First, the project will support strengthening the technical and institutional capacity of the Ministry of Fisheries for facilitating and regulating the mariculture sector within the overarching framework of a sustainable policy and regulatory framework. Second, the project will promote local mariculture enterprises and entrepreneurs who are expected to have a commercial interest in sustaining the linkages with local communities undertaking grow-out activities or participating in other ancillary services. Third, the project will strengthen the capacity of the target group to participate in grow-out production and also to create market linkages. Fourth, the project will contribute to preserving the environment and breeding reef fish species, countering the unsustainable depletion of wild stocks.

E. Risk identification and mitigation

16. The following are the main risks facing the project and the proposed mitigation measures. (i) The mariculture industry is new to the Maldives and therefore entails development risk. The project design has included extensive support in terms of technical assistance in dealing with key constraints to minimize this risk. (ii) Importing and using alien marine species may introduce pathogens and/or parasites. This risk will be minimized with the development and strengthening of the regulatory controls, implementation of the National Aquatic Animal Health Management Strategy and the establishment of a quarantine facility. (iii) Open water cage culture can cause local nutrient enrichment leading to increased algal growth, biodiversity changes and the deposition of anoxic sediment. This risk will be minimized by the mandatory requirement of obtaining environmental clearance of mariculture activities. No project activities will be implemented in areas designated as marine protected areas by the Environmental Protection Authority. (iv) Local communities are less familiar with mariculture than they are with capture fishery and do not have the financial or technical capacity to undertake these activities on their own. The project will link them with the private sector for grow-out production and will support them with training, exposure visits, linkages to markets and access to financial services.

V. Corporate considerations

A. Compliance with IFAD policies

17. The project is aligned with the IFAD Policy on Targeting and its Policy on Gender Equality and Women's Empowerment. The target group includes poor households, unemployed women and men, and small entrepreneurs; and they will be selected on the basis of a community-based dialogue process. The project also meets the objectives of IFAD's Private-Sector Development and Partnership Strategy in that the private sector is its driving force. A deliberate attempt will be made to link the project's target group with the private sector along the mariculture value chain. In compliance with the IFAD Rural Enterprise Policy, the project will support SMEs by

providing financial services, linking them with the private sector and markets, and providing non-financial services such as technical skills training. IFAD's Environment and Natural Resources Management Policy is particularly relevant to the Maldives where a limited land base and dwindling fish catch from the wild resources threaten both resources and traditional livelihoods. As a response, the project will provide an opportunity for the private sector and the poor island communities to diversify their income-earning opportunities through mariculture development. It will help conserve the wild fisheries by breeding them instead of depleting them through capture. IFAD's Climate Change Strategy recognizes that the speed and intensity of climate change are outpacing the ability of poor rural people and societies to cope. The Maldives is in the front line of climate change. By helping to diversify the sources of livelihoods, the project will contribute to adapting to the trends. Adhering to the IFAD Guidelines for Integrating Climate Change Adaptation and Mitigation Options for Fisheries and Aquaculture, the project activities focus on low trophic-level species such as seaweed and sea cucumber, which will have an overall positive contribution to climate change mitigation. Through environmental impact assessment at different levels, it is expected that the project will influence the Government's overall approach to mariculture development through the adaptation of an ecosystem approach to aquaculture. In line with the IFAD Rural Finance Policy, the project will largely depend on the commercial sector to provide rural financial services.

B. Alignment and harmonization

18. The project is aligned with the Government's policy to develop the mariculture and SME sectors. It will complement some of the existing project activities funded by IFAD and other donors such as the Asian Development Bank (ADB). In particular, IFAD- and ADB-financed projects share a similar target group in SMEs, and will adopt a harmonized approach for the provision of financial services.

C. Innovations and scaling up

19. The mariculture industry is new in the Maldives and many aspects of the value chain will have to be developed from scratch. The project is innovative in adopting a value chain approach that is market-oriented and led by the private sector. Given the nature of the sector in the country, the project will likely have a major scaling-up effect if the activities are successfully implemented.

D. Policy engagement

20. The project will pursue evidence-based policy dialogue with the Government for mariculture development and poverty reduction. Specific areas of focus will include: (i) opening up opportunities for the project target group, which comprises the most disadvantaged sections of the society and disadvantaged island communities; (ii) increasing the role of the private sector in diversifying the economy with the aim of achieving sustainable economic growth; and (iii) recognizing the potential of SMEs to create a more resilient and diversified economy and generate employment opportunities, particularly in the outer atolls.

VI. Legal instruments and authority

21. A project financing agreement between the Republic of Maldives and IFAD will constitute the legal instrument for extending the proposed financing to the recipient. A copy of the negotiated financing agreement is attached as an annex.
22. The Republic of Maldives is empowered under its laws to receive financing from IFAD.
23. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VII. Recommendation

24. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a grant to the Republic of Maldives in an amount equivalent to one million six hundred and fifty thousand special drawing rights (SDR 1,650,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: "Mariculture Enterprise Development Project"

(Negotiations concluded on 5 July)

Grant Number: DSF-_____

Project Title: Mariculture Enterprise Development Project (the "Project")

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

The Republic of Maldives (the "Recipient")

(each a "Party" and both of them collectively the "Parties")

WHEREAS,

The Recipient has requested financing from the Fund for purposes of financing the Mariculture Enterprise Development Project described in Schedule 1 to this Financing Agreement;

NOW THEREFORE the Parties hereby agree as follows,

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Grant to the Recipient (the "Financing"), which the Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Grant is one million six hundred and fifty thousand Special Drawing Rights (SDR 1 650 000).
2. The first day of the applicable Fiscal Year of the Recipient shall be 1st January.
3. There shall be a Designated Account in USD for the purpose of financing the Project. The Designated Account shall be opened and maintained in the Maldives Monetary Authority (MMA - the Central Bank of the Recipient). The Designated account shall be operated by the Ministry of Finance and Treasury (MOFT).
4. The Recipient, through MOFT, shall maintain a Project Account in local currency for the benefit of the Project.

5. The Recipient shall provide counterpart financing for the Project in the amount of approximately one million and one hundred twenty thousand United States dollars (USD 1 120 000) equivalent, as its contribution to the civil works of the quarantine facilities, operation and management costs of the quarantine facilities, the office furniture under the component 1, staff salaries for project management, cost of utilities and taxes and duties foregone on all the Project inputs.

Section C

1. The Lead Project Agency shall be the Ministry of Fisheries and Agriculture of the Recipient (the MOFA).
2. The Bank of Maldives (the BML), or another suitable financial institution acceptable to the Fund, will implement the Revolving Credit Fund under the Project.
3. The following are designated as additional Project Parties, among others: local communities, private sector, Bank of Maldives, Local Government Authority, Island Councils and Atoll Councils, and Ministry of Economic Development (MED).
4. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.
5. The Lead Project Agency and IFAD shall jointly carry out the Mid Term Review as provided for in Section 8.03 (b) and (c) of the General Conditions.

Section D

The Grant will be administered and the Project supervised by the Fund.

Section E

1. The following is designated as an additional ground for suspension of this Agreement:

The Subsidiary Loan Agreement (SLA) or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.

2. (a) The following are designated as additional general conditions precedent to withdrawal:

- (i) The PIU has been established and the Project Director, Project Manager, and Accountant, appointed;
- (ii) The designated account shall have been duly opened and the authorized signatories should have been submitted to the Fund.

(b) The following is designated as additional specific condition precedent to withdrawal under Category IV of Schedule 2: The SLA has been concluded to the satisfaction of IFAD.

3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

The President
International Fund for Agricultural
Development
Via Paolo di Dono 44
00142 Rome, Italy

For the Recipient:

Minister of Finance and Treasury
Ministry of Finance and Treasury
Ameenee Magu
Male 20379
Maldives

This agreement, dated _____, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Recipient.

REPUBLIC OF MALDIVES

[insert NAME of the Authorised Representative]
[insert his title]

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The target group will include (i) young women and men interested in mariculture (ii) small entrepreneurs along the mariculture value chain and (iii) private sector firms willing to invest in mariculture. Special effort will be made to encourage women's participation in mariculture activities. The project is expected to directly benefit approx. 3,000 households or 18,000 people through the direct and indirect employment created in the mariculture sector and its associated value chains.

2. *Project Area:* The Project is national in scope, with the exclusion of Malé. The selection of islands for the establishment of hatchery and nursery will essentially be made by the private sector with the approval of the Recipient. However, for grow-out mariculture production, the project area that will be selected will adhere to criteria that ensures inclusion of islands with limited opportunities for employment, technical suitability, interest of local communities and support from the Island Councils. In each case, the islands and species selected will be approved by MOFA, subject to environmental clearance of the Environmental Protection Agency (EPA) to ensure that they are not part of the protected areas in the country and do not pose a significant threat to the fragile eco-system and coral reefs.

3. *Goal:* The overall goal of the Project is to expand livelihood opportunities and reduce vulnerability. The development objective of the Project is to enhance incomes and employment especially for youth and women from mariculture activities.

4. *Outputs:* The key outcomes expected from the project include (i) enhanced capacity of the Ministry of Fisheries and Agriculture to regulate and manage the mariculture industry (ii) strengthened capacity of the private sector, micro, small and medium enterprises and individual entrepreneurs to invest and participate in the mariculture value chain and (iii) increased capacity of poor households especially women and youth to realise productive gains from the mariculture sector.

5. *Components:* Besides the project management, the Project shall consist of two components: (i) Institutional Strengthening and (ii) Mariculture Value Chain Development.

Component 1: Institutional Strengthening

The Institutional Strengthening Component will include three sub-components (i) regulatory framework (ii) a national quarantine facility and (iii) staff training for operating the quarantine facility

1.1 Regulatory framework and certification regime. As a key investment in national capacity building, the project will assist the Recipient in developing a National Mariculture Development Plan. The project will help develop the necessary laws, operating procedures and certification regime for importing fingerlings, juveniles, inter alia.

1.2 National quarantine facility. The Project will assist the Recipient to set up a national quarantine facility to ensure the health of imported aquatic species. The

facility will be owned and operated by the MOFA. The Recipient will provide space at the existing plant and animal quarantine facility.

1.3 Staff Training. The Project will help MOFA to strengthen its institutional capacity for the operation and maintenance of the quarantine facility. MOFA will take the responsibility of operating the facility.

Component 2: Mariculture Value Chain Development

The project will include a Mariculture Value Chain Development component with four sub-components (i) mariculture production (ii) technical assistance for establishing hatchery and nursery facilities (iii) community capacity building for grow-out mariculture production and (iv) a revolving credit fund for micro, small and medium entrepreneurs and individuals interested in various aspects of the mariculture value chain.

2.1 Mariculture Production. The private sector will take the lead in mariculture production. The availability of the quarantine facility will support their activities. The Recipient will facilitate the provision of lagoon area and/or land area to the selected parties on lease according to the laws of the Recipient.

2.2 Technical Assistance. The technical assistance will include assistance with establishment of hatchery and nursery, site selection, environmental and operational risk assessment, system installation, operation and maintenance, processing, marketing and quality assurance. The selection of private sector firms will be made on a competitive basis, and acceptable to IFAD.

2.3 Community Capacity Building for Mariculture. The participants in the local communities will include interested entrepreneurs, groups of households willing to work together, existing co-operatives and/or Women's Development Committees. To strengthen community capacity for mariculture production and marketing, the project will provide technical assistance, training and marketing linkages through Community Mariculture Advisors, Community Mariculture Facilitators, mainly females, and Business Development Services Centres established by MED.

2.4 Revolving Credit Fund (RCF) and Subsidiary loan agreement. The Recipient, through MOFT will enter into a subsidiary loan agreement with the Bank of Maldives or other financial institution acceptable to IFAD for establishing a Revolving Credit Fund (RCF).

II. Implementation Arrangements

A. Lead Project Agency.

The Ministry of Fisheries and Agriculture (MOFA) is the lead implementing agency and is responsible for managing the project.

B. Project Steering Committee (PSC).

The Recipient will establish during the entire life of the Project, a Project Steering Committee (PSC) for oversight of the Project. The Minister of Fisheries and Agriculture or a delegate appointed by the Minister will chair the Project Steering Committee.

B.1 Composition. It will include representatives from the Ministries in charge of Fisheries and Agriculture, Economic Development, Finance and Treasury, Local Government Authority, and a representative from the private sector.

B.2 Responsibilities. The PSC will undertake the following functions: (i) ensure that project activities are in compliance with this agreement; (ii) approve the Annual Work Plan and Budget (AWPB) and the Procurement Plan; (iii) oversee project progress and performance and (iv) provide policy guidance.

C. Project Implementation Unit (PIU).

A Project Implementation Unit (PIU) will be established in the MOFA. The Permanent Secretary of MOFA, will be appointed as the Project Director.

C.1 Role of Project Director. The Project Director will provide overall guidance and facilitation for the implementation of the Project.

C.2 Project Manager. A Project Manager, acceptable to the Fund will be appointed to undertake the day to day operational management of the project.

C.3 Composition of PIU. Besides the Project Manager, the PIU will include staff members responsible for mariculture advisory, marketing and enterprise development, accounting, monitoring and evaluation, and support services.

C.4 Responsibilities. The PIU will be responsible for preparation of the Project Implementation Manual (PIM), coordination and liaison with all service providers, implementing partners, overall project management and monitoring, organizing start-up workshops, preparation of AWPBs, financial management, procurement, preparation for audits and monitoring and evaluation reports.

D. Subsidiary loan agreement.

D.1 The Recipient, through MOFT, will provide a total of SDR 270 000 (about USD 450 000) from the IFAD grant and enter into a subsidiary loan agreement with the Bank of Maldives or another suitable financial institution for establishing a Revolving Credit Fund (RCF).

D.2 The BML or another suitable financial institution will administer the Revolving Credit Fund. The MOFT will provide BML or another suitable financial institution an initial advance of USD 100 000 for on lending to Project beneficiaries. The BML or another suitable financial institution shall submit withdrawal applications to MOFT through PIU to replenish the Credit Fund Account from time to time, based on expenditures, provided that the amount claimed is not less than 30% of the initial deposit. BML or another suitable financial institution, shall submit report semi-annually to the PIU. The revolving credit fund will be operated for a minimum period of 20 years by the BML or another suitable financial institution, with the Government retaining the right to close the Line of Credit in case of non-performance.

D.3 The RCF will be used to provide on-lending funds to (i) Micro, Small and Medium Enterprises (MSMEs) and (ii) individuals planning to invest in mariculture activities.

D.4 MSMEs will be provided loans of up to a maximum ceiling of USD 20 000 per entity for up to five years. Community individuals will be provided loans of up to a maximum of USD 3 000 for up to five years. Interest rate will be mutually agreed

between the MOFT and BML or another suitable financial institution. A minimum of 30% of the individual loans will be provided to women.

D.5 Project resources provided through the SLA will be accounted for and reported separately to the PIU, on a semi-annual basis.

D.6 On-lending agreements. On-lending will be undertaken through an independent credit risk assessment by BML or another suitable financial institution, and on-lending agreements will be signed between BML or another suitable financial institution and the sub-borrowers. Upon maturity, the reflows will be put back into the revolving line of credit to on-lend for similar activities until the loan has to be returned to MOFT. External auditors shall audit annually the on-lending activities.

E. Project implementation manual (PIM).

The PIU shall prepare a PIM to the satisfaction of the Fund within 6 months from the entry into force of this agreement. Any modifications to the PIM shall be agreed upon with the Fund.

Schedule 2

Allocation Table

1. *Allocation of Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Grant and the allocation of the amounts of the Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	DSF Grant Amount Allocated (expressed in SDR)	Percentage (Net of Taxes)
I. Equipment & Material	110 000	100%
II. Training & Studies	480 000	100%
III. Technical Assistance	640 000	100%
IV. Credit	270 000	100%
Unallocated	150 000	
	1 650 000	

(b) The terms used in the Table above are defined as follows:

“Equipment & Material” means Eligible Expenditures for Project equipment and material relevant to laptops, desktop computers and office printers. Recycling Aquaculture System (RAS), Pathology Laboratory equipment and plant filters.

Schedule 3

Special Covenants

For the purposes of this Agreement the Recipient shall ensure that the following provisions are complied with:

Gender. The Recipient shall ensure that the Project benefits are also delivered to poor rural women in the Project Area. The Project AWPB and progress reports shall be disaggregated by gender as appropriate.

Environmental Impact. Environmental clearance will be a key requirement prior to the initiation of any mariculture activity. All Project beneficiaries undertaking mariculture activities will follow the environmental rules and regulations enforced in the country and obtain a Decision Statement on environmental clearance from the EPA.

Logical framework

Results Hierarchy	Objectively Verifiable Indicators	Means of Verification	Assumptions/ Risks
A. PROJECT GOAL			
The Project Goal would be to expand livelihood opportunities and reduce vulnerability.	<p>(a) Reduction in the prevalence of child malnutrition reported at 27% in 2012.¹</p> <p>(b) Increase in household assets² by 20% in rural islands targeted from base year levels as reported in the baseline study.</p>	<p>Periodic surveys by Ministry of Planning & National Development</p> <p>Household income Expenditure Surveys, Statistics Division. Department of National Planning.</p> <p>Baseline and Impact surveys in the target islands.</p>	Stable economic environment and no threat from natural disasters.
B. PROJECT OBJECTIVE			
The development objective of the project would be to enhance incomes and employment especially for youth and women from mariculture activities.	<ul style="list-style-type: none"> The quantity of mariculture products produced and marketed by species. The number of jobs generated and gender.³ This is expected to increase by 15%. Increased mariculture products volume Number of enterprises operating in the mariculture sector after three years.² 	<p>MOFA, MED and Ministry of Planning and National Development.</p> <p>Records of participating Island Councils.</p> <p>Baseline and Impact surveys in the target islands.</p>	The main risks are those associated with an emerging and new sector and the main assumption is the interest and capacity of private sector to participate in the sector.
C. COMPONENT OUTCOMES AND OUTPUTS			
COMPONENT 1: Institutional Strengthening			
Outcome 1: Enhanced capacity of the Ministry of Fisheries and Agriculture to regulate and manage the mariculture industry.	<ul style="list-style-type: none"> Volume of brood stock, fingerlings, fish eggs and juveniles imported and cleared by the quarantine facility. No major outbreak of aquatic disease reported. 	<p>Quarantine facility records.</p> <p>EPA records</p>	Interest by the private sector to import brood stock, fish seed, fingerlings and fries.

¹ IFAD Anchor Impact Indicator.

² IFAD Anchor Impact Indicator.

³ IFAD RIMS second level results indicator.

Results Hierarchy	Objectively Verifiable Indicators	Means of Verification	Assumptions/ Risks
Outputs:1 <ul style="list-style-type: none"> National Mariculture Development Plan and National Aquatic Animal Health Management Strategy. SOPs and certification manuals Fully equipped quarantine facility with diagnostic laboratory. 4 staff trained. 	<ul style="list-style-type: none"> Mariculture Development Plan and Aquatic Health Strategy documents. Operational manuals identifying certification procedures are available. Quarantine Facility is established and functioning. No of staff trained by gender. 	National Quarantine Facility Records. Quarantine Facility import and certification records. Staff records.	
COMPONENT 2: Mariculture Value Chain Development			
Outcome 2.1 _Strengthened capacity of the private sector including small and medium enterprises and individual entrepreneurs to invest and participate in the mariculture value chain.	<ul style="list-style-type: none"> Volume of capital invested and annual profits generated by enterprises of different sizes. The number of enterprises involved in mariculture production and its associated value chains by size. The project is expected to generate direct and indirect employment for 3000 households of which at least 30% would be women. 	Audit reports of private sector. Sale agreements for local produce and records of volume of mariculture products traded. MEDeP progress reports. Participatory workshops. Impact Surveys.	Limited private sector capacity for investment in the mariculture sector due to limited experience, high risk nature of the sector and lack of access to capital.
Outputs: 2.1: <ul style="list-style-type: none"> No of hatchery and nurseries established by the private sector for fish breeding Technical assistance and training for grow-out production provided to private sector companies, micro, small and medium enterprises and island communities. Credit provided to 20 MSMEs and 100 individual entrepreneurs of whom 30% are women. Market Linkages established with input and output markets. 	<ul style="list-style-type: none"> No of hatcheries/nurseries established and production capacity by type. Number of enterprises accessing technical advisory services facilitated by project. No of persons trained in mariculture activities by gender.⁴ No of persons provided credit by gender. No of market linkages established by gender. 	Reports by Technical Specialists of MEDeP. Community Mariculture Advisor Reports. Bank of Maldives Reports. Mariculture Market Specialist Reports. Progress Reports of MEDeP	

⁴ IFAD RIMS first level results indicator.