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LOAN NUMBER 2327-MLD(SF)

LOAN AGREEMENT  
(Special Operations)  
(Domestic Maritime Transport Project)

between

THE REPUBLIC OF MALDIVES

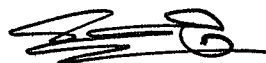
and

ASIAN DEVELOPMENT BANK

DATED 29 August 2007

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LAS:MLD 37265



**LOAN AGREEMENT  
(Special Operations)**

LOAN AGREEMENT dated 29 August 2007 between THE REPUBLIC OF MALDIVES (the "Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement; and

(B) ADB has agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

**ARTICLE I**

**Loan Regulations; Definitions**

Section 1.01. All provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 (the "Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. The definitions set forth in the Loan Regulations are applicable to this Loan Agreement unless the context requires otherwise. In addition, the following terms have the following meanings:

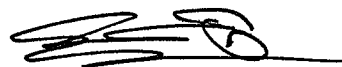
(a) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2006, as amended from time to time);

(b) "EMP" means environmental management plan;

(c) "Goods" means equipment and materials to be financed out of the proceeds of the Loan; and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(d) "IA" means the Implementing Agency as more fully described in paragraph 1 of Schedule 5 to this Loan Agreement;

(e) "IEE" means initial environmental examination;



(f) "Institutional Consultants" means the consultants engaged in accordance with Schedule 4 to this Loan Agreement for Institutional Development and Capacity Building component;

(g) "MCPI" means the Ministry of Construction and Public Infrastructure of the Borrower or any legal successor thereto, acceptable to ADB

(h) "MEEW" means the Ministry of Environment, Energy and Water of the Borrower or any legal successor thereto, acceptable to ADB;

(i) "MHUD" means the Ministry of Housing and Urban Development of the Borrower or any legal successor thereto, acceptable to ADB;

(j) "MPA" means the Maldives Ports Authority of the Borrower or any legal successor thereto, acceptable to ADB;

(k) "MPND" means the Ministry of Planning and National Development of the Borrower or any legal successor thereto, acceptable to ADB;

(l) "MOFT" means the Ministry of Finance and Treasury of the Borrower or any legal successor thereto, acceptable to ADB;

(m) "MTC" means the Ministry of Transport and Communication of the Borrower or any legal successor thereto, acceptable to ADB;

(n) "PIU[s]" means the Project Implementation Unit[s] as more fully described in paragraph 4 of Schedule 5 to this Loan Agreement;

(o) "PMU" means the Project Management Unit as more fully described in paragraph 3 of Schedule 5 to this Loan Agreement;

(p) "Procurement Guidelines" means ADB's Procurement Guidelines (2006, as amended from time to time);

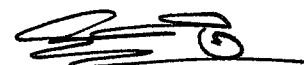
(q) "Procurement Plan" means the procurement plan for the Project dated 20 March 2007 and agreed between the Borrower and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(r) "Project Executing Agency" or "EA" for the purposes of, and within the meaning of, the Loan Regulations means MOFT or any legal successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;

(s) "Project facilities" means facilities provided or to be provided under the Project;

(t) "PSC" means the Project Steering Committee as more fully described in paragraph 2 of Schedule 5 to this Loan Agreement;

(u) "PWS" means the Public Works Services section of MCPI or any legal successor thereto, acceptable to ADB; and



(v) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

## ARTICLE II

### The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to three million five hundred forty four thousand Special Drawing Rights (SDR 3,544,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-half percent (1.5%) per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 1 May and 1 November in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.05. The currency of repayment of the principal of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be Dollar.

## ARTICLE III

### Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement.

Section 3.02. The Goods, Works, and consulting services and other items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan among different categories of such Goods, Works, and consulting services



and other items of expenditure shall be in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Goods, Works, and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. Withdrawals from the Loan Account in respect of Goods, Works, and consulting services shall be made only on account of expenditures relating to

- (a) Goods which are produced in and supplied from and consulting services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) Goods, Works, and consulting services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 31 December 2009 or such other date as may from time to time be agreed between the Borrower and ADB.

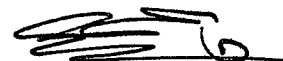
## ARTICLE IV

### Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. (a) The Borrower shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Borrower pursuant to Section 4.02(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such



discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree.

Section 4.03. The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works financed out of the proceeds of the Loan, and any relevant records and documents.

## ARTICLE V

### Effectiveness

Section 5.01. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

## ARTICLE VI

### Miscellaneous

Section 6.01. The Minister of Finance and Treasury of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

#### For the Borrower

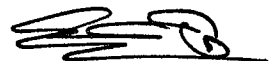
Ministry of Finance and Treasury  
Ameenee Magu  
Malé  
The Republic of Maldives

Facsimile Number:

(960) 3324-432.

#### For ADB

Asian Development Bank  
P.O. Box 789  
0980 Manila, Philippines



Cable Address:

ASIANBANK  
MANILA

Telex Numbers:

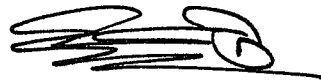
29066 ADB PH (RCA)  
42205 ADB PM (ITT)  
63587 ADB PN (ETPI)

Facsimile Numbers:

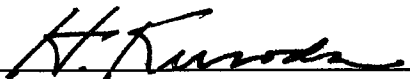
(632) 636-2444  
(632) 636-2340.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

THE REPUBLIC OF MALDIVES

By   
\_\_\_\_\_  
QASIM IBRAHIM  
Authorized Representative

ASIAN DEVELOPMENT BANK

By   
\_\_\_\_\_  
HARUHIKO KURODA  
President

## SCHEDULE 1

### Description of the Project

1. The Project will support the Borrower's objectives of ensuring sustained equitable and regionally balanced economic growth by providing enhanced access to markets and social services for the outer atoll population. The impact will be attained by enabling the improvements to the Borrower's main inter-atoll transport hub, i.e. Malé North Harbor. The expanded capacity of Malé North Harbor will improve connectivity, reduce transport cost and facilitate inter-island trade.

2. The Project comprises the following components:

(a) Infrastructure Investment component

This component includes:

- (i) Construction of a 290 meter (m) L-shaped quay. The main part of the quay projecting northwards at right angles to Marine Drive (Bodu Thakurufaanu Magu) will be 140m long and 30m wide. The eastward leg of the quay, placed along and inside the existing breakwater will be 150m long and 11m wide. The quay will be equipped with mooring bollards and fenders to protect both quay walls and vessels;
- (ii) Provision of a covered shelter of 480 square m to protect passengers and cargo in transit; and
- (iii) Provision of consulting services, including environmental monitoring, for (a) detailed design; (b) preparation of tender documents; (c) bid evaluation support; (d) construction site supervision; and (e) project management assistance.

(b) Institutional Development and Capacity Building component

This component will support gradual implementation of the long-term sector objectives of ensuring separation of maritime transport sector policy, planning and regulatory functions from operational activities. This component will result in: (i) an action plan for institutional alignment of MTC's maritime transport activities in line with its sector mandate; (ii) an action plan for introduction of harbor usage charges; (iii) an action plan for recommended changes to maritime safety regulations, vessel inspections and registration procedure; and (iv) an action plan for improvements to financial management systems. In particular, this component will:

- (i) Enhance the current efforts to align MTC's organizational structure to its sector mandate in particular focusing on policy, planning and regulatory functions of international and domestic maritime transport infrastructure and domestic maritime transport services;

Schedule 1

- (ii) Assist in capacity building within MTC in the areas of: (a) strategic planning and policy analysis; (b) establishment of harbor usage charges; (c) maritime safety regulations and vessel inspection and registration procedures; and (d) project performance and impact monitoring; and
- (iii) Assist in capacity building within MCPI to enable MCPI to manage, operate and maintain maritime transport infrastructure in Malé in a sustainable manner through (a) harbor management; and (b) financial management training.

3. The Project includes the provision of consulting services. The Project is expected to be completed by 30 June 2009.

**SCHEDULE 2**  
**Amortization Schedule**  
**(Domestic Maritime Transport Project)**

| <u>Date Payment Due</u> | <u>Payment of Principal</u><br>(expressed in Special<br>Drawing Rights)* |
|-------------------------|--|
| 01-May-2015             | 73,833.00  |
| 01-Nov-2015             | 73,833.00  |
| 01-May-2016             | 73,833.00  |
| 01-Nov-2016             | 73,833.00  |
| 01-May-2017             | 73,833.00  |
| 01-Nov-2017             | 73,833.00  |
| 01-May-2018             | 73,833.00  |
| 01-Nov-2018             | 73,833.00  |
| 01-May-2019             | 73,833.00  |
| 01-Nov-2019             | 73,833.00  |
| 01-May-2020             | 73,833.00  |
| 01-Nov-2020             | 73,833.00  |
| 01-May-2021             | 73,833.00  |
| 01-Nov-2021             | 73,833.00  |
| 01-May-2022             | 73,833.00  |
| 01-Nov-2022             | 73,833.00  |
| 01-May-2023             | 73,833.00  |
| 01-Nov-2023             | 73,833.00  |
| 01-May-2024             | 73,833.00  |
| 01-Nov-2024             | 73,833.00  |
| 01-May-2025             | 73,833.00  |
| 01-Nov-2025             | 73,833.00  |
| 01-May-2026             | 73,833.00  |
| 01-Nov-2026             | 73,833.00  |
| 01-May-2027             | 73,833.00  |
| 01-Nov-2027             | 73,833.00  |
| 01-May-2028             | 73,833.00  |
| 01-Nov-2028             | 73,833.00  |
| 01-May-2029             | 73,833.00  |
| 01-Nov-2029             | 73,833.00  |
| 01-May-2030             | 73,833.00  |
| 01-Nov-2030             | 73,833.00  |
| 01-May-2031             | 73,833.00  |

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\* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

Schedule 2

| <u>Date Payment Due</u> | <u>Payment of Principal</u><br>(expressed in Special<br>Drawing Rights)* |
|-------------------------|--|
| 01-Nov-2031             | 73,833.00  |
| 01-May-2032             | 73,833.00  |
| 01-Nov-2032             | 73,833.00  |
| 01-May-2033             | 73,833.00  |
| 01-Nov-2033             | 73,833.00  |
| 01-May-2034             | 73,833.00  |
| 01-Nov-2034             | 73,833.00  |
| 01-May-2035             | 73,833.00  |
| 01-Nov-2035             | 73,833.00  |
| 01-May-2036             | 73,833.00  |
| 01-Nov-2036             | 73,833.00  |
| 01-May-2037             | 73,833.00  |
| 01-Nov-2037             | 73,833.00  |
| 01-May-2038             | 73,833.00  |
| 01-Nov-2038             | 73,849.00  |
| <b>Total</b>            | <b><u><u>3,544,000.00</u></u></b>  |

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\* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

### SCHEDULE 3

#### Allocation and Withdrawal of Loan Proceeds

##### General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table.)

##### Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

##### Interest Charge

3. The amount allocated to Category 3 is for financing the interest charge on the Loan during the implementation period of the Project.

##### Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

##### Disbursement Procedures

5. Except as ADB may otherwise agree, the Loan proceeds for financing Goods, Works, consulting services and other items shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

Direct Payment

6. Except as ADB may otherwise agree, for Goods, Works and consulting services the Loan proceeds shall be disbursed following direct payment procedures in accordance with ADB's Loan Disbursement Handbook.

**TABLE**

| <b>ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS<br/>(Domestic Maritime Transport Project)</b> |                     |  |  |
|---|---------------------|--|--|
| <b>CATEGORY</b>   |                     |  | <b>ADB FINANCING</b>   |
| <b>Number</b>   | <b>Item</b>         | <b>Amount Allocated<br/>SDR<br/>Category</b> | <b>Percentage and<br/>Basis for Withdrawal<br/>from the Loan Account</b> |
| 1   | Works               | 2,435,000                                    | 83 percent of total expenditure*   |
| 2   | Consulting Services | 906,000                                      | 100 percent of total expenditure*  |
| 3   | Interest Charge     | 33,000                                       | 100 percent of amount due  |
| 4   | Unallocated         | 170,000                                      |  |
|   | Total               | 3,544,000                                    |  |

\* Exclusive of duties and taxes imposed within the territory of the Borrower.

## SCHEDULE 4

### Provisions on Procurement and Consulting Services

#### A. General

1. All Goods and Works, and consulting services, to be financed out of the proceeds of the Loan shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

#### B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the method of procurement set forth below:

International Competitive Bidding

The method of procurement is subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

#### C. Selection of Consulting Services

4. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, the Borrower shall apply quality- and cost-based selection for selecting and engaging consulting services.

#### D. Industrial or Intellectual Property Rights

5. (a) The Borrower shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

6. The Borrower shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

**E. ADB's Review of Procurement Decisions**

7. All contracts procured under international competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

## SCHEDULE 5

### Execution of Project and Operation of Project Facilities; Financial Matters

#### Project Executing and Implementing Agencies

1. MOFT shall be the EA for the Project. MTC shall be the IA, responsible for day-to-day implementation of the Project.

#### Project Steering Committee

2. A PSC shall be established immediately after the Effective Date. The PSC shall be chaired by Minister, MTC and comprise representatives at director level from MOFT, MCPI, MEEW, MPND, MHUD, Malé Municipality, and other relevant agencies, as necessary. The Project Director shall act as secretary to the PSC. The PSC shall provide overall policy and operational advice and guidance to the Project. The PSC shall meet as often as necessary, but at least quarterly, and shall hold its first meeting within 3 months of the Effective Date.

#### Project Management Unit

3. Within 1 month of the Effective Date, the PMU shall be established in MTC and shall be headed by the Executive Director, Planning and Projects, MTC as the Project Director. The PMU shall comprise: (i) a senior transport policy and planning specialist; (ii) a transport policy and planning specialist; (iii) a senior transport project management specialist; and (iv) a transport project management specialist.

#### Project Implementation Units

4. Within 1 month of the Effective Date, two PIUs shall be established in each of MTC and MCPI. The heads of the PIUs shall be appointed by the Project Director. Unless otherwise agreed between the Borrower and ADB, the PIU in MTC (MTC PIU) shall be headed by a senior transport policy and planning specialist and be staffed with (i) a policy and planning expert; and (ii) a regulatory expert. Unless otherwise agreed between the Borrower and ADB, the PIU in MCPI (MCPI PIU) shall be headed by a senior engineer and be staffed with (i) a design approval engineer, (ii) a supervision engineer, including environmental coordination; and (iii) a project accountant.

#### Institutional Realignment

5. The Borrower shall ensure that the implementation of the action plan for institutional realignment of MTC's maritime transport activities within its sector mandate, as developed with assistance from the Institutional Consultants, commences not later than 31 May 2008.

Harbor Usage Charge Structures

6. The Borrower shall ensure that a harbor usage charge structure for the Malé North Harbor and Vilin'gili Harbor is finalized and approved for implementation within 18 months of the Effective Date to ensure compliance with the cost recovery covenant in paragraph 11 of this Schedule. With support from the Institutional Consultants, MTC shall (a) review potential usage charge structures including with relevant price segmentation within 15 months of the Effective Date, (b) subsequently submit to ADB and the Borrower for discussion, a recommended usage charge structure or structures within 16 months of the Effective Date, (c) facilitate approval of the agreed final usage charge structure such that formal approval is gained within 18 months of the Effective Date, and (d) commence implementation within 18 months of the Effective Date.

Financial Management

7. With support from the Institutional Consultants, PWS shall implement financial management system reforms such that all Malé North Harbor related assets, expenditures and revenues can be recorded and reported in accordance with generally accepted accounting principles. The financial management system reform action plan shall be established within 24 months of the Effective Date. Financial reports from the systems above shall be made publicly available through MCPI's website and regularly reported to MTC and the EA.

Assets

8. The Borrower shall ensure that responsibility for management of Malé North Harbor related assets remains with PWS and no changes are made without prior consultation with ADB.

Revenues and Cost Recovery

9. The Borrower shall ensure that PWS is given the mandate to levy and collect harbor usage charges in Malé North Harbor and Vilin'gili Harbor in accordance with the accepted harbor usage charge structure.

10. For the period when harbor usage charges are not adequate to cover all operations and maintenance costs at Malé North Harbor, the Borrower shall ensure that adequate budget allocations are made in a timely manner to PWS for meeting the gap.

11. The Borrower shall ensure that PWS implements harbor usage charges such that 75% of cost recovery of operation and maintenance (O&M) is achieved within 3 years after completion of the Project, and 100% cost recovery of O&M is achieved within 4 years after the completion of the Project.

Counterpart Funds

12. The Borrower shall ensure that throughout the implementation of the Project, adequate budgetary allocations of the required counterpart funds are made available, approved and released in a timely manner.

13. The Borrower shall ensure that MPA shall (a) demolish the building located on the government-owned 16-meter wide strip of land (adjacent to Malé North Harbor) currently occupied by MPA, including trees and cover all costs associated with such demolition, and (b) make the land and rights in land, free from any encumbrances required before commencement of construction activities relating to the contract. The Borrower shall ensure that the physical conditions of such land are not altered.

#### Anticorruption

14. The Borrower, the EA and the IA shall follow ADB's *Anticorruption Policy* (1998, as amended to date). Consistent with its commitment to good governance, accountability and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Project. To support these efforts, the EA and the IA shall (a) carry out periodic inspections on the contractors' activities related to fund withdrawals and settlements, (ii) include relevant provisions in contracts financed by ADB in connection with the Project specifying the right of ADB to audit and examine the records and accounts of the EA, the IA, the PMU, the PIUs and all contractors, suppliers, consultants and other service providers as they relate to the Project.

#### Measures to Enhance Good Governance and Transparency

15. The Borrower shall ensure implementation of the additional specific measures to enhance governance and prevent corruption. Such measures include, but are not limited to: (a) continued consultant support to MCPI PIU staff on procurement and project management; (b) harbor management training to MCPI PIU staff, including training in collection of harbor usage charges; and (c) improving financial management systems and practices. Specific measures to increase transparency under the Project include random and independent spot checks by ADB review missions on procurement and financial project accounts. The Borrower shall ensure that procurement of all civil works necessary for the Project is undertaken by the Borrower through the Tender Evaluation Board under MOFT.

#### Environment and Resettlement

16. The Borrower shall ensure that: (a) the Project facilities are constructed, operated, maintained and monitored in accordance with (i) the Borrower's applicable environmental laws and regulations, and (ii) ADB's *Environment Policy* (2002); (b) the IEE including EMP is updated during the detailed design stage; (c) all required environmental mitigation measures in the IEE including the EMP are incorporated into the Project design, bidding document for civil works contract, and implemented accordingly; (d) any adverse environmental impacts arising from the Project are minimized by implementing the mitigation measures prescribed in IEE; and (e) the civil works contract entered into with contractors includes obligations of contractors relating to environment including mitigation and monitoring measures as specified in the IEE. The Borrower shall further ensure that both compliance with the environmental mitigation measures and environmental monitoring results collected throughout the Project are submitted by the Borrower to ADB every 6 months.

17. The Borrower shall ensure that the Project does not require any land acquisition or involuntary resettlement. In case of any change in the Project design and consequent land acquisition and resettlement impacts, the Borrower shall inform ADB, prepare necessary resettlement plans in accordance with ADB's *Involuntary Resettlement Policy* (1995) and the Borrower's applicable laws and regulations, disclose these resettlement plans to affected people and submit them to ADB for approval prior to award of civil works contracts.

#### Social

18. The Borrower shall ensure that all civil works will comply with all applicable labor laws, do not employ child labor for construction and maintenance activities, encourage employment of the poor, particularly women, and will not differentiate wages between men and women for work of equal value. The Borrower shall ensure that the civil works contractors disseminate information at worksites on the risks of sexually transmitted diseases and HIV/AIDS for those employed during construction. Contracts for all subprojects will include specific clauses on these undertakings, and compliance will be strictly monitored by the Borrower during Project implementation.

#### Accounting, Auditing, and Reporting

19. Without limiting the generality of Section 6.04 of the Loan Regulations, the Borrower shall ensure that each of MTC PIU, MCPI PIU and the PMU shall maintain separate Project records and accounts adequate to identify goods and services financed from the Loan proceeds, financing resources received, expenditures incurred, and use of local funds. All Project accounting systems shall be set up in accordance with sound accounting principles and practices per national or international standards. Annual project accounts and related financial statements, consolidated at the PMU level, shall be subject to an annual external audit by auditors acceptable to ADB. The annual audit report shall include an opinion on use of the Loan proceeds, compliance with covenants, and discrepancies in accounting records or policies, if any. The EA shall monitor Project accounting systems and reports at the PMU and PIUs and shall provide ADB with the annual audited financial statements and project accounts, audit reports, and management letters in English not later than 6 months after the end of each fiscal year during Project implementation. Without limiting the generality of Section 6.05 of the Loan Regulations, the EA in conjunction with the PMU shall also submit detailed quarterly progress reports to ADB as per PPMS framework.

#### Project Performance Monitoring System (PPMS)

20. The Borrower shall ensure that the IA, supported by the Institutional Consultants, shall have developed comprehensive PPMS framework to monitor activities, analyze and consolidate the data and provide quarterly PPMS monitoring reports for submission to ADB until Project completion. The PPMS framework shall be refined to confirm achievable targets, monitoring arrangements, and shall be finalized not later than 15 December 2007. After Project completion, evaluation surveys shall be conducted annually and submitted to ADB for a period of five years post Project completion. The Project completion report shall be prepared within 3 months after the physical completion of the Project. The report shall include a detailed evaluation of the Project covering the design, costs, contractors and consultants' performance, social and economic impact, economic rate of return, and other details relating to the Project, as may be requested by ADB.

Project Reviews

21. ADB shall conduct regular reviews annually or more frequently, as required for effective Project implementation. In June 2008, a midterm review by the Borrower and ADB shall consider the Project's progress and agree on any changes in scope or implementation required to achieve the Project's intended impact. The EA and the IA shall monitor the Project implementation and keep ADB informed of any significant deviations that may result in the schedule not being met.