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LOAN NUMBER 2597-MLD(SF)

LOAN AGREEMENT  
(Special Operations)  
(Economic Recovery Program)

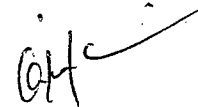
between

REPUBLIC OF MALDIVES

and

ASIAN DEVELOPMENT BANK

DATED 18 MARCH 2010

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LPS:MLD 39658

**LOAN AGREEMENT  
(Special Operations)**

LOAN AGREEMENT dated 18 MARCH 2010 between the REPUBLIC OF MALDIVES ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Borrower a development policy letter dated 27 September 2009 ("Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to support the economic recovery reforms of the Borrower ("Program");

(B) the Borrower has applied to ADB for a loan from its Special Funds resources for the purposes of the Program;

(C) the Borrower has also applied to ADB for a loan for Capacity Development for Economic Recovery Project ("Project") and by a loan agreement of even date herewith between the Borrower and ADB ("Project Loan Agreement"), ADB has agreed to provide to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to nine hundred thirty nine thousand Special Drawing Rights (SDR 939,000) for the purposes of the Project;

(D) the Borrower has also applied to ADB for technical assistance for capacity development in support of the Program ("TA"), which ADB has agreed to finance on a grant basis in conjunction with the Program and the Project in an aggregate amount of three million Dollars (\$3,000,000) from its technical assistance funding program; and

(E) ADB has, on the basis inter alia of the foregoing, 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 the 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, subject, however, to the following modifications:

(a) Section 2.01(24) is deleted and the following is substituted therefor:

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24. The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

(b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(c) Section 2.01(26) is deleted and the following is substituted therefor:

26. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

(d) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

(e) Section 6.05 (c) is deleted and the following is substituted therefor:

(c) Promptly after the closing date for withdrawals from the Loan Account, but in any event not later than 3 months thereafter or such later date as may be agreed for this purpose between the Borrower and ADB, the Borrower shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution of the Program, including its cost, the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the Loan.

Section 1.02 The terms defined in the Loan Regulations are incorporated into this Loan Agreement, unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "Apex PMU" means the apex Program management unit to be established by the Borrower, as described in paragraph 4 of Schedule 5 to this Loan Agreement;

(b) "Counterpart Funds" means the Rufiyaa proceeds accruing to the Borrower and generated from the Loan proceeds under the Program and referred to in paragraph 13 of Schedule 5 to this Loan Agreement;

(c) "Deposit Account" means the account referred to in paragraph 4 of Schedule 3 to this Loan Agreement;

(d) "Eligible Items" means the goods imported under the Program (except those specifically excluded pursuant to the Attachment 1 to Schedule 3 to this Loan Agreement), and services in connection with the delivery and installation of such goods, the foreign exchange costs of which are eligible for financing out of the proceeds of the Loan;

- (e) "First Tranche" means the portion of the proceeds of the Loan in an amount not exceeding the equivalent of SDR11,269,000 to be initially withdrawn and utilized;
- (f) "Internal Audit Unit" means the internal audit unit established under MOFT;
- (g) "Invest Maldives" means the secretariat of the Privatization Committee responsible for implementation of the privatization policy in close consultation with PEMEB;
- (h) "MMA" means the Maldives Monetary Authority of the Borrower;
- (i) "MOFT" means the Ministry of Finance and Treasury of the Borrower;
- (j) "MTFF" means the medium-term fiscal framework of the Borrower, and includes any amendments thereto;
- (k) "PEMEB" means the Public Enterprises Monitoring and Evaluation Board of the Borrower;
- (l) "Policy Matrix" means the matrix of policy actions attached to the Policy Letter;
- (m) "Privatization Committee" means a committee established by the Borrower to oversee the implementation of the Borrower's privatization policy and guide the privatization of the state-owned enterprises;
- (n) "Program Executing Agency" means, for the purposes and within the meaning of the Loan Regulations, MOFT, or any successor thereto agreed by ADB, which is responsible for the carrying out of the Program;
- (o) "RRP" means the Report and Recommendation of the President to ADB's Board of Directors for the Program;
- (p) "Rufiyaa" means the currency of the Borrower, and "Rf" is a reference to Rufiyaa;
- (q) "Second Tranche" means the balance of the proceeds of the Loan remaining in the Loan Account after the utilization of the First Tranche, to be withdrawn pursuant to and subject to the provisions of paragraph 5 of Schedule 3 to this Loan Agreement;
- (r) "Steering Committee" means the Program steering committee to be established by the Borrower, as described in paragraphs 2 and 3 of Schedule 5 to this Loan Agreement; and
- (s) "STELCO" means the State Electric Company Limited, a state-owned enterprise of the Borrower.

## **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 twenty one million nine hundred twelve thousand Special Drawing Rights (SDR 21,912,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of 1% per annum during the grace period, and 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 15 May and 15 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 the 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 Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan may be withdrawn from the Loan Account only for the purposes of financing foreign currency expenditures incurred for Eligible Items under the Program 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 Eligible Items 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 shall be made only on account of expenditures relating to Eligible Items which:

- (a) are produced in, and 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) 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 2012 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 Program, 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 maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.

(b) The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.03. (a) As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

**ARTICLE V****Suspension; Acceleration of Maturity**

Section 5.01. The following is specified as an additional event for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 8.01(m) of the Loan Regulations: the Borrower shall have failed, in the opinion of ADB, to perform any of its obligations under the Project Loan Agreement.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 8.07(d) of the Loan Regulations: the event specified in Section 5.01 of this Loan Agreement shall have occurred.

**ARTICLE VI****Effectiveness**

Section 6.01. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations:

- (a) all conditions for the release of the First Tranche, specified in the Policy Matrix, shall have been met;
- (b) MOFT shall have established and fully staffed the Apex PMU; and
- (c) the Project Loan Agreement shall have been duly executed and delivered on behalf of the Borrower, and all conditions to its effectiveness (other than a condition requiring the effectiveness of this Loan Agreement) shall have been fulfilled.

Section 6.02. The following is specified as an additional matter, for the purposes of Section 9.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: the Project Loan Agreement shall have been duly authorized by, and executed and delivered on behalf of, the Borrower, and is legally binding upon the Borrower in accordance with its terms.

Section 6.03. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of this Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

**ARTICLE VII**

**Miscellaneous**

Section 7.01. The Minister, MOFT, is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 7.02. 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  
Male'  
Republic of Maldives

Facsimile Number:

960 3324432

For ADB


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

Facsimile Numbers:

632 636 2444  
632 636 2337.

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.

REPUBLIC OF MALDIVES

By  \_\_\_\_\_  
ALI HASHIM  
Minister of Finance and Treasury

ASIAN DEVELOPMENT BANK

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

**SCHEDULE 1****Description of the Program**

1. The objective of the Program is to support the Borrower's development objectives by enhancing the recovery and sustainable growth of the economy over the medium term by removing the distortions that have led to the large economic imbalances. The scope of the Program includes (i) strengthening fiscal policy and bolstering budget formulation and implementation; (ii) implementing revenue, expenditure and debt management measures to strengthen the fiscal policy; (iii) strengthening the mechanisms for financing the budget; (iv) facilitating privatization of state-owned enterprises; and (v) strengthening internal audit operations.
2. The Program is described in more detail in the Policy Letter and the Policy Matrix. The Program will be implemented during the period commencing from 1 January 2010 to 31 December 2012.
3. In support of the Program:
  - (a) the proceeds of the Loan shall be used to finance the foreign exchange costs of Eligible Items; and
  - (b) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program, pursuant to the provisions of paragraph 13 of Schedule 5 to this Loan Agreement.
4. The proceeds of the Loan are expected to be utilized by 31 December 2012.

**SCHEDULE 2****Amortization Schedule****(Economic Recovery Program)**

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15-May-2018	684,750
15-Nov-2018	684,750
15-May-2019	684,750
15-Nov-2019	684,750
15-May-2020	684,750
15-Nov-2020	684,750
15-May-2021	684,750
15-Nov-2021	684,750
15-May-2022	684,750
15-Nov-2022	684,750
15-May-2023	684,750
15-Nov-2023	684,750
15-May-2024	684,750
15-Nov-2024	684,750
15-May-2025	684,750
15-Nov-2025	684,750
15-May-2026	684,750
15-Nov-2026	684,750
15-May-2027	684,750
15-Nov-2027	684,750
15-May-2028	684,750
15-Nov-2028	684,750
15-May-2029	684,750
15-Nov-2029	684,750
15-May-2030	684,750
15-Nov-2030	684,750
15-May-2031	684,750
15-Nov-2031	684,750
15-May-2032	684,750
15-Nov-2032	684,750
15-May-2033	684,750
15-Nov-2033	684,750
Total	21,912,000

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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****Withdrawal of Loan Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.

2. (a) Withdrawals from the Loan Account shall be made for the financing of the cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of any expenditures which have been financed by credits from official international or bilateral aid agencies or any other loans made by ADB.

3. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.

(b) Such withdrawal applications shall be accompanied by a certificate of the Borrower confirming that with respect to each year during which the proceeds of the Loan are expected to be disbursed, the value of the Eligible Imports is expected to be equal to or greater than the amount of the Loan expected to be disbursed during such year.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Borrower during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports for ineligible items specified in Attachment 1 to this Schedule; and
- (iii) imports financed from credits from official international or bilateral aid agencies or any other loans made by ADB.

(d) The Borrower shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Borrower has certified the value of Eligible Imports in its withdrawal application.

4. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall open a Deposit Account at the MMA into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Borrower shall have the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any

event not later than 6 months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) Throughout the Program implementation period, the Borrower shall submit trade statistics and any other information as ADB may require from time to time to assess the Borrower's compliance with the formula for determining Eligible Imports.

5. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Second Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program; and (b) the Borrower has fulfilled the conditions for the release of the Second Tranche specified in Attachment 2 to this Schedule.

**Negative List**

1. Loan proceeds will finance the foreign currency expenditures for the reasonable cost of imported goods required during the Economic Recovery Program.
2. No withdrawals will be made for the following:
  - (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Borrower:

**Table: Ineligible Items**

<b>Chapter</b>	<b>Heading</b>	<b>Description of Items</b>
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party; and
- (vii) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

### **Conditions for Release of the Second Tranche**

The conditions to be fulfilled by the Borrower for the release of the Second Tranche are, maintaining the conditions satisfied under the First Tranche and fulfilling, satisfactory to ADB, the conditions set out below.

#### **I. Strengthening Fiscal Policy and Bolstering Budget Formulation and Implementation**

1. The Borrower shall have submitted a bill relating to fiscal responsibility to its Parliament identifying fiscal objectives over the medium term.
2. MOFT shall have developed medium term sector roadmaps based on the goals of the National Development Strategy with clear objectives and policies and results-based monitoring framework to measure how programs can effectively meet sector objectives.
3. MOFT shall have developed a budget programming framework under MTFP in which expenditure on development budget follows sector objectives, policies and programs.
4. MOFT shall have issued a budget circular requiring the line ministries that proposed development expenditures to be closely aligned with sector goals and policies.
5. MOFT shall have developed project selection criteria for the Public Sector Investment Program budget and ensured that recurrent costs are reflected in annual budgets.

#### **II. Implementing Revenue, Expenditure and Debt Management Measures to Strengthen the Fiscal Policy**

##### **Revenue Measures**

6. The Department of Inland Revenue and its designated agencies shall have commenced collection of tax revenues across 3 taxes: the airport passenger service charge (airport tax), the business profits tax, and the goods and services tax (tourism).
7. The Borrower shall have submitted a bill relating to charging of good and services tax in the non-tourism sectors to its Parliament.
8. The Borrower shall have earmarked at least 0.5% of the annual collection of the goods and services tax (tourism) for environmental protection purposes.

### Expenditure Measures

9. The Maldives Energy Authority shall have bi-annually reviewed STELCO tariff adjustments based on cost of inputs.
10. MOFT shall have implemented a new tariff program based on targeted subsidies to lower income households.

### Debt Management Measures

11. MOFT shall have prepared and obtained cabinet approval on a debt strategy that targets debt reduction over the medium term (consistent with fiscal responsibility legislation and the objectives of MTF) and ensures debt sustainability over the medium term.
12. MOFT shall have started implementation of the debt strategy including undertaking annual debt sustainability assessments.
13. The Borrower shall have issued bonds or made other arrangements in favor of State Trading Organization in lieu of the circular debt arrears owed to it by STELCO in order to remove this liability from STELCO's balance sheet.

### **III. Strengthening the Mechanisms for Financing the Budget**

14. MMA shall have (i) included treasury bills as eligible items under MMA's minimum reserve requirements for commercial banks; and (ii) allowed non-institutional investors to participate in the treasury bills market.
15. MOFT and MMA shall have reviewed their memorandum of understanding of 30 August 2006 with the objective of further reducing the ceiling on ways and means advances from the existing level of Rf1.6 billion.

### **IV. Facilitating Privatization of State-Owned Enterprises**

16. The Ministry of Economic Development shall have ensured that at least 50% of the staff of Invest Maldives shall have undergone capacity building training.
17. The Privatization Committee shall have brought to the point of sale (i.e. completed all steps up to the bidding stage) at least 3 state-owned enterprises from the list of state-owned enterprises previously identified for privatization.

**V. Strengthening Internal Audit Operations**

18. MOFT shall have completed a comprehensive internal audit manual based on a risk-based auditing consistent with the public accounting system.

19. Internal Audit Unit shall have commenced implementation of new financial regulations based on revised accounting standards.

20. Internal Audit Unit shall have implemented pilot internal audits of at least 2 budget agencies.

## **SCHEDULE 4**

### **Procurement**

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraph of this Schedule shall apply in the procurement of Eligible Items to be financed out of the proceeds of the Loan.

2. (a) Except as provided in subparagraph (b) of this paragraph, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector; or the Borrower's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items which are commonly traded commodities shall be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.

## SCHEDULE 5

### Program Implementation and Other Matters

#### Implementation Arrangements

1. The Borrower shall cause MOFT, in its capacity as the Program Executing Agency, to be responsible for effective and timely implementation of the Program.
2. Within 1 month of the Effective Date, MOFT shall establish the Steering Committee to monitor and coordinate the implementation of the Program and appoint, in consultation with ADB, the secretary of the Steering Committee as the Program director. The Steering Committee shall be chaired by the Minister of State for Finance, and shall include representatives from the President's Office, MOFT, MMA, Department of National Planning, PEMEB, and the Privatization Committee. The Program director shall be responsible for coordinating efforts across all the components of the Program.
3. Within 2 months of the Effective Date, MOFT shall cause the Steering Committee to convene its first meeting; and thereafter cause the Steering Committee to meet at least once every quarter. The Steering Committee shall invite ADB to participate in its meetings as an observer, and send quarterly progress reports to ADB highlighting the achievements and potential issues that need to be addressed.
4. The Borrower shall establish the Apex PMU in MOFT for overall coordination and implementation of all externally-assisted programs and projects. The Apex PMU shall (i) monitor externally-assisted development programs and projects; (ii) identify timely remedial measures; and (iii) convene meetings every quarter and publish the minutes on the MOFT website. The Borrower shall ensure that the Apex PMU is staffed commensurate to the level of specified competencies. In addition to the Apex PMU, the Borrower shall establish thematic program management units in select line ministries such as the Ministry of Housing, Transport and Environment and the Ministry of Economic Development.

#### Policy Dialogue

5. The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on, the progress made in carrying out the policies and actions set out in the Policy Letter and the Policy Matrix.
6. The Borrower shall continue timely policy dialogue with ADB, and shall promptly discuss problems and constraints encountered during the implementation of the Program, and on appropriate measures to overcome or mitigate such problems and constraints.
7. The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral agencies that have implications for implementation of the Program, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's views into consideration before finalizing and implementing any such proposal.

Continuity and Coordination of Reforms

8. The Borrower shall (i) ensure that the objectives achieved, policies adopted, and actions taken prior to the date of this Loan Agreement, as set forth in the Policy Letter, shall continue to be in full force and effect for the duration of the Program period and subsequently; (ii) carry out the policies and actions in accordance with the schedule of policy actions contained in the Policy Matrix and ensure sustainability of the reforms beyond the Program period; and (iii) carry out all of its obligations as stipulated under this Schedule and this Loan Agreement, in a timely manner.

Staff Turnover

9. The Borrower shall use its best efforts to reduce staff turnover in MOFT (budget, economic affairs and policy, external resources management, treasury and public accounts, finance and treasury management, and public enterprise monitoring and evaluation), Department of Inland Revenue, Invest Maldives, and MMA.

Privatization

10. The Borrower shall ensure that in the event of privatization, restructuring, and/or liquidation of any state-owned enterprises, it shall, and cause such enterprises to, comply with all statutory and contractual obligations to staff relating to changes in conditions of service (early retirement, retrenchment, or otherwise), and any staff plan shall be implemented after prior consultation with all the stakeholders. Any retrenchment plans adopted shall include appropriate mitigation measures, which comply with the Borrower's labor laws and are in accordance with the principles and objectives of ADB's Social Protection Strategy and related policies. The Borrower shall advise ADB of the actions undertaken during the implementation of the retrenchment plans and mitigation measures in a timely manner.

Technical Assistance

11. In carrying out the policy measures and activities included in the Policy Matrix, the Borrower shall, after consultation with ADB, take into account the findings and recommendations of the Project and the TA.

Governance and Anticorruption

12. The Borrower, in addition to its compliance with ADB's *Anticorruption Policy* (1998, as amended to date), shall undertake other measures to ensure good governance, accountability, and transparency. More specifically, the Borrower shall implement the mitigation measures recommended by ADB, and agreed upon by the Borrower, pursuant to the assessment of the Borrower carried out by ADB under its Second Governance and Anticorruption Action Plan set out in Appendix 8 and Supplementary Appendix A to the RRP.

Use of Counterpart Funds

13. The Borrower shall use the Counterpart Funds to meet Program expenditures and support the cost of adjustment linked to reform measures, including implementation of the redundancy program; payment of the Borrower's accrued share of pension liability subsequent to the passage of the Pension Act; retirement of the existing circular debt followed by retirement of STELCO debt with the State Trading Organization; and services related to tax introduction and capacity development.

14. The Borrower shall ensure that necessary budgetary allocations are made to meet the recurrent costs under the TA.

Program Review

15. The Borrower and ADB shall review Program implementation at least 3 times a year. The reviews shall include: evaluation of the scope of the Program; implementation arrangements; consultations with MOFT and the Program director; progress with the policy reform agenda; capacity development measures; and compliance with this Loan Agreement. The Borrower and ADB shall also undertake a mid-term review, and a Program completion review 3 months after its completion.

Program Performance Monitoring and Evaluation

16. Within 4 months of the Effective Date, the Borrower shall cause MOFT to establish a Program performance monitoring system acceptable to ADB that will generate quarterly reports describing: the progress made in the Program; any changes to the implementation schedule; identifying any problems encountered; and the remedial actions taken. The Borrower shall cause MOFT, line ministries, and other implementing agencies to monitor progress every quarter against the baseline indicators and targets.

17. ADB shall undertake periodic review missions to (i) confirm progress and fulfillment of policy actions for tranche release; (ii) confirm release of adequate funds from the Borrower for Program-specific activities; (iii) monitor continued applicability of the assumptions that might impact Program success, as well as specified risks and their mitigating measures; and (iv) advise on actions to maintain effective implementation within the Program period.