



Technical Assistance Report

Project Number: 39664
December 2006

Republic of the Maldives: Restructuring and Privatization of State-Owned Enterprises

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 November 2006)

Currency Unit	–	rufiyaa (Rf)
Rf1.00	=	\$0.0781
\$1.00	=	Rf12.8000

ABBREVIATIONS

ADB	–	Asian Development Bank
EOI	–	expression of interest
MOFT	–	Ministry of Finance and Treasury
PEMEB	–	Public Enterprises Monitoring and Evaluation Board
SOE	–	state-owned enterprise
SSN	–	social safety net
STELCO	–	State Electric Company Limited
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Law, economic management and public policy
Sub-sector	–	Public finance and expenditure management
Key thematic areas	–	Sustainable economic growth, governance, and private sector development

NOTES

In this report, “\$” refers to US dollars.

Vice President	L. Jin, Operations Group 1
Director General	K. Senga, South Asia Department (SARD)
Director	A. Sharma, Governance, Finance and Trade Division, SARD
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I. INTRODUCTION

1. The Government of the Maldives requested the Asian Development Bank (ADB) to provide technical assistance (TA) for the state-owned enterprises reform project. It is one of the important themes of the Government's Sixth National Development Plan (2001–2005) to recognize the private sector as the major engine of, and partner for, national economic development, while the public sector's role will be rationalized to be a facilitator of the development process.¹

2. The TA is part of ADB's support to prepare and implement governance and private sector development for the Maldives. A Fact-Finding Mission visited the Maldives in September 2006 and reached an understanding with the Government on the purpose, outputs, methodology and key activities, cost estimates and financing plan, implementation arrangements, and terms of reference of the TA.² The design and monitoring framework is in Appendix 1.

II. ISSUES

3. State-owned enterprises (SOEs) play an important role in the country's economy, given that most large enterprises in the country are in the public sector. Almost all significant sectors of the economy—including fisheries, telecommunications, civil aviation, financial services, trading, and power—are currently dominated by SOEs. In that profits from SOEs represent a significant source of revenues for the state, it is essential to ensure that the Government obtains adequate returns on the investments made in the SOEs. While the performances of some of the SOEs have been satisfactory given the market conditions in which they operate, there are many enterprises whose performances have deteriorated over time. The Government has had to provide financial support in the forms of grants, subsidized loans, guarantees, rental subsidies, and others to ensure the continuity of their operations.

4. Dividends from 21 SOEs to the Government have been in a declining trend and are expected to total Rf398 million in 2005, down by 39% from Rf656 million in 2004. Five enterprises account for more than 90% of the dividends,³ while the others pay marginal dividends or none at all. The decline in dividends reflects various factors, which may include, in part, such shortcomings as

- (i) **Management constraints.** Qualified professionals with the required experience will need to be recruited to provide strategic direction for the SOEs' efficient operations.
- (ii) **Competition from private sector enterprises.** Privatization of SOEs will be needed where markets are contestable and the greater involvement of the private sector is increasing to the detriment of the SOEs.
- (iii) **Special benefits to the SOEs.** Special protection has been given to these enterprises, such as below-market land-rental rates and additional financial benefits.

¹ ADB. 2002. *Country Strategy and Program Update (2003–2005): Maldives*. Manila.

² This TA first appeared in *ADB Business Opportunities* on 6 October 2006.

³ Dhiraagu, Maldives Airport Company Ltd, State Trading Organization plc, Malé Water & Sewerage Company Ltd, and Maldives Port Authority.

- (iv) **Absence of independent pricing policy.** In areas such as power generation, transmission, and distribution, a company like State Electric Corporation Limited (STELCO) has limited ability to increase tariffs, and that undermines its profitability.⁴
- (v) **Limited funding options for investment plans.** In spite of investment plans for modernizing and augmenting capacity, underperforming enterprises like STELCO (due to its current financial performance), Maldives Industrial Fisheries Company Limited, and Maldives National Shipping Limited that have accumulated losses in their balance sheets would face difficulties to raise finance through external sources.

5. Land rent for SOEs has been subsidized. Until 2005, SOEs were paying rents at a rate of Rf1 per square foot per month, which compares to Rf10–15 that the Government collects from the private sector. This subsidy was estimated to total some \$10 million in 2005. The Government has since raised the land rent for SOEs to Rf3 per square foot per month for the current year. If the rental rates charged to the private sector were to be made applicable to all SOEs, however, it is expected that some of the SOEs would post losses.

6. With the objective of reducing the public sector presence in the economy and mitigating pressures on the budget, the Government plans to reform its SOEs and increase its returns from them. SOE reforms are expected to include restructuring of underperforming SOEs by means of business mix optimization, workforce rationalization, and financial restructuring. If appropriate, SOEs found to be unviable can be closed and liquidated. Given recent growth of the private sector, which now competes with the SOEs in almost all sectors, the Government also is considering to privatize SOEs that are no longer strategic for the economy but require substantial investments for their modernization and to augment the capacities of their facilities.

7. Recently, the Ministry of Finance and Treasury (MOFT) has identified three SOEs to be privatized (i.e., Maldives Industrial Fisheries Company Limited, Maldives National Shipping Limited, and Nasandhura Palace Hotel) and another (STELCO) to be restructured. In order to enable SOE reform, Maldives needs policies and regulations within a common framework for (i) identifying and categorizing SOEs to be privatized, restructured, and closed; (ii) workforce restructuring, including a basis for computing early retirement compensation, rehabilitation and retraining of displaced employees; and (iii) establishing an institutional mechanism for implementing and monitoring the SOE reform process and coordinating with various sponsoring ministries for effectively implementing reform measures in targeted enterprises under their administrative control and guidance. To develop a common framework that avoids arbitrariness and increases transparency in the reform process, it is essential that policies and guidelines applicable across SOEs be formulated. These policies and guidelines will be the basis upon which the reform plans for the individual enterprise will be developed. Additionally, for the effective management and monitoring of the SOE reform process, an institutional framework must be put in place within the Government.

⁴ In STELCO's case, increased oil prices have affected the company very adversely. The cost of sales up to June 2005 had risen by 45% compared to the same period in 2004 and 8% compared to the budget for the period. STELCO is running a negative cash balance. Increased fuel prices and interest expenses have contributed to the deteriorating cash balances (MOFT Public Enterprise Monitoring and Evaluation Board. 2006. *Public Enterprises Quarterly Report—Quarter Four 2005*. Malé, Republic of the Maldives. Higher tariffs for Male could provide revenues to offset losses from generation, transmission, and distribution in outer atolls.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

8. The TA's impact will be for the Government to initiate reforms of its SOEs, and the outcomes will help the Government to design and implement reform measures for SOEs in such areas as (i) developing an institutional framework for implementing the reform program, (ii) preparing business-restructuring plans for enterprises designated for restructuring while remaining under Government ownership, and (iii) advising and assisting the Government in disinvesting its shareholding in identified SOEs through public share flotation and/or bringing in a strategic partner. This program has been conceptualized as a pilot program to enable the Government to build capacity and gain experience and skills in implementing reform of SOEs so that such reform can be extended in the future to the remaining enterprises not covered under the current program.

B. Methodology and Key Activities

9. The TA will be implemented under the following four components.

10. **Component 1: Developing Institutional Framework for Planning and Implementing SOE Reform.** The TA will (i) assist the Government in institutionalizing SOE reform through strengthening the existing Public Enterprises Commission and Public Enterprises Monitoring and Evaluation Board (PEMEB), currently domiciled within MOFT, as the central agency for implementing SOE reform measures. This will include assisting to develop the needed organizational structure (e.g., identifying roles and responsibilities of various positions along with skill and competency requirements, reporting relationships including a formalized mechanism for interacting with other ministries having administrative control of public enterprises, activities to be performed within the Government and those that can be outsourced to external consultants, and training needs); as well as (ii) identifying and advising the Government on the regulatory framework needed to facilitate implementation of SOE reform measures. Representative policies and regulations include (i) a basis for identifying enterprises that are to be restructured under the Government's continued ownership, enterprises to be privatized and disinvested, and enterprises to be closed down; (ii) allowable financial restructuring measures, such as converting Government loans into equity and writing off Government loans including accumulated interest; (iii) severance schemes for SOE employees who may be displaced as a result of implementing reform measures; (iv) a competitive bidding process to be followed to ensure objectivity and transparency for disinvestment of Government shares and privatization; (v) measures to be taken for liquidating unviable enterprises, including compensating employees and a mechanism for disposing of assets and settling liabilities; and (vi) advising the Government on reviewing and/or amending any policy actions, regulations, and/or Government orders that may be necessary to facilitate the reform process.

11. **Component 2: Preparation of Business-Restructuring Plan.** The Government has identified STELCO for restructuring while being retained under Government ownership and with the objective of achieving sustainable financial viability. The TA will include (i) identification of business-restructuring measures while taking into account existing or new businesses, existing or new technologies, and keeping in view environmental issues, investment requirements, and emerging market trends over the next 3–5 years; (ii) financial restructuring measures that include debt restructuring, capital restructuring, and financing investment plans; and (iii) organizational and workforce restructuring measures that include overhauling company management and governance to implement the measures suggested under (i) above. These

last-mentioned measures should cover gaps in management, identifying skills to be replenished, workforce restructuring, changes in board compositions and roles, and other related matters.

12. **Component 3: Privatization of SOEs.** Of the enterprises identified by the Government for privatization, this pilot program proposes to include three enterprises, namely, Maldives Industrial Fisheries Company Limited, Maldives National Shipping Company Limited, and Nasandhura Palace Hotel. The TA will include (i) recommending optimal transaction structures for disinvestment and privatization after taking into account various business-related issues (including to assess needs for bringing in strategic partners, the extents of Government shareholdings to be divested through public offer and/or bidding processes for selecting strategic partners, potential private sector partner preferences, and underlying objectives of the privatization exercise); (ii) in the event bringing in a strategic partner is chosen as the preferred option, advising the Government on finalizing qualification criteria for strategic partners and drafting notices inviting expressions of interest (EOIs) from potential private sector partners; (iii) assisting and advising the Government on the bidding process for selecting strategic partners, including (a) preparing information packages to be circulated to short-listed potential investors identified on the basis of EOIs submitted, (b) advising management teams of the respective enterprises on data room operations and facilitating due diligence processes, (c) managing the bidding processes to ensure they are conducted in a transparent and fair manner, (d) recommending the reserve prices below which the Government should not consider offers, (e) evaluating the technical and price bids received, (f) advising on completion of all legal and accounting measures for completing transactions, (g) in the event privatization through public offer of shares is the preferred option, then recommending and assisting to implement corporate governance frameworks required for attracting professional managers to the enterprises.

13. **Component 4: Designing a Social Safety Net (SSN) Program for Employees Displaced as a Result of Implementing SOE Reforms.** This component entails assisting and advising the Government to design an SSN program that will, for example, advise displaced employees on alternate livelihood opportunities and provide them retraining. As part of the SSN program, suitable training courses and agencies need to be identified. The TA will also assess institutional capacity to deliver the retrenchment program and assist the Government to strengthen its capacity to deliver this program. Should amendments or additions be required in existing or proposed labor legislation or policies in order to implement the SSN program, the TA will include advising the Government on these issues.

C. Cost and Financing

14. The cost of the TA is estimated at \$470,000 equivalent. ADB will provide approximately \$400,000 equivalent, and the Government will contribute about \$70,000 equivalent in-kind to cover counterpart staff, office accommodation and supplies, transport, and other expenses such as for in-country study facilitation and workshops. The TA will be financed on a grant basis by ADB's TA funding program. The detailed cost estimates are provided in Appendix 2.

D. Implementation Arrangements

15. MOFT will be the Executing Agency for the TA. MOFT will be supported by PEMEB, and the director of PEMEB will act as the central person for this TA. MOFT will provide office space, furniture, equipment, and counterpart staff for TA consultants, who will receive operational advice and guidance from the Director of PEMEB. A steering committee on SOE reform will be set up for the TA. It will be responsible for coordinating the TA, meet to review the related reports, and resolve any issues regarding the TA's implementation. The committee will be

headed by MOFT and include senior officials from the Ministry of Environment, Energy and Water; the Ministry of Fisheries, Agriculture and Marine Resources; the Ministry of Tourism and Civil Aviation; and other ministries, as necessary. The steering committee will be chaired by the deputy minister of MOFT with the PEMEB director as the secretary to the steering committee.

16. The TA will be implemented over a period of approximately 8 months, intermittently from February 2007 to January 2008, and it will require an estimated 41 person-months of consulting services, of which approximately 25 person-months will be international and 16 person-months national consulting services. The following areas of expertise have been identified at this stage for the international consultants: (i) public enterprise reforms specialist and team leader, (ii) organizational development specialist, (iii) business restructuring specialist (power sector), (iv) capacity building and administrative restructuring specialist, (v) asset valuation specialist, (vi) financial analyst, (vii) transaction specialist (with national consultants' support), (viii) legal specialist (with a national consultant's support), (ix) social safety net program and labor retrenchment specialist, and (x) communication and change management specialist. National consultants will be engaged to complement the expertise of the international consultants. The consultants will be engaged by ADB and all procurement under the TA will be done in accordance with ADB guidelines.⁵

17. For selecting consulting firms, simplified technical proposals and quality and cost-based selection will be used. The outline terms of reference for the consultants are in Appendix 3, and a summary initial poverty and social analysis is in Appendix 4. The consultants will prepare an inception report, including a time-bound work plan for TA implementation, within 4 weeks of the start of consulting services. An interim report will be submitted within 3 months from the start of consulting services. A draft final report will be submitted 4 weeks before the end of consulting services, and this is to be discussed in a meeting of the consultants, government officials, and ADB before being finalized by the consultants. The deliverables of this TA will include draft and final business restructuring plans, a social safety net program, recommendations on transaction structuring, a preliminary information memorandum, a report on evaluating EOIs, an information memorandum, an information bid package, final transaction agreements, reports on business valuations, reserve price recommendations, and reports on evaluation of bids received.

IV. THE PRESIDENT'S DECISION

18. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$400,000 on a grant basis to the Government of the Maldives for Restructuring and Privatization of State-Owned Enterprises, and hereby reports this action to the Board.

⁵ ADB. 2006. *Guidelines on the Use of Consultants by ADB and Its Borrowers*. Manila; ADB. 2006. *Procurement Guidelines*. Manila.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Monitoring Mechanisms	Assumptions or Risks
<p>Impact To improve the allocation of fiscal resources and stimulate private sector activities</p> <p>For the Government to initiate reforms of state-owned enterprises (SOEs), and to improve those enterprises' contributions to economic growth and social development</p>	<p>Key reform measures successfully identified, prioritized, sequenced, and built into agreed frameworks, policies, strategies, and time-bound action plans</p> <p>Reduced role and number of SOEs and more participation from private sector enterprises</p> <p>Positive net contribution from SOEs as dividends, privatization proceeds, and other forms to the Government budget</p> <p>Improved fiscal balance and reduced government subsidies</p>	<p>Ministry of Finance and Treasury (MOFT) economic statistics and reports prepared by the Public Enterprises Monitoring and Evaluation Board (PEMEB)</p> <p>National account statistics</p> <p>National development plan</p> <p>Technical assistance (TA) review missions and tripartite review</p> <p>TA inception, interim, and final reports</p>	<p>Assumption Government has capacity to adopt and implement agreed policy reform and implement plans</p> <p>Risks Political forces could resist implementing rationalization measures of SOE reform</p> <p>Unforeseen external shocks</p>
<p>Outcomes The TA will focus on helping the Government design and implement SOE reform measures:</p> <p>(i) Institutional framework for implementing SOE reform program developed</p> <p>(ii) Business-restructuring plan for enterprises to be restructured while being retained under Government's ownership prepared</p> <p>(iii) Government advised and assisted in disinvestment from identified SOEs through public flotation and/or entry of a strategic partner</p> <p>(iv) Government obtains capacity, experience, and skills in implementing SOE reforms that can be extended to the remaining SOEs</p>	<p>By end of TA, a rigorously designed program with a sequenced and linked SOE reform agenda</p> <p>Government and ADB endorsement and acceptance of the design and development of the institutional framework, privatization and restructuring strategy, action plan, etc.</p>	<p>TA steering committee meetings</p> <p>TA consultant papers (inception, interim, and final reports)</p> <p>Stakeholders' feedback</p> <p>Tripartite reviews</p> <p>ADB review missions</p>	<p>Assumptions Administrative departments' continue cooperation and support to the TA team towards achieving aims</p> <p>Quality outputs delivered on time</p> <p>The Government endorses TA's final design and development</p> <p>MOFT able to coordinate effectively with all ministries and agencies involved</p> <p>Risk Political forces resist rationalizing measures of SOE reform</p>

Design Summary	Performance Targets/Indicators	Monitoring Mechanisms	Assumptions or Risks
<p>Outputs</p> <p>Component 1: Developing institutional framework for planning and implementing SOE reforms.</p> <p>(i) Strengthened Public Enterprises Commission / PEMEB in role as central agency for implementing SOE reform measures</p> <p>(ii) Government has needed organizational structure with regard to controlling and reforming SOEs</p> <p>(iii) Government has regulatory framework for facilitating implementation of SOE reform measures, including (a) a basis for identifying enterprises to be restructured, privatized and disinvested, and closed; (b) allowable financial restructuring measures; (c) severance schemes for displaced SOE employees; (d) a competitive bidding process for disinvestment and privatization; (e) measures for liquidating unviable enterprises, and, if necessary; (f) improved legislative and policy options to facilitate reform</p> <p>Component 2: Preparation of business restructuring plan.</p> <p>(i) Plan to restructure STELCO while achieving sustainable financial viability, including (i) business-restructuring measures, (ii) financial restructuring measures, and (iii) organizational and workforce restructuring measures</p> <p>Component 3: Privatization of SOEs.</p> <p>(i) Optimum (pilot) transaction structures for disinvesting and privatizing three enterprises (Maldives Industrial Fisheries Company Limited, Maldives National Shipping Limited, and Nasandhura Palace Hotel)</p> <p>(ii) If appropriate, various documentation, advice, and assistance in attracting, selecting and closing transactions with potential private sector partners and investors</p>	<p>Timely fielding of qualified consultants</p> <p>Timely preparation of TA reports of satisfactory quality</p> <p>Inception report within 4 weeks from the start of consulting services</p> <p>Interim report after 3 months of the start of consulting services</p> <p>Draft final report 4 weeks before the end of consulting services</p> <p>Completion of activities and milestones on time</p>	<p>Coordinated joint monitoring of the TA by the Government and ADB</p> <p>Steering Committee</p> <p>ADB review missions</p> <p>Stakeholder feedback</p> <p>Tripartite review of TA draft final report</p>	<p>Assumptions</p> <p>Government will provide adequate counterpart staff</p> <p>Counterpart staff are available and committed to the reform process</p> <p>Government provides adequate resources and support</p> <p>Government will issue policy to implement recommendation</p> <p>Timely feedback from the Government on TA outputs</p> <p>Consultants are competent and committed to implementing the tasks</p> <p>Risk</p> <p>Political impediments to SOEs' privatization and restructuring plans</p>

Design Summary	Performance Targets/Indicators	Monitoring Mechanisms	Assumptions or Risks
<p>(iii) In the event privatization through public offer of shares is the preferred option, then recommendations and assistance on implementation of corporate governance framework</p> <p>Component 4: Designing a social safety net (SSN) program for employees displaced as a result of implementing SOE reforms</p> <p>(i) Assistance and advice to Government on designing and implementing an SSN program</p> <p>(ii) Assistance and advice to Government in preparing legislation and policies relating to implementing the SSN program</p>			
<p>Activities with Milestones</p> <p>Component 1: Developing Institutional Framework</p> <ol style="list-style-type: none"> Institutionalize the SOE reforms through strengthening the existing Public Enterprises Commission/ PEMEB within 4 months of commencing TA Develop the required organizational structure and identify roles and responsibilities of various jobs and positions along with skill and competency requirements, and the like within 3 months of commencing TA Identify and advise the Government on required regulatory framework for facilitating implementation of SOE reforms measures within 4 months of commencing TA <p>Component 2: Business-restructuring plan</p> <ol style="list-style-type: none"> Assist the Government to restructure STELCO within 5 months of commencing TA Assist the Government in areas of (i) identifying business-restructuring measures, (ii) financial restructuring measures, and (iii) organizational and workforce restructuring measures within 5 months of commencing TA <p>Component 3: Privatization of SOEs</p> <ol style="list-style-type: none"> Assist the Government through (i) recommending an optimal transaction structure for disinvestment and privatization; (ii) where entry of strategic partner is chosen option, advise the Government on finalizing qualification criteria for strategic partners and drafting notices inviting EOIs; (iii) assist and advise Government on the bidding processes for selecting strategic partners; and (iv) where privatization through public offer of shares is preferred option, then recommendations and assistance on implementing corporate governance framework required to attract professional managers in the enterprises. The respective outputs will be produced within 6 months from commencing the TA <p>Component 4: Designing an SSN program</p> <ol style="list-style-type: none"> Assist and advise the Government on designing an SSN program which will include advising displaced employees on alternate livelihood opportunities, retraining of displaced employees and other measures within 4 months from commencing the TA Assist Government to identify suitable training courses and agencies for conducting the training program within 4 months from commencing the TA 			<p>Inputs</p> <ul style="list-style-type: none"> TA resources (\$400,000) Consultants (25 person-months international consultants; 16 person-months national consultants) Communication/Reports (\$12,000) Workshops/ Training (\$10,000) Office Accommodation and Supplies (\$5,000) Contingency (\$100,000)

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total
A. Asian Development Bank Financing^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International	180.0
ii. National	40.0
b. International and National Travel ^b	90.0
c. Communication and Reports	10.0
2. Contingencies	80.0
Subtotal (A)	400.0
B. Government Financing	
1. Counterpart Staff	20.0
2. Office Accommodation and Supplies	5.0
3. Local Transportation	3.0
4. Workshop and Training	10.0
5. Preparation of Reports	2.0
6. Miscellaneous Administration and Support Costs	10.0
7. Contingencies	20.0
Subtotal (B)	70.0
Total	470.0

^a Financed by Asian Development Bank's technical assistance funding program.

^b International airfare includes miscellaneous travel costs and its budget is \$5,000 per round-trip.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCES FOR CONSULTANTS

A. International Consultants

1. Team Leader and State-Owned Enterprise (SOE) Reform Specialist (6 person-months)

1. As team leader, the consultant's tasks will include:
 - (i) Coordinate the inputs of all the consultants to develop an SOE reform program, manage implementation of that program, and prepare all required reports.
 - (ii) Coordinate with the designated government agency to ensure timely implementation of the reforms program.
 - (iii) Participate in discussions with ADB on the program's progress, outcome, and outputs.
2. As the international SOE reforms specialist, the consultant's tasks will include:
 - (i) Undertake a holistic review of the SOE reforms being undertaken as a pilot program, and, in consultation with the designated government agency, design the road map for the pilot phase.
 - (ii) Examine relevant international standards and best practices in SOE restructuring reforms, with a view to incorporating the learning from these experiences into the Maldives program, and facilitate implementing SOE reform measures through coordinating the efforts of other specialists engaged in the assignment.
 - (iii) For SOEs identified for privatization, recommend transaction structures, including to (a) evaluate the needs to bring in strategic partners; (b) recommend privatization strategies (i.e., sale of shares with management control to strategic partner, sale of shares through public offer, or combination of both); (c) propose quantities of government shares to be divested; (d) propose measures to enhance the enterprises' attractiveness to prospective investors; and (e) identify investor categories to be targeted for divestment of shares.

2. Organizational Development Specialist (2 person-months)

3. The tasks will include:
 - (i) Develop the functional mandate of the government agency with central responsibility for SOE reform and detail its role in (a) identifying SOEs to be reformed; (b) developing and implementing business-restructuring plans; (c) managing and monitoring privatization and public offer processes; (d) implementing corporate governance measures in the SOEs; (e) selecting, contracting, and monitoring the work of external consultants engaged in various components of SOE reform; and (f) monitoring the performance of SOEs.
 - (ii) Based on the functional mandate, develop the organizational structure and empowerment mechanisms for the central agency in terms of (a) its relationship and coordinating mechanism with other ministries; and (b) the organizational structure of the agency, including reporting relationships as well as roles and responsibilities of different positions within the structure.
 - (iii) Based on the respective functions identified, designate functions to be handled by the agency's own staff and those that may be outsourced. Develop staffing policies for functions to be performed in-house, including to estimate the number of staff required at each position in the overall structure, skills and competency requirements, contract terms, and others. Develop and document operating procedures for the agency to ensure efficient and effective operations.

- 3. Business Restructuring Specialist (Power Sector) (2 person-months)**
4. The tasks will include:
- (i) Prepare a business-restructuring plan for State Electric Company Limited (STELCO) based on (a) review of current operations, and (b) future strategy determined in discussion with STELCO management. The business-restructuring plan should include (a) recommendations on business strategy for the next 5 years; (b) identification of locations where STELCO should continue operations and those from which it should exit; (c) assessment and recommendations on technology and modernization requirements; (d) assessment of investment requirements along with possible sources of funding for enhancing existing operations, introducing value-added services and/or identifying possible areas of diversification based on market feedback.
 - (ii) Recommend policy actions and regulatory requirements based on international standards and best practices for successfully implementing business-restructuring plans.
 - (iii) Work in close coordination with the capacity building and administrative restructuring specialist, asset valuation specialist, and financial analyst to develop a comprehensive business-restructuring plan along with a recommended road map for implementing the plan.
 - (iv) Before it is to be finalized, the draft business-restructuring plan must be validated by STELCO management and representatives of the ministries concerned.
- 4. Capacity Building and Administrative Restructuring Specialist (3 person-months)**
5. The tasks will include:
- (i) For SOEs identified to be restructured while being retained under Government ownership as part of the pilot phase, prepare administrative restructuring plans after considering the recommendations on business restructuring. Capacity building and administrative restructuring measures will include (a) developing new organizational structures based on the recommended business-restructuring measures, (b) recommendations on staffing requirements that include skill and competency requirements, (c) recommendations on compositions of boards of directors, (d) recommendations for introducing corporate governance, (e) recommendations on introducing staff performance evaluation mechanisms along with performance-based compensation mechanisms.
 - (ii) For SOEs identified for privatization through public offering, recommend (i) compositions of boards of directors, and (ii) measures for introducing corporate governance.
- 5. Financial Analyst (2 person-months)**
6. The tasks will include:
- (i) For SOEs identified to be restructured while being retained under Government ownership as part of the pilot phase, prepare financial restructuring plans after considering the recommendations on business and administrative restructuring. The financial measures should include debt restructuring, capital restructuring, and financing investment plans.
 - (ii) Based on the recommended business restructuring and administrative restructuring measures, develop financial projections comprising profit and loss

statements, balance sheets, and cash flow statements for the next 3 years to show the impact of the recommended measures on the future performance of the enterprises. Underlying assumptions should also be provided.

- (iii) For SOEs identified for privatization and/or public offering, recommend financial restructuring measures that including debt restructuring and capital restructuring measures to increase the enterprises' attractiveness to prospective investors.
- (iv) Review the existing tax system and identify the effects of tax reform (including the planned business tax, *ad valorem duty*, and others) from the financial management perspective.

6. Asset Valuation Specialist (1.5 person-months)

7. The tasks will include:

- (i) Prepare valuations of fixed assets that would form inputs for recommending the reserve prices of the respective public enterprises identified for privatization.
- (ii) Work in close coordination with the transaction specialist who will be responsible for assessing the business values for the enterprises and recommending the reserve prices to the Government.

7. Transaction Specialist (3 person-months, to be supported by 2 national transaction specialists each having an involvement of 4 person-months)

8. Transaction specialists will be required to have experience in competitive bidding for privatization purposes. Tasks will include to develop, based on government objectives, optimal transaction structures and strategies for the enterprises to be privatized in the pilot phase .

9. For enterprises where entry of strategic partners is proposed, the tasks will include:

- (i) Prepare preliminary information memorandums for the individual enterprises, including to draft advertisements inviting expressions of interests (EOIs).
- (ii) Evaluate EOIs received and forward recommendations on qualified interested parties to the Government.
- (iii) Assist in finalizing the bid evaluation framework and transaction documentation in consultation with international and national legal specialists.
- (iv) Develop steps in the privatization processes in line with prevailing best practices in transparent competitive bidding and prepare information memorandums.
- (v) Provide guidance to the respective enterprises' management teams for data room preparation and staffing as part of the due diligence processes.
- (vi) Participate in bidder meetings with the Government's representatives.
- (vii) Assess the business valuations and recommend reserve prices.
- (viii) Assist in bid evaluation and recommend selections of successful bidders
- (ix) Facilitate closing of the transactions.
- (x) For enterprises proposed to be privatized through public offering, assess business valuations and recommend the prices at which and how shares are to be offered to the public.

8. Legal Specialist (2 person-months)

10. An international legal specialist will be required for advising on the legal and/or regulatory framework for facilitating and implementing SOE reform. The tasks will include:

- (i) Guide the Government and transaction specialist on risk mitigation measures to be adopted in the transactions, including to advise on transaction safeguards to be built into transaction documents.

- (ii) Advise the Government on policy and regulatory actions and/or changes needed to implement the SOE reform process from the legal perspectives while framing the institutional framework and restructuring of SOEs.
- (iii) Prepare the transaction documents, including share purchase agreements and shareholders' agreements, and guide the Government and respective management teams on contracting with the selected strategic partners.

9. Social Safety Net Program and Labor Retrenchment Specialist (1.5 person-months)

11. The tasks will include:

- (i) Advise the Government on formulating an early retirement scheme for employees to be displaced on account of the SOE reforms, including compensation packages based on best practices in other similar economies.
- (ii) Develop a social safety net (SSN) program for displaced employees comprising (a) measures for providing psychological, investment, and rehabilitation counseling; (b) design of appropriate training courses aimed at retraining and/or developing skills targeted at alternate livelihood opportunities; (c) identification of training institutes and/or facilities to provide training programs; and (d) developing mechanisms for monitoring the progress of the program and ensuring necessary interventions wherever necessary.
- (iii) Advise the Government on necessary policy actions that may be required for institutionalizing the SSN program and assist the Government in reviewing and/or amending laws and regulations relating to employment and/or labor that possibly relate to various aspects of an SSN program.
- (iv) Work with the organizational development specialist to formulate personnel-related recommendations for the SSN program, including implementing personnel, their roles, and their responsibilities within the recommended organizational structure of the central agency.
- (v) Assess the impact of SOE reform on labor and develop labor rationalization plans to complement and underpin the SOE reform.
- (vi) Assess the impact of related SOE reform on poverty pursuant to the guidelines for the assessment of the impact of program loans on poverty¹ issued by ADB.
- (vii) Enhance involvement of the private sector and civil society during preparation of the reform process.

10. Communication and Change Management Specialist (2 person-months)

12. The tasks will include:

- (i) Develop a communication strategy targeted at key stakeholders impacted or expected to be impacted by the reforms. The strategy should address the issues faced by individual stakeholder groups, contents of proposed messages, delivery media, frequency of messages delivery, and mechanisms for evaluating the impact of the communication effort.
- (ii) Assist in implementing communication strategy during the program's pilot phase.

B. National Consultants

1. Legal Specialist (2 person-months)

13. The tasks will include:

¹ ADB. 2001. *Handbook on Poverty and Social Analysis*. Manila.

- (i) Coordinate with the international legal specialist on matters concerning local laws and regulations, including interpretation of local laws.
- (ii) Wherever necessary for the purpose of the transactions, draft government orders, laws, and the like under guidance of the Government.
- (iii) Assist and advise the SOEs' management teams on secretarial matters, including to draft in accordance with applicable laws and regulations notices for board meetings, resolutions, and like documents as required for the transaction.

2. Transaction Specialists (2 specialists at 4 person-months each)

14. The tasks will include assisting the international transaction specialist in developing, based on the Government's objectives, the optimal transaction structure and strategy for the enterprises to be privatized in the pilot phase.

15. For enterprises where attracting strategic partners is proposed, they will assist the international transaction specialist as follows:

- (i) Prepare the preliminary information memorandums for the individual enterprises, including to draft advertisements inviting expressions of interest.
- (ii) Evaluate EOIs received and forward to the Government recommendations on qualified interested parties.
- (iii) Assist in finalizing the bid evaluation framework and transaction documentation in consultation with the legal specialists.
- (iv) Develop the steps in the privatization process in line with prevalent best practices for transparent competitive bidding and prepare the information memorandums.
- (v) Provide guidance to the respective management teams of the enterprises for data room preparation and staffing as part of the due diligence process.
- (vi) Participate in bidder meetings with the Government's representatives.
- (vii) Assess the business valuations and recommend reserve prices to the Government, assist in bid evaluations, and facilitate closing of the transactions.

16. For enterprises proposed to be privatized through public offering, they will assist the international transaction specialist in providing inputs, including assessments of the business valuations and recommending the prices at which shares are to be offered to the public.

3. Support Consultants (6 person-months)

17. The tasks will be in general to support the key international and national consultants in undertaking data collation and analysis to enable completion of the envisaged tasks within stipulated timeframes. The support consultants will also assist with fieldwork when the key international and national consultants are not present in the field.

18. The specific tasks will include:

- (i) Collate primary and secondary information while providing necessary research and analytical support to the key international and national consultants.
- (ii) Carry out tasks entrusted to them by the specialists during the periods when the specialists are not in the field.
- (iii) Provide support for conducting workshops, training, and focus group meetings.

19. The tasks indicated for the various consulting positions stated above are indicative and their precise definition and prioritization will be realigned based on emerging project priorities during TA implementation.

20. Other tasks and activities may be assigned by the team leader.

SUMMARY INITIAL POVERTY AND SOCIAL SECTOR ANALYSIS

A. Linkages to the Country Poverty Analysis

Is the sector identified as a national priority in country poverty analysis? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Is the sector identified as a national priority in country poverty partnership agreement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<p>The Maldives is a small island country and it has a population of 300,000 largely young people. Pursuing prudent macroeconomic policies, the Maldives has achieved remarkable progress over the past 30 years. Preparing a reform project for state-owned enterprises (SOEs) is one of the important themes of the Government's Sixth National Development Plan (2001–2005). The plan recognizes the private sector as the major engine of, and partner for, national economic development, while the intent is for the public sector's role to be rationalized so that it is an enabler or facilitator of the development process in Maldives.</p>	

B. Poverty Analysis

Targeting Classification: General Intervention

What type of poverty analysis is needed? An analysis of poverty in the Maldives has recently been undertaken with findings presented in " <i>Millennium Development Goals: Maldives Country Report.</i> " ¹

C. Participation Process

Is there a stakeholder analysis? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<p>Consultations were held with the Government, and representative SOEs at the early stage of project design. More extensive consultations will need to be held with the general public and civil society organizations as well as Government and representative SOEs during the project implementation.</p>
Is there a participation strategy? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<p>Stakeholder participation will be needed to implement SOE reforms. Consultation and feedback processes will be considered.</p>

D. Gender Development

Strategy to maximize impacts on women: <p>The program is expected to be neutral in its impact on gender.</p>
Has an output been prepared? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

E. Social Safeguards and Other Social Risks

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Resettlement	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	No resettlement is expected under the project.	<input type="checkbox"/> Full <input type="checkbox"/> Short <input checked="" type="checkbox"/> None

¹ Ministry of Planning and National Development. 2005. *Millennium Development Goals: Maldives Country Report 2005*. Malé, Republic of the Maldives.

Affordability	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	Subsidy policy envisaged under the project could raise prices of utilities to improve cost recovery, but the implications of this on affordability may not be significant if there will be better targeting of subsidies.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None
Labor	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	Privatization of SOEs in the Maldives is not politicized, in part reflecting the absence of organized labor. To the extent that labor continues to be a scarce resource and the Maldives' labor market continues to depend on expatriate workers, these challenges should not be overplayed in the Maldives. In order to avoid or minimize any possible adverse social impacts in the short run, however, this TA will put an emphasis on assisting the Government to design a social safety net and voluntary retirement scheme as well as to develop a labor rationalization policy for SOE reform. The TA will also address the need to develop stakeholder consultation and participation. Through stakeholders' involvement, the fairness, transparency, and accountability of the SOE restructuring process will be well ensured.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> None
Indigenous Peoples	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	The program is not expected to have any negative impact on indigenous peoples.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None
Other Risks and/or Vulnerabilities	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	Any social risks and vulnerabilities will be monitored in the course of implementing the project.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None