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CONFORMED COPY

CREDIT NUMBER 4611-MV

Financing Agreement

(Pension and Social Protection Administration Project)

between

REPUBLIC OF MALDIVES

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 12, 2009

CREDIT NUMBER 4611-MV

FINANCING AGREEMENT

AGREEMENT dated August 12, 2009, entered into between REPUBLIC OF MALDIVES (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to two million six hundred thousand Special Drawing Rights (SDR 2,600,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

- 2.07. The Payment Currency is Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out Parts A.1, A.2 (a), (c) and (d), and B of the Project through the MOHF and Parts A.2 (b) and A.3 through the MOFT in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Condition of Effectiveness consist of the following: the PIP referred to in Section I.A.6 of Schedule 2 has been adopted by the Recipient.
- 4.02. The Effectiveness Deadline is ninety days (90) days after the date of this Agreement.
- 4.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister of Finance and Treasury.
- 5.02. The Recipient's Address is:

Ministry of Finance and Treasury
Ameenee Magu
Malé 20379
Republic of Maldives

Facsimile:

(960) 332 4432

5.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at Male, Republic of Maldives and District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF MALDIVES

By: /s/ Ali Hashim

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Naoko Ishii

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to support the establishment of a new pension authority and strengthening capacity at existing institutions of the Recipient in order to effectively implement a new pension system and to provide a platform for additional social protection programs. The Project consists of the following parts:

Part A: Strengthening Capacity:

1. **Policy Analysis and Legal Framework:** Provision of technical advisory services, goods and training to the MOHF for the development of:
 - (a) a new pension system, including strategic reform planning, fiscal impact analysis, transitional provisions, policy toward survivors, disability provisions, annuities or other forms of benefit withdrawal; and
 - (b) a new pension legal framework, including drafting laws, rules, regulations, institutional by-laws for the MPAO, and other related documents.

2. **Institution and Capacity Building:** Provision of technical advisory services, goods, and training for institution and capacity building, to, *inter alia*:
 - (a) the MOHF for setting up the MPAO, including: (i) preparing MPAO's departmental and staffing structures, terms and references for its departments and staff, an annual operational budget, and operational instructions; (ii) strengthening the capacity of new staff; (iii) contracting external asset managers and other service providers, including insurance companies, and accounting firms; and (iv) providing basic infrastructure, including office equipment, furniture, air conditioning and office hardware;
 - (b) the MOFT for phasing out of existing systems of administering pensions and the GPF;
 - (c) the CSC and other public sector institutions of the Recipient, for data consolidation to be used for the purpose of calculation of individual pension liabilities; and
 - (d) the CMDA for the establishment of a supervisory unit for pensions.

3. PAS: Provision of technical advisory services, goods, and training, to *inter alia*:
- (a) support MOFT in the implementation of the PAS within *inter alia*, MOFT, line agencies, and local government bodies;
 - (b) support MOFT in the development and implementation of accounting standards, policies and instructions related to the Public Finance Law;
 - (c) strengthen capacity of the staff of MOFT, line agencies, and local government bodies in the use, operation and maintenance of PAS; and
 - (d) support MOFT in the development and implementation of a payroll system for the public employees of the Recipient, including a mechanism to track the pension contributions.

Part B: Public Awareness Campaign:

Provision of technical advisory services, goods and training to the MOHF to design and implement a public information campaign to educate members of the new pension system on the objectives and mechanisms of the system including improving awareness of: (i) employers about their contributory obligations; (ii) workers about their rights and benefits; and (iii) senior citizens about the mechanism for claiming basic pension.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements.**

1. The Recipient shall establish within three (3) months of effectiveness of this Agreement and maintain, throughout the period of the implementation of the Project, a Steering Committee to be chaired by the Minister of MOHF, including ministerial level representation from MOFT and other high-level representation from CSC, and CMDA, to, *inter alia*, monitor the overall progress of the Project semi-annually, including approving proposed annual Project implementation plans; the mandate, terms of reference and composition of such committee shall be satisfactory to the Association.
2. The Recipient shall maintain, throughout the period of the implementation of the Project, a Project Technical Committee to be chaired by a project director, including representatives of MOHF, MOFT, CSC and CMDA, to facilitate coordination and implementation of the Project implementation, including sharing information related to pension fund reforms and resolving any implementation issues; the mandate, terms of reference and composition of such committee shall be satisfactory to the Association.
3. The Recipient shall maintain, throughout the period of the implementation of the Project, a PMU located within MOHF, with terms of reference, staffing, including staff for financial management as per the PIP and other resources, in each case acceptable to the Association, which will, under the supervision of MOHF and guidance of the Project Technical Committee, be responsible for the overall coordination and supervision of the execution of the Project, including undertaking procurement and carrying out financial management, and monitoring and evaluation of the Project.
4. The Recipient shall take all such actions as are necessary to establish the MPAO by July 1, 2010.
5. The Recipient shall phase out the GPF in its current form in a timely manner including the issuance of detailed transition provisions.
6. The Recipient shall carry out the Project in accordance with a PIP acceptable to the Association, which shall include:
 - (i) an outline of the responsibilities of the staff of the PMU and of the Members of the Project Technical Committee;

- (ii) a description of a coordination mechanism between the PMU and the Members of the Project Technical Committee regarding activities of the technical assistance to be received by such members;
- (iii) a financial management manual incorporating policy and procedures, acceptable to the Association, regarding accounting, reporting, disbursement, internal control and audit mechanisms and procedures; and
- (iv) procurement procedures and model contracts for services and goods as set forth in the Procurement Plan.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators set forth below in the Annex to this Schedule. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report, after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods.** All goods required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants’ Services.** All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) National Competitive Bidding, subject to the use of sample bidding documents, as agreed with the Association.
(b) Shopping, subject to the use of sample shopping documents, as agreed with the Association.
(c) Direct Contracting

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Quality-Based Selection
(b) Selection Based on the Consultant’s Qualifications
(c) Single Source Selection
(d) Individual Consultants

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (expressed in SDR)</u>	<u>Percentage of Expenditures to be Financed (inclusive of Taxes)</u>
(1) Goods, Consultants' Services, Training and Workshops, and Operating Costs for Parts A.1, A.2 and B of the Project	610,000	100%
(2) Goods, Consultants' Services, and Training and Workshops for Part A.3 of the Project	1,230,000	100%
(3) Refund of Preparation Advance	760,000	Amount payable pursuant to Section 2.07 of the General Conditions
TOTAL AMOUNT	<u>2,600,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is December 31, 2012.

**ANNEX
TO
SCHEDULE 2**

Project Indicators

1. The performance indicators referred to in Section II.A. of the Schedule 2 to this Agreement are the following:

- (a) Progress in establishing the MPAO, including appointment of the governing board members and the executive director and hiring external asset manager(s).
- (b) Progress in implementing a new contributory retirement program, measured by the number of individual accounts opened and maintained by the MPAO.
- (c) Progress in implementing a new basic pension scheme, measured by the number of new applications processed and payments made as share of the total population over the eligible age.
- (d) Creating public awareness about the new pension system through a public education campaign; establishment of public web site of the new pension system, and key indicators of the system publicly available.
- (e) Progress in establishing the supervisory unit for pensions to review reports prepared by MPAO.
- (f) Generation of payroll data for public employees required for assessing mandated contributions for the new pension system.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each March 15 and September 15:	
commencing September 15, 2019 to and including March 15, 2029	1%
commencing September 15, 2029 to and including March 15, 2049	2%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

APPENDIX**Section I. Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “CMDA” means the Recipient’s Capital Markets Development Authority or any successor thereto.
4. “CSC” means the Recipient’s Civil Service Commission or any successor thereto.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
6. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
7. “GPF” means the Government Provident Fund which is a voluntary long term savings vehicle available to public sector employees with matching contributions by the government.
8. “Members of the Project Technical Committee” include *inter alia* the MOHF, MOFT, CSC and CMDA.
9. “Minister of MOHF” means the Recipient’s minister of MOHF referred to in Section 1 A.1 of Schedule 2 to this Agreement or any successor thereto.
10. “MOFT” means the Recipient’s Ministry of Finance and Treasury or any successor thereto.
11. “MOHF” means the Recipient’s Ministry of Health and Family or any successor thereto.
12. “MPAO” means the Maldives Pension Administration Office, the office to be set up under Part A.2 of the Project and in accordance with Section I.A.4. of Schedule 2 to this Agreement.

13. “Operating Costs” means reasonable expenditures directly related to the Project (which expenditures would not have been incurred absent the Project) including expenditures for Project staff travel and per diem, office rental, utilities and supplies, procurement notice publications, translation services, and maintenance of office equipment, but excluding salaries of officials of the Recipient’s public service.
14. “PAS” means the public accounting system which is being implemented in the Maldives which incorporates payroll processing of public employees.
15. “PIP” means the project implementation plan referred to in Section I.A.6 of Schedule 2 to this Agreement.
16. “PMU” means the project management unit established by the Recipient during the preparation of the Project and referred to in Section I.A.3. of Schedule 2 to this Agreement.
17. “Preparation Advance” means the advance referred to in Section 2.07 of the General Conditions, granted by the Association to the Recipient pursuant to a letter agreement dated January 8, 2008 between said parties for the purposes of financing certain expenditures required for the preparation of this Project.
18. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
19. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 25, 2009 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
20. “Project Technical Committee” means the committee referred to in Section I.A.2. of Schedule 2 of this Agreement.
21. “Public Finance Law” means the Public Finance Law of the Recipient adopted on January 26, 2006.
22. “Steering Committee” means the committee referred to in Section I.A.1. of Schedule 2 of this Agreement.
23. “Training and Workshops” means expenditures for the cost of training and workshop materials, facilities, course fees, travel, lodging and subsistence for trainees and visiting experts in connection with training, including study tours abroad.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. Section 2.07 is modified to read as follows:

“Section 2.07. *Refinancing Preparation Advance*

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (i) of Section 6.02 is modified to read as follows:

“Section 6.02. *Suspension by the Association*

... (1) *Ineligibility*. The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”

