

CONFORMED COPY

CREDIT NUMBER 3205 CV

Development Credit Agreement

(Energy and Water Sector Reform and Development Project)

between

REPUBLIC OF CAPE VERDE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 3, 1999

CREDIT NUMBER 3205 CV

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 3, 1999, between REPUBLIC OF CAPE VERDE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Association has received a letter dated January 21, 1999, from the Borrower describing a program of actions, objectives and policies designed to implement its institutional reform and development strategy in the energy and water sectors (the Program) and declaring the Borrower's commitment to the execution of the Program;

(C) the Borrower intends to contract from the OPEC Fund for International Development (the OPEC Fund) a loan (the OPEC Fund Loan) in an amount equivalent to \$4,500,000 to assist in financing the Project on the terms and conditions to be set forth in an agreement (the OPEC Fund Loan Agreement) to be entered into between the Borrower and the OPEC Fund;

(D) by Agreement dated October 20, 1998 (the EU Grant Agreement), the European Union (EU) has agreed to make a Grant (the EU Grant) to the Borrower in an aggregate principal amount of \$7,500,000 to assist in financing the Project on the terms and conditions set forth in the EU Grant Agreement;

(E) by Agreement dated October 28, 1996 (the Austrian Grant Agreement), Austria has agreed to make a Grant (the Austrian Grant) to the Borrower in an

aggregate principal amount of \$800,000 to assist in financing the Project on the terms and conditions set forth in the Austrian Grant Agreement;

(F) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank), acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the Global Environment Facility Trust Fund (the GEF Trust Fund) by certain members of the Bank as participants of the GEF, to provide additional assistance towards the financing of part of the Project; and by the Global Environment Facility Trust Fund Grant Agreement (the GEF Trust Fund Grant Agreement) of even date herewith, the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to SDR 3,400,000; and WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997), with the modifications set forth below, (the General Conditions) constitute an integral part of this Agreement.

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries."

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purposes of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Administrator, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "Advisory Committee" means the committee consisting of representatives of the Borrower's public sector, its private sector, regulatory institutions and water and energy consumers, to be established pursuant to Section 6.01 (d) of this Agreement and referred to in paragraph 1 (a) of Schedule 4 to this Agreement, which will be responsible for advising the PMU (as hereinafter defined) on cross-sectoral issues;

(b) "BCV" means Banco de Cabo Verde, the Borrower's Central Bank, established by the Borrower's Decree-Law (Decreto-Lei) No. 42/93, dated July 15, 1993;

(c) "Cape Verde Escudo" and "C.V. Esc." mean the currency of the Borrower;

(d) "ELECTRA" means Empresa Pública de Electricidade e Agua, E. P., a public utility for power and water supply, established and operating pursuant to its statutes enacted by Decree of the Council of Ministers No. 37/82 of the Borrower, dated April 17, 1982;

(e) "Environmental Management Plan" means the environmental management plan

included in the eighth chapter of the environmental impact assessment dated November 11, 1998;

(f) "INGRH" means the Instituto Nacional de Gestão dos Recursos Hídricos, the Borrower's national institute for water resource management, established and operating pursuant to its statutes enacted by Decreto Regulamentar No. 126/92 of the Borrower, dated November 16, 1992;

(g) "Initial Deposit" means an amount in C.V. Esc. equivalent to U.S. dollars 100,000 referred to in Section 3.04 (b) of this Agreement;

(h) "MAAA" means Ministério da Agricultura, Alimentação e Ambiente, the Borrower's Ministry of Agriculture, Food and Environment;

(i) "MCIE" means Ministério do Comércio, Indústria e Energia, the Borrower's Ministry of Trade, Industry and Energy;

(j) "Midterm Review" means the midterm review referred to in paragraph 4 of Schedule 4 to this Agreement;

(k) "MIH" means Ministério das Infraestructuras e Habitação, the Borrower's Ministry of Infrastructure and Housing;

(l) "OVPM" means the Borrower's Office of the Vice Prime Minister;

(m) "PMU" means the Project Management Unit within OVPM which will be responsible for the overall implementation of the Project, established and operating under the Borrower's Decree No. 40-A/98 dated August 27, 1998 and referred to in paragraph 1 of Schedule 4 to this Agreement;

(n) "Point of Sale" means that the Borrower has (i) carried out a valuation of ELECTRA; (ii) prepared a prospectus or dossier for ELECTRA; (iii) solicited offers for ELECTRA directly or through advertisement(s) in appropriate newspapers or other appropriate forms of advertisement; (iv) evaluated any such offers and selected successful bidder(s); and (v) invited the successful bidder(s) to enter into good faith negotiations;

(o) "Project Account" means the account referred to in Section 3.04 of this Agreement;

(p) "Project Coordinator" means the Project Coordinator who is also the Director of the PMU referred to in paragraph 1 of Schedule 4 to this Agreement;

(q) "Project Implementation Manual" means the manual referred to in paragraph 2 of Schedule 4 to this Agreement containing, inter alia, work plans, training plans, the monitoring and performance indicators referred to in paragraph 4 (a) of Schedule 4 to this Agreement and procedures to be used for the purposes of implementation of the Project, as they may be amended from time to time in consultation with the Association, and such term includes any schedules to the Project Implementation Manual;

(r) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated October 7, 1997 and October 20, 1997 between the Borrower and the Association;

(s) "SEPA" means the Secretariado Executivo Para o Ambiente, the Borrower's Executive Secretariat for Environment within MAAA; and

(t) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in

various currencies equivalent to twelve million five hundred thousand Special Drawing Rights (SDR 12,500,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in BCV on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be June 30, 2004 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1, commencing October 1, 2009 and ending April 1, 2039. Each installment to and including the installment payable on April 1, 2019 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to

repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out Parts A, B, C.1, C.3 and E of the Project through OVPM and Parts C.2 and D of the Project through MIH with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and water and energy sector practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out Parts A, B, C.1, C.3 and E of the Project through OVPM and Parts C.2 and D of the Project through MIH in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions, and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. Without limitation upon its obligations under Section 3.01 of this Agreement, the Borrower shall:

(a) open and maintain an account (the Project Account) in C.V. Esc. in BCV on terms and conditions satisfactory to the Association;

(b) promptly thereafter, deposit the Initial Deposit into such account to finance the Borrower's contribution to the Project;

(c) deposit into the Project Account in January, April, July and October of each year, until the completion of the Project, such amounts as shall be required to replenish in a timely manner the Project Account in an amount equal to at least the expected expenditures of the following quarter; and

(d) use the Project Account funds exclusively to finance expenditures under the Project.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit report of such audit referred to in paragraph (b) of this Section and that the report contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) a situation shall have arisen which shall make it improbable that the

Program or a significant part thereof will be carried out;

(b) the OPEC Fund Loan Agreement shall have failed to become effective by December 31, 2000, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement; and

(c) (i) subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part pursuant to the terms of the agreement providing therefor; or

(B) any such loan shall have become due and payable prior to the maturity thereof.

(ii) subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:

(A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and

(B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, the event specified in paragraph (c) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (c) (ii) of that Section.

## ARTICLE VI

### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has appointed the independent auditors referred to in Section 4.01 (b) of this Agreement, in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(b) the Project Account has been opened and the Initial Deposit referred to in Section 3.04 (b) of this Agreement has been deposited therein;

(c) the PMU has been established in accordance with the provisions of paragraph 1 (b) of Schedule 4 to this Agreement;

(d) the Advisory Committee has been established;

(e) the Borrower has taken all steps within its control to bring ELECTRA to the Point of Sale;

(f) the Borrower has approved the Environmental Management Plan;

(g) the Borrower has released to any prequalified firms the final documentation, in form and substance satisfactory to the Association, relating to the privatization of ELECTRA; and

(h) the Borrower has promulgated, in form and substance satisfactory to the Association, an electricity law, a water and sanitation law and a regulatory agency law, such laws to include any ancillary laws regarding regulatory arrangements.

Section 6.02. The date one hundred and twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of the Borrower at the time responsible for finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Office of the Vice Prime Minister  
C.P. 30  
Praia,  
Cabo Verde

Cable address:

COORDENACAO  
Cape Verde

Telex:

608 MCECV

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF CAPE VERDE

By /s/ Amilcar Spencer Lopes

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jean-Louis Sarbib

Regional Vice President  
Africa

SCHEDULE 1



Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works:		100% of foreign expenditures and 80% of local expenditures
(a) for Part C.2	2,200,000	
(b) for Part D	650,000	
(c) for Part A.6	320,000	
(d) for Part B.2	700,000	
(2) Goods:		100% of foreign expenditures and 90% of local expenditures
(a) for Part A.5	2,100,000	
(b) for Parts A.2, A.3, A.4, C.1, C.3, D and E	1,200,000	
(3) Consultants' services, studies and training:		100%
(a) for Part A	650,000	
(b) for Parts C and D	1,600,000	
(c) for Part E.1	800,000	
(d) for Part E.2	250,000	
(4) Refunding of Project Preparation Advance	1,100,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(5) Unallocated	930,000	
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TOTAL	12,500,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (i) goods not exceeding \$100,000 equivalent; (ii) services of consulting firms under contracts not exceeding \$100,000 equivalent; (iii) services of individual consultants under contracts not exceeding

\$50,000; and (iv) training under contracts not exceeding \$50,000, under such terms and conditions as the Association shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to (i) improve the quality and extend the coverage of electricity, potable water and sanitation systems in the Borrower's territory; (ii) reduce the costs of water and power services; (iii) increase operational and end-use efficiency in the power and water sectors; (iv) remove restrictions on the development of clean, renewable energy sources; and (v) foster sound management of water resources.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

#### Part A: Power Sector Reform and Development

1. Carrying out the privatization of ELECTRA, including, inter alia, assisting the Borrower with the evaluation of bids and contracts in respect of such privatization through the provision of technical advisory services.
2. Strengthening the institutional, legal and regulatory framework for the power sector, through the provision of technical advisory services, training of personnel, studies, and the acquisition of vehicles and equipment.
3. Design and implementation of a program to strengthen the Borrower's capacity to promote energy-efficient equipment and demand-side management of the energy sector, through the provision of technical advisory services, training of personnel, studies, and the acquisition of equipment.
4. Strengthening the capacity of MCIE to (i) formulate energy sector policies and strategies; (ii) coordinate and monitor the development of the energy sector; and (iii) prepare and update statistical data, through the provision of technical advisory services, training of personnel, studies, and the acquisition of vehicles and equipment.
5. Extension of the supply of electricity to about 4000 new customers in peri-urban and secondary urban centers, through the provision of technical advisory services and the acquisition of equipment.
6. Design and implementation of a program to improve the negative environmental impact of power generation and desalinated water production facilities, through the provision of technical advisory services, and the installation and acquisition of equipment and related works.

#### Part B: Renewable Energy Promotion and Development

1. Promotion and development of renewable energy resources, including the extension of up to 7.8 MW of grid-connected wind farms in Praia, Mindelo, and Sal, through the provision of technical advisory services, training of personnel, studies, and the acquisition and installation of equipment.
2. Installation of decentralized wind and photovoltaic public and individual systems for community and household use, through the provision of technical advisory services, training of personnel, studies, and the acquisition and installation of equipment.

#### Part C: Water Sector Reform and Development

1. Reform and development by the Borrower of the water sector, including (a) reform of the urban water production and supply systems; (b) establishment of autonomous municipal enterprises to improve water distribution and provide wastewater treatment services; (c) facilitation of private sector participation in the ownership and operation of the said autonomous municipal enterprises; and (d) strengthening of the

legal and regulatory framework for the water sector, all through the carrying out of studies, the acquisition of vehicles and equipment, and the provision of training and technical advisory services.

2. Extension and rehabilitation by MIH of the primary and secondary water distribution network and water production systems in Praia, Mindelo, Assomada, and other secondary centers, through the acquisition of equipment, civil works, and the provision of technical advisory services.

3. Strengthening of the operational and research capabilities of INGRH, including its capacity to formulate sound water policy and develop policies for efficient water end-use and water resources regulation and management, through the provision of technical advisory services and training, and the acquisition of vehicles and equipment.

Part D: Sanitation Development

Carrying out by MIH of (i) the extension of sanitation systems in Praia; (ii) the improvement of sanitation systems in Assomada; (iii) the design and construction of wastewater reuse systems in Praia; and (iv) sanitation studies, through the acquisition of equipment, civil works, and the provision of training and technical advisory services.

Part E: Project Coordination and Management

1. Strengthening of the capacity of the PMU to coordinate, supervise and monitor the execution of the Project, through the provision of training of its personnel, studies, technical advisory services, auditing services, and the acquisition of vehicles and equipment.

2. Design and implementation of an environmental management program with the collaboration of SEPA, through the provision of training of its personnel, studies, technical advisory services, and the acquisition of equipment.

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The Project is expected to be completed by December 31, 2003.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines); and (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country."

Part B: International Competitive Bidding (ICB)

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto. 2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for contracts for works estimated to cost US\$1,000,000 equivalent or more shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost US\$200,000 equivalent or more each.

Part C: Other Procurement Procedures International Shopping

Goods estimated to cost less than US\$50,000 equivalent per contract, up to an aggregate amount not to exceed US\$350,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and services shall be undertaken in accordance with such procurement plan as shall have been approved by the Association and with the provisions of said paragraph 1.

2. Prior Review

With respect to each ICB contract estimated to cost the equivalent of US\$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country."

Part B: Quality- and Cost-Based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Least-Cost Selection

Services for auditing, estimated to cost less than US\$200,000 equivalent per

contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

## 2. Individual Consultants

Tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

### Part D: Review by the Association of the Selection of Consultants

#### 1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

#### 2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of US\$100,000 or more, but less than the equivalent of US\$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of US\$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of US\$50,000 or more, the qualifications, experience, terms of reference, and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

#### 3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## SCHEDULE 4

### Implementation Program

#### 1. PMU and Advisory Committee

(a) The Borrower shall maintain the PMU and the Advisory Committee until the completion of the Project.

(b) The PMU shall maintain, until the completion of the Project, a Project Coordinator and competent staff in adequate numbers, all with terms of reference, qualifications and experience acceptable to the Association, and an accountant who shall be employed in accordance with the provisions of Section II of Schedule 3 to this Agreement. The Project Coordinator shall be responsible for the supervision and coordination of the day-to-day management of the Project. The accountant shall, inter alia, assist the Borrower in carrying out the obligations set forth in Section 4.01 (a) of this Agreement.

#### 2. Project Implementation Manual

The Borrower shall carry out the Project in accordance with procedures set out

in the Project Implementation Manual and, except as the Association shall otherwise agree, shall not amend or waive any provision thereof, if such amendment or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.

3. Progress Reports

The Project Coordinator shall be responsible for the preparation and the transmittal to the Association, promptly after the end of each calendar semester and in any case not later than January 31 and July 31 of each year, of a detailed report regarding the progress in carrying out the Project during the preceding calendar semester.

4. Performance Indicators and Midterm Review

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the performance indicators agreed upon between the Borrower and the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) carry out, jointly with the Association, not later than December 31, 2001, the Midterm Review. The Midterm Review shall cover, among other things (i) progress made in meeting the Project's objectives; (ii) overall Project performance against Project performance indicators; (iii) implementation of the Program and, in particular, its privatization and regulatory components; and (iv) quality of the advisory services under the Project;

(c) at least three (3) weeks prior to the Midterm Review, furnish to the Association a report describing the status of the items listed in paragraph (a) above and of Project implementation generally; and

(d) not later than four (4) weeks after the Midterm Review, prepare an action program acceptable to the Association for further implementation of the Project having regard to the findings of the Midterm Review and, thereafter, implement such action program.

5. Other Covenants

(a) The Borrower shall, in accordance with the provisions of Section II of Schedule 3 to this Agreement, (i) not later than March 31, 2000, select private concessionaires for the commercialization of public and private photovoltaic and wind systems; and (ii) not later than June 30, 2000, execute concession agreements, in form and substance satisfactory to the Association, with such private concessionaires.

(b) The Borrower shall, not later than December 31, 2001, execute concession agreements, in form and substance satisfactory to the Association, with the municipality of Assomada for the exploitation of water and sanitation systems in the municipality of Assomada.

(c) The Borrower shall, not later than December 31, 2002, execute agreements, in form and substance satisfactory to the Association, with private concessionaires for the future maintenance and exploitation of public photovoltaic systems.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories

in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 3,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible

Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraph 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

