

CONFORMED COPY

CREDIT NUMBER 2864 CV

Development Credit Agreement

(Capacity Building Project for Private Sector Promotion)

between

REPUBLIC OF CAPE VERDE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 13, 1996

CREDIT NUMBER 2864 CV

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 13, 1996, between REPUBLIC OF CAPE VERDE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Association has received a letter dated April 11, 1996 from the Borrower describing a program of actions, objectives and policies designed to strengthen the Borrower's private sector (hereinafter called the Program), and declaring the Borrower's commitment to the execution of the Program;

WHEREAS 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; 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, with the modifications thereto set forth below (the General Conditions), constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, 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) "Banking and Insurance Regulations" means the two sets of regulations to be issued for the banking and insurance industries, respectively, such banking regulations to regulate loan portfolio criteria, capital adequacy, exchange risk and debt equity ratio provisions, and such insurance regulations to regulate capital adequacy, risk premium exposure and portfolio diversification, and each such set of regulations to be acceptable to the Association.
- (b) "BCA" means Banco Comercial do Atlantico, a government-owned commercial bank established by the Borrower's Decree-Law (Decreto-Lei) No. 43/93 dated July 15, 1993;
- (c) "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;
- (d) "CECV" means Caixa Economica de Cabo Verde, a government-owned commercial bank established by the Borrower's Decree-Law (Decreto-Lei) No. 54/93 dated August 31, 1993;
- (e) "Chambers of Commerce" means Camaras de Comercio, the Borrower's two chambers of commerce established in accordance with the Borrower's Decree-Law (Decreto-Lei) No. 57/95 dated October 23, 1995;
- (f) "ECV" means Escudos Cabo Verdianos, the currency of the Borrower;
- (g) "Initial Deposit" means the deposit referred to in Section 3.04 (b) of this Agreement;
- (h) "INPS" means Instituto Nacional de Previdencia Social, the Borrower's National Institute for Social Security, established by the Borrower's Decree-Law (Decreto-Lei) No. 135/91 dated October 2, 1991;
- (i) "ISCV" means Instituto de Seguros de Cabo Verde, the Borrower's insurance regulatory commission established by the Borrower's Decree-Law (Decreto-Lei) No. 132/91 dated October 2, 1991;
- (j) "MCE" means Ministerio de Coordenação Economica, the Borrower's Ministry of Economic Coordination;
- (k) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated January 12, 1996 and January 22, 1996 between the Borrower and the Association.

(l) "Project Coordinator" means the Project Coordinator referred to in paragraph 1 of Schedule 4 to this Agreement;

(m) "PROMEX" means Centro de Promoção Turística do Investimento e das Exportações, the Borrower's Export and Investment Promotion Center established by the Borrower's Decree-Law (Decreto-Lei) No. 55/95 dated October 16, 1995; and

(n) "PSCU" means the private sector coordination unit referred to in paragraph 1 of Schedule 4 to this Agreement; and

(o) "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 seven million nine hundred thousand Special Drawing Rights (SDR 7,900,000).

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 a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. 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 cancelled.

Section 2.03. The Closing Date shall be December 31, 2000 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 cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or 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 payment 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 per cent (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 March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15, commencing September 15, 2006 and ending March 15, 2036. Each installment to and including the installment payable on March 15, 2016 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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 the Project with due diligence and efficiency and in conformity with appropriate financial, environmental and administrative 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 the Project 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 the provisions of Section 3.01 (a) above, the Borrower shall, for purposes of the Project:

(a) open and maintain, until completion of the Project, an account (the Project Account), in a commercial bank acceptable to the Association and on terms and conditions acceptable to the Association;

(b) deposit into the Project Account an initial amount equivalent to \$100,000 in ECV (the Initial Deposit), and thereafter, at quarterly intervals following such deposit, deposit into the Project Account such amounts as are estimated to be required for the carrying out of the Project during the ensuing quarter, as agreed between the Borrower and the Association and taking into account the financing plans agreed in each annual work program prepared in accordance with paragraph 3 of Schedule 4 to this Agreement; and

(c) ensure that the amounts deposited into the Project Account, in accordance with paragraph (b) of this Section, will be used exclusively for the Borrower's counterpart expenditures under the Project and be made available to PROMEX, BCV, BCA, CECV, ISCV and INPS for the purposes of carrying out Parts A, B.1, B.2, B.3, B.4 and B.5 of the Project, respectively, in accordance with the financing plans agreed in each annual work program prepared in accordance with paragraph 3 of Schedule 4 to this Agreement.

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 (being PROMEX, BCV, BCA, CECV, ISCV and INPS) 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 year, a certified copy of 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, 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 or payment out of the Special 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 as to whether the statements of year, together with the procedures their preparation, can be relied upon to withdrawals. referred to in paragraph (b) of this Section and that the contains a separate opinion by said auditors expenditure submitted during such fiscal and internal controls involved in support the related

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

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, namely that the Borrower has:

- (a) issued the Banking and Insurance Regulations;
- (b) opened the Project Account referred to in Section 3.04 of this Agreement and deposited the amount of the Initial Deposit;
- (c) appointed the independent auditors referred to in Section 4.01 (b) (i);
- (d) established a financial management and accounting system for the Project, acceptable to the Association;
- (e) prepared a detailed in-factory training program, acceptable to the Association, for workers under Part A of the Project for a period of one year following the Effective Date; and
- (f) prepared a detailed training program, acceptable to the Association, for the first year of the Project for each of BCA, CECV, BCV, PROMEX, ISCV and INPS for training under the Project; and
- (g) established the PSCU and appointed the Project Coordinator in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Ministry of Economic Coordination of the Borrower 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:

Ministry of Economic Coordination
C.P. 30
Praia, Cape Verde

Cable address:

Telex:

COORDENACAO FINANÇAS
Cape Verde

6508 MCECV

For the Association:

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

Cable address:

Telex:

INDEVAS
Washington, D.C.

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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/ Corentino V. Santos

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) Civil works		
(a) Part A.1 (c) (i) (B) of the Project	1,200,000	70%
(b) Other	350,000	70%
(2) Goods	2,000,000	100% of foreign

			expenditures and 95% of local expenditures
(3)	Consultants' services	1,500,000	100%
(4)	Training	800,000	100%
(5)	Promotional activity expenditures	550,000	90%
(6)	Operating costs		
	(a) Salaries of contractual staff	140,000	90%
	(b) Operation and maintenance	60,000	50%
(7)	Refunding of Project Preparation Advance	550,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(8)	Unallocated	750,000	
	TOTAL	7,900,000	

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;

(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; provided, however, that if the currency of the Borrower is also that of another country from the territory of which the goods and services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures";

(c) the term "operating costs" means the incremental operating costs arising under the Project on account of salaries of local contractual staff employed by PROMEX and costs in respect of the operation and maintenance of the PSCU. For the purposes of this paragraph, "costs in respect of operation and maintenance" means the costs of maintaining vehicles (including fuel), office rent, supplies and utilities; and

(d) the term "promotional activity expenditures" means expenditures for activities, including promotional campaigns, distribution of pamphlets and literature and organization of promotional meetings, organized by PROMEX under Part A of the Project for contact facilitation with potential investors both in the manufacturing and tourism sector and includes costs relating to travel, hotel, telephone charges and subsistence expenses for staff.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures:

(a) prior to the date of this Agreement;

(b) under Category (1) (a) in respect of any contract for works for construction of the three four new factory buildings in the export-processing zone of Mindelo under Part A.1 (c) (i) (B) of the Project until evidence, satisfactory to the Association, has been provided of the rental of the Luxemburg Shells to private

companies under Part A.1 (c) (i) (A) of the Project; and

(c) under Category (4) until the Borrower has provided evidence satisfactory to the Association that BCA has appointed: (i) a management contractor, in accordance with Section II of Schedule 3 of this Agreement, to carry out training for BCA under Part B.2 (b) of the Project; and (ii) a Board of Directors comprised of persons with qualifications and experience satisfactory to the Association.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (a) goods and works under contracts not exceeding \$200,000; (b) training; (c) operating costs; (d) promotional activities; and (e) consultancy services for: (i) firms under contracts not exceeding \$100,000 equivalent, and (ii) individuals under contracts not exceeding \$50,000, all 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 assist the Borrower in: (a) creating an appropriate framework for private sector development in the territory of the Borrower and implementing an export-led development strategy; and (b) liberalizing and expanding its financial system.

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: Private Sector Development

1. Institutional Support to PROMEX

(a) Manufacturing Activities

(i) Promotion of investment opportunities in the Borrower's territory in target markets identified, particularly in Europe, Asia, West Africa and the United States of America for potential investors through: (A) the carrying out of a program including publication, broadcasting, trade-show participation and dissemination of promotional materials to promote investor awareness and enhance the Borrower's image as a viable place for investments in light manufacturing; and (B) a media campaign to enhance business community awareness of services and support that exist to assist in developing exports.

(ii) Carrying out of a program for the attraction of foreign investment, including contact with potential investors and organization of seminars and presentations for potential investors.

(iii) Promotion of export by domestic enterprises through provision of training and consulting services to such enterprises to improve their export capability, and organization of seminars and promotion of exporter participation in international trade fairs, trade shows and study tours.

(iv) Local and overseas staff training in investment- and export-related subjects, in-country travel by PROMEX staff to monitor and promote investment and the provision of professional services by local suppliers.

(v) Carrying out of three studies: (A) a study of the competitiveness of the Borrower's light manufacturing industry; (B) market research on raw materials for footwear and garment factories in the territory of the Borrower; and (C) market research to identify new markets for exporters based in the territory of the Borrower.

(b) Tourism Activities

(i) Promotion of the Borrower in target markets identified, particularly in Europe, Asia, West Africa and the United States of America to attract foreign investment in the hotel industry through, inter alia, promotional activities, including seminars and presentations, and preparation of literature and design of an investment promotion strategy.

(ii) Implementation of a marketing plan to attract tourists, which includes preparation and dissemination of promotional materials and tourism promotion campaigns.

(iii) Improvement of tourism services through the establishment of approximately three tourism offices and preparation of tourism documents.

(iv) Monitoring of tourism sector activities and quality of services through surveys and hotel classification, consultation concerning a possible tourism tax, and the creation of a statistical unit to centralize information.

(v) Improvement of the tourism zone in Santa Maria (Sal Island), including construction of a new road.

(vi) Carrying out of an in-country training program for PROMEX staff in tourism promotion and development.

(c) Export-Processing Zone

(i) (A) Completion of construction work on three factory shells financed by Luxembourg (the Luxembourg Shells) for rental to private companies; and

(B) construction of four new factory buildings in the export-processing zone of Mindelo to house export companies in the manufacturing and service sectors.

(ii) Provision of in-factory training to workers to increase productivity.

(iii) Provision of support to PROMEX to manage and develop the export-processing zone and provide day-to-day services to enterprises that invest in the zone.

(d) Marine Registry

(i) Establishment of an international ship registry office in the appropriate ministry or agency of the Borrower and provision of training for staff in ship registry management and acquisition of necessary registry equipment.

(ii) Provision of consultants' services to facilitate the registration of shipping companies.

(e) Video-Conferencing Activities

Establishment of video-conferencing facilities to facilitate communication links within Cape Verde and between Cape Verde and overseas through the provision of consultants' services and equipment.

(f) Private Sector Coordination Services

Monitoring and coordination of the Borrower's activities in the financial and private sectors and coordination of complementary activities financed by bilateral and multilateral aid agencies.

2. Technical Support Services for Domestic Enterprises

Provision of technical advisory services to domestic enterprises through the Borrower's two new chambers of commerce, including training and seminars.

Part B: Financial Sector Development

1. BCV

Acquisition of equipment and provision of technical advisory services to BCV to:

- (a) design and implement an effective and secure international and domestic payments system;
- (b) establish an integrated data base of economic information;
- (c) review the legal framework in the banking and insurance sectors to advise on any possible need for reform;
- (d) develop an effective credit-risk centralization system; and
- (e) carry out its banking supervisory function; and
- (f) strengthen its capabilities in the areas of monetary policy and development of new financial instruments.

2. BCA

- (a) Carrying out of a comprehensive training program in all aspects of banking operations, and general and financial management for senior staff.
- (b) Strengthening of the general management team, and review of the management structure policies and procedures, and preparation and implementation of a comprehensive restructuring plan within BCA through management training and provision of technical advisory services in all areas of commercial lending and banking operations to strengthen BCA and prepare it for privatization.
- (c) Acquisition and installation of an adequate management information system.
- (d) Carrying out of a full diagnostic audit (including financial and institutional aspects and a viable business plan) of BCA.

3. CECV

- (a) Provision of technical advisory services to CECV in for institutional strengthening, management and carrying out of a staff training program for its staff in accounting, project lending, general banking operations and computer systems.
- (b) Upgrading and modernization of the management information system and acquisition of equipment for two new branch locations.
- (c) Carrying out of an external institutional and financial audit of CECV and design and implementation of a privatization plan.

4. ISCV

Strengthening ISCV through:

- (a) training of staff in supervision of insurance companies, actuarial accounting and audit procedures;
- (b) review and, if necessary, introduction of changes to the basic institutional structure, including the possibility of integrating ISCV's activities in BCV;

(c) provision of technical advisory services to assess the regulatory framework for the insurance sector;

(d) acquisition of computer equipment; and

(e) revision of the insurance sector regulatory framework to strengthen the industry's supervisory authority.

5. INPS

Implementation of some of the recommendations contained in a study of INPS carried out by the International Labor Organization, including:

(a) staff training in accounting and development of a management implementation system;

(b) strengthening of INPS through acquisition of office computers, including both hardware and software packages; and

(c) consultants' services to improve INPS's efficiency.

* * *

The Project is expected to be completed by June 30, 2000.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with 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 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part E of this Section, goods and works 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 and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) 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.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Cape Verde may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part D: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part E: Other Procurement Procedures National Competitive Bidding

Works estimated to cost \$200,000 equivalent or less per contract and \$300,000 equivalent or less in the aggregate, and goods estimated to cost \$200,000 equivalent or less per contract and \$400,000 equivalent or less in the aggregate, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

Part F: National Shopping

Goods estimated to cost less than \$35,000 equivalent per contract, up to an aggregate amount not to exceed \$50,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part G: Procurement from UN Agencies

Vehicles and equipment costing \$35,000 equivalent per contract, up to an aggregate amount not to exceed \$50,000 equivalent, may be procured from the UN Inter-Agency Procurement Services Office in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part H: Review by the Association of Procurement Decisions

1. Prior Review

With respect to each contract for goods and works estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

2. Post Review

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

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Association, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Association, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, shortlists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each, or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to: (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

Implementation Program

1. (a) MCE shall have overall responsibility for supervision of Project implementation;

(b) the Borrower shall maintain the PSCU throughout the duration of the Project and shall vest it with the responsibility for implementation of the Project through BCA, BCV, CECV, ISCV, INPS, PROMEX and the Chambers of Commerce;

(c) unless the Association shall otherwise agree, the PSCU shall consist of a Project Coordinator, assisted by up to three staff, including an accountant, engaged in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(d) the Project Coordinator shall be responsible for coordination of the Project on a day-to-day basis and shall liaise with representatives of BCA, BCV, CECV, ISCV, INPS, PROMEX, the Chambers of Commerce and the donor community and shall report directly to the Minister for Economic Coordination within MCE; and

(e) to oversee the training provided under Part A.1 (c) (ii) of the Project, the Borrower shall appoint PROMEX as a member of its national training board established under the Basic Education and Training Project, Credit No. 2675 CV, entered into between the Borrower and the Association and dated February 24, 1995.

2. Throughout the execution of the Project, and commencing in the first quarter after the Effective Date, the Borrower, through MCE, shall prepare and provide to the Association, within 30 days of the end of each quarter, quarterly progress reports on the implementation of the Project, including a review of compliance with the agreed Project monitoring and performance indicators as set forth in Schedule 6 to this Agreement.

3. In each year throughout the execution of the Project, commencing 12 months after the Effective Date, the Borrower shall:

(a) prepare an annual work program for each component of the Project, including: (i) an evaluation of the previous year's work program to December 31 in each year, (ii) a procurement plan for the coming fiscal year, (iii) a review of the agreed monitoring and performance indicators as set forth in Schedule 6 to this Agreement and a statement of monitorable objectives for the coming year, together with a program of activities to be undertaken to achieve these objectives, (iv) detailed budget and financing plans, and (v) training plans;

(b) provide its proposed annual work program together with an evaluation of the previous year's program, prepared in accordance with (a) above, to the Association for its review, comment and recommendations by no later than March 1 in each year; and

(c) thereafter, revise its annual work program to take into account the Association's comments and recommendations in a manner acceptable to the Association.

4. (a) By no later than six months after the Effective Date, and in each year thereafter, the Borrower, in conjunction with the Association, shall undertake yearly reviews of the progress made in Project implementation and implementation of the Program.

(b) No later than 30 days prior to each yearly review, the Borrower shall provide the Association with a draft progress report on Project and Program implementation throughout the year.

5. (a) On or about a date not less than 24 months and not more the 34 months after the Effective Date, the Borrower shall carry out, jointly with the Association, a midterm review of the progress made in carrying out the Project (hereinafter referred to as the Midterm Review). The Midterm Review shall cover, among other things, an assessment of:

(i) progress made in implementation of the Program;

(ii) work programs and budgets prepared to date;

- (iii) training provided under the Project;
- (iv) procurement under the Project; and
- (v) the status of Project monitoring indicators as set forth in Schedule 6 of this Agreement.

(b) No later than 30 days prior to the Midterm Review, the Borrower shall furnish to the Association a separate report describing the status of Project and Program implementation.

(c) No later than 30 days after the Midterm Review, the Borrower shall prepare an action program, acceptable to the Association, for the further implementation of the Project and the Program, having regard to the findings of the Midterm Review, and thereafter implement such program.

6. The Borrower shall cause its two Chambers of Commerce to adopt and utilize, throughout the duration of the Project, a cost-sharing formula, acceptable to the Association, governing the payment of consultancy fees for assistance provided to private domestic enterprises.

7. By no later than March 1997, the Borrower shall submit a time-bound action plan, acceptable to the Association, for the privatization of the Borrower's two commercial banks (BCA and CECV).

8. The Borrower shall:

(a) carry out the studies included in Part A.1 (a) (v) of the Project, under terms of reference and in accordance with a timetable satisfactory to the Association;

(b) furnish to the Association, promptly after the completion of each such study, a copy of the findings and recommendations of the study;

(c) afford the Association a reasonable opportunity to comment on such findings and recommendations; and

(d) thereafter implement the recommendations of the studies in a manner, and in accordance with an action plan, satisfactory to the Association.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1) through (6) 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 \$500,000 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 US\$250,000 until the aggregate amount of withdrawals shall be equal to or exceed the equivalent of \$5,000,000.

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 a deposit or deposits 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 payments in respect of which 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, less the amount of any outstanding special commitment 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 paragraphs 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.

SCHEDULE 6

Key Performance Indicators

Private Sector:

1. The increased export of goods and services by domestic and foreign enterprises;
2. construction of physical facilities (factory shells) for the establishment of foreign enterprises;
3. increased volume of investments in the manufacturing, fisheries and service sectors;
4. increased volume of investments in the tourism sector and an increase in the number of tourists visiting Cape Verde;
5. improved profitability of beneficiary enterprises; and
6. increased registration of ships.

Financial Sector:

1. Increased security and reliability of the payment system;
 2. availability to BCV of reliable and current financial and economic information to support monetary and fiscal policy;
 3. monitoring of the implementation of the regulations governing financial transactions (supportive of the growth and soundness of financial institutions);
 4. increased ability of financial institutions to obtain current and dependable information to support the credit evaluation process;
 5. privatization of CECV and BCA as per the timetable agreed in the Program; and
 6. supervision of financial institutions by BCV (banking and insurance) conducted on a regular basis.
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