

CONFORMED COPY

**CREDIT NUMBER 3755 CV**

# **Development Credit Agreement**

**(Growth and Competitiveness Project)**

**between**

**REPUBLIC OF CAPE VERDE**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated June 3, 2003**



**CREDIT NUMBER 3755 CV**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated June 3, 2003, between REPUBLIC OF CAPE VERDE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a Letter of Sector Development Policy from the Borrower, dated April 4, 2003, describing a program designed to improve its private sector (the Program) and declaring the Borrower's commitment to the execution of such program;

(B) 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 (as amended through October 6, 1999), constitute an integral part of this Agreement.

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 meaning:

(a) "Beneficiary" means an SME (as hereinafter defined), which has met the eligibility criteria specified in Section III (2) of Schedule 4 to this Agreement and in the Project Implementation Manual (as hereinafter defined) and, as a result, has been extended, or is to be extended, a Matching Grant (as hereinafter defined) for the carrying out of activities under Part B.4 of the Project; and "Beneficiaries" means each such Beneficiary collectively;

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

- (c) “Cape Verde Escudo” means the currency of the Borrower;
- (d) “Chambers of Commerce” means the chamber of commerce of Sotavento and the chamber of commerce of Barlavento, both established and operating under the laws of the Borrower;
- (e) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement;
- (f) “Fiscal Year” means the fiscal year of the Borrower commencing January 1 and ending December 31 in the same year;
- (g) “Initial Deposit” means the amount to be deposited in the Project Account pursuant to Section 3.03 (b) of this Agreement;
- (h) “Matching Grant” means a grant made or proposed to be made through the Chambers of Commerce out of the proceeds of the Credit to a Beneficiary, for the purpose of financing activities under Part B.4 of the Project, as described in Schedule 4 to this Agreement and in more details in the Project Implementation Manual;
- (i) “Matching Grant Agreement” means an agreement between the Chambers of Commerce and a Beneficiary setting forth the terms and conditions under which a Matching Grant shall be made available to the Beneficiary for the purpose of financing activities under Part B.4 of the Project;
- (j) “MFPRD” means the Borrower’s Ministry in charge of finance, planning and regional development;
- (k) “MOU” means the Memorandum of Understanding in terms and substance satisfactory to the Association, to be executed between the Borrower and the Chambers of Commerce jointly, and outlining the policies, procedures and guidelines to be followed in the implementation of the Matching Grants;
- (l) “PROMEX” means *Centro de Promoção Turística do Investimento e das Exportações*, the Borrower’s center for the promotion of tourism investments and exports, established and operating pursuant to Decree 69/90, dated August 27, 1990;
- (m) “Project Account” means the account to be opened pursuant to Section 3.03 of this Agreement;
- (n) “Project Implementation Manual” or “PIM” means the manual referred to in Section I of Schedule 4 to this Agreement;
- (o) “Project Coordination Unit” or “PCU” means the unit referred to in Section II (2) of Schedule 4 to this Agreement;

(p) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on January 15, 2003 and on behalf of the Borrower on January 27, 2003;

(q) "Project Steering Committee" means the committee referred to in Section II (1) of Schedule 4 to this Agreement;

(r) "SME" means a small- or medium-sized enterprise established and operating under the laws of the Borrower; and

(s) "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 eight million five hundred thousand Special Drawing Rights (SDR 8,500,000).

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: (a) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of works, goods and services required for the Project and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made under a Matching Grant in respect of the reasonable costs of services to be financed under Part B.4 of the Project, and in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in United States Dollars a special deposit account (the Special 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 February 28, 2008, 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 15 and October 15 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 15 and October 15 commencing October 15, 2013 and ending April 15, 2043. Each installment to and including the installment payable on April 15, 2023 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 shall 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 the Project through the MFPRD with due diligence and efficiency and in conformity with appropriate administrative, business, financial, environmental and technical 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 works, goods, 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. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall for the purposes of the Project:

(a) open and maintain, until the completion of the Project, an account in Cape Verde Escudos in the BCV (the Project Account), on terms and conditions satisfactory to the Association;

(b) promptly thereafter deposit into the Project Account an initial amount in Cape Verde Escudos equivalent to \$30,000 (the Initial Deposit);

(c) thereafter, at quarterly intervals, deposit into the Project Account the amounts required to finance the Borrower's contribution for expenditures under the Project for the ensuing quarterly period, as shall be agreed between the Borrower and the Association; and

(d) ensure that the amounts deposited into the Project Account pursuant to paragraphs (b) and (c) above shall be used only to finance expenditures under the Project which are not otherwise financed or to be financed by the Credit.

Section 3.04. For the purposes of Section 9.06 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 to ensure the future achievement of the objectives of the Project; and

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



## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, 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: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Association may 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 separate 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 referred to in paragraph (b) of this Section and that the report of such audit 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.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Remedies of the Association**

Section 5.01. Pursuant to Section 6.02 (1) 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:

(a) the Borrower has adopted the Project Implementation Manual, in form and substance satisfactory to the Association;

(b) the Project Account has been opened and the Initial Deposit paid into the Project Account;

(c) the Borrower has established a financial management and accounting system for the Project in form and substance satisfactory to the Association;

(d) 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; and

(e) the MOU between the Borrower and the Chambers of Commerce has been executed in a manner acceptable to the Association.

Section 6.02. The date ninety days (90) 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:

Ministry of Finance, Planning and  
Regional Development  
C.P. 30  
Praia,  
Cabo Verde

Cable address:	Telex:	Facsimile:
COORDENACAO Cape Verde	608 MCECV	(238) 61 38 97

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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/ José Brito  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Callisto E. Madavo  
Authorized Representative

**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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	77,000	90%
(2) Goods, including vehicles	1,153,000	100% of foreign expenditures and vehicles and 90% of local expenditures
(3) Consultants' services,		100% of foreign expenditures and audits and 90% of local expenditures
(a) under Part B.3 (a) of the Project	740,000	
(b) under Parts A, B.1, B.2, B.3 (b) and (c), and C	3,740,000	
(4) Training and Workshops	975,000	100%
(5) Matching Grants under Part B.4 of the Project	590,000	50% of eligible expenditures
(6) Operating costs	480,000	90%
(7) Refunding of Project Preparation Advance	445,000	Amount due pursuant Section 2.02 (c) of this Agreement
(8) Unallocated	300,000	
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TOTAL	8,500,000	
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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 works, goods or services supplied from the territory of the Borrower; and

(c) the term “operating costs” means the incremental expenditures incurred on account of office supplies, vehicle operation and maintenance, communication and insurance costs, bank charges on the Special Account, rental expenses, office maintenance costs, utilities, travel cost for Project staff and salaries of support contractual staff for the Project, but excluding salaries of officials of the Borrower’s civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (i) expenditures under Category 3 (a) unless the PROMEX Board of Directors has been established and is operational in a manner satisfactory to the Association; (ii) Matching Grants under Category (5) unless a list of Matching Grant Agreements approved in accordance with Section III of Schedule 4 to this Agreement has been submitted to the Association in form and substance satisfactory to the Association; and (iii) 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 and works under contracts costing less than \$100,000 equivalent each; (ii) consultant services under contracts costing less than: (a) \$100,000 equivalent each for consulting firms; and (b) \$50,000 equivalent each for individual consultants; and (iii) Matching Grants, training, workshops and operating costs, 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 to broaden the base of private sector participation in economic growth, strengthen its financial sector, and enhance the competitiveness of its private sector.

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:**            Modernizing, Strengthening and Restructuring the Financial Sector

1.        Financial Sector Development

Support to BCV for the development of the Borrower's financial sector through: (i) strengthening the technical and material capacity of the BCV to regulate and supervise the banking and insurance sectors, improving credit information systems, strengthening the national payment system, and establishing deterrents to financial fraud and money laundering; and (ii) carrying out a study analyzing the current situation of the financial sector, identifying market development potential, and recommending policy and regulatory measures to strengthen, modernize and restructure the financial sector, all through the provision of technical advisory services, acquisition of equipment and training.

2.        Pension Reform

Support to the Borrower for the implementation of pension sector reforms aimed at establishing a sustainable pension system through: (i) carrying out independent audits and actuarial review of the present pension system; (ii) carrying out an information system needs assessment; and (iii) producing a new investment policy, an assessment of valuation rules and of reporting and disclosure standards, a civil service integration cost analysis, a study of the development of contractual savings and of regulatory and supervision issues, an analysis of the social assistance scheme, and a coverage strategy; all through the provision of technical advisory services, training, carrying out of workshops, and acquisition of equipment.



Part B: Enhancing Private Sector Competitiveness

1. Investment Climate Reform

(a) Taxation Reform

Support to MFPRD for: (i) streamlining the Borrower's taxation and investment promotion regulatory framework; (ii) assessing the short-to-long-term fiscal revenue impact of the proposed reform measures; and (iii) disseminating information on the new taxation and investment rules.

(b) Alleviation of Administrative Barriers to Investment

Support to the Borrower for formulating and periodically updating an action plan to alleviate administrative barriers to investment and improve the interface between the public and private sector.

(c) Development of Efficient Supply Chains

Support to the Borrower for producing an analysis, and carrying out specific activities identified in said analysis, for the development of efficient supply chains for the trade and transport, fishing and tourism sectors.

(d) Improvement of the Legal Environment for Business

Support to the Borrower for: (i) updating, modernizing and interconnecting the commercial, real property and civil registries; (ii) streamlining the judicial enforcement provisions of the Code of Civil Procedure; (iii) supporting the ratification of the 1958 New York Convention on the Enforcement of Foreign Arbitral Awards, preparing an Arbitration Law and supporting the creation of two arbitration centers; (iv) carrying out a preliminary study for the creation of a land cadastre; (v) supporting the preparation of all legal and technical steps for the Borrower's accession to the World Trade Organization; (vi) establishing a legal and institutional framework for the protection of intellectual property rights; (vii) disseminating business laws among the legal profession and the business community, and establishing a national legal information web-site; and (viii) preparing a new Code of Labor Procedure;

All of the above Part B.1 activities to be supported through the provision for technical advisory services, training, workshops and acquisition of equipment.

2. Post Privatization and Divestiture

Support to the Borrower for: (i) setting up an operational multi-sector regulatory agency; (ii) completing the privatization of the Borrower's ports and preparing a study of the scope of private participation in airports; (iii) completing the telecommunications

sector reform through further liberalization of the sector in line with World Trade Organization's commitments, revised pricing policies, and development of value-added services; and (iv) preparing a study for improving the functioning of inter-island and urban transport systems, all through the provision of technical advisory services, training and workshops.

3. Institutional Capacity Building

(a) Support to PROMEX for enhancing its capacity to deliver business facilitation and promotion services through developing an investment promotion strategy, preparing marketing materials and web-site information, and developing outreach activities in priority sectors;

(b) Support to MFPRD for developing strategies, programs and services of public institutions interfacing with the private sector aimed at facilitating such interface; and

(c) Support to the MFPRD to strengthen financial management for autonomous public institutions, public enterprises and private companies with public participation.

All of the above Part B.3 activities to be supported through the provision of technical advisory services, equipment, training and workshops.

4. Private Sector Capacity Building

Support to the Borrower's two Chambers of Commerce for providing Matching Grants to Beneficiaries for the following types of activities: (i) provision of expert consultancies to Beneficiaries by suppliers of all types of business services; and (ii) development and delivery of training courses for Beneficiaries by qualified trainers and training institutions.

Part C: Support for Project Implementation

Provision of technical and financial support to the PCU for the administration, procurement, financial management and monitoring of the Project in accordance with the Project Implementation Manual.

\* \* \*

The Project is expected to be completed by August 31, 2007.

### **SCHEDULE 3**

#### **Procurement**

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 and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B:        International Competitive Bidding

1.      Except as otherwise provided in Part C 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 \$100,000 equivalent or more each.

(b)      Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C:        Other Procurement Procedures

1.      National Competitive Bidding

Goods and works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$5,000,000 equivalent for goods and \$300,000 equivalent for works, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$3,500,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

Goods, including vehicles and computers, estimated to cost less than \$50,000 equivalent per contract, may be procured from the Inter-Agency Procurement Services Office of the United Nations (IAPSO), up to an aggregate amount not to exceed \$1,500,000 equivalent, in accordance with the provisions of paragraph 3.9 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations 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 works 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 contract for goods estimated to cost the equivalent of \$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

Consultants' services shall be procured in accordance with the provisions of Sections I and 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, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of this Section II.

Part B: Quality- and Cost-based Selection

1. 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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services of standard nature estimated to cost less than \$50,000 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. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of consultants' qualifications in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services which are estimated to cost less than \$25,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

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

5. Matching Grants

Services required under Matching Grants may be procured in accordance with commercial practices acceptable to the Association and defined in more details in the Project Implementation Manual.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 6 months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, 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 the said approval shall have been given. The

provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(c) With respect to each contract for the employment of: (i) consulting firms estimated to cost more than \$50,000 equivalent but less than \$100,000 equivalent; and (ii) individual consultants estimated to cost more than \$30,000 equivalent but less than \$50,000 equivalent, the terms of reference of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the 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**

#### Section I. Implementation Arrangements

1. The Borrower shall: (i) prepare and furnish to the Association a Project Implementation Manual, in form and substance satisfactory to the Association, the said manual being subject from time to time to modification by agreement between the Borrower and the Association; (ii) carry out the Project in accordance with the PIM; and (iii) except as the Association shall otherwise agree, not amend, abrogate or waive any provision of the PIM which, in the opinion of the Association, may materially and adversely affect the implementation of the Project or the achievement of the objectives thereof.

2. Without limitation upon the provision of paragraph 1 of this Section, the PIM shall include: (a) a Project implementation schedule; (b) a Project monitoring and evaluation plan; (c) a Project procurement and financial management manual; and (d) such other administrative, financial, technical and organizational arrangements as shall be required for the Project.

#### Section II. Institutional Arrangements

##### 1. Project Steering Committee

(a) The Borrower shall establish and thereafter maintain at all times during the implementation of the Project, a Project Steering Committee, in form and with membership, functions, staffing and resources satisfactory to the Association.

(b) Without limitation upon the provisions of Paragraph 1 (a) of this Section, the Project Steering Committee shall be chaired jointly by representatives from the Borrower's Ministries in charge of finance and economy, and be composed of members duly representing the Borrower's other ministries and agencies participating in the Project, as well as the private sector and the civil society, as may be agreed from time to time with the Association.

(c) Without limitation upon the provision of Paragraph 1(a) of this Section, the PSC shall be responsible for, *inter alia*: (i) carrying out of annual reviews of proposals, work plans and budgets prepared by the PCU and ensuring their consistency with the Program; (ii) reviewing the progress made towards achieving the Project's objectives; (iii) facilitating the coordination of Project activities among the entities represented in the Project Steering Committee; and (iv) making recommendations for removal of any barriers to the achievement of the Project's objectives; and (v) providing comments on reports and reviews prepared by the PCU for the benefit of the Association.



2. Project Coordination Unit

(a) The Borrower shall establish within MFPRD, and thereafter maintain at all times during the implementation of the Project, a Project Coordination Unit, with staff with qualifications and experience acceptable to the Association and personnel in adequate numbers, all of whom shall be appointed on terms and conditions satisfactory to the Association.

(b) Without limitation upon the provision of Paragraph 1 (a) of this Section, the PCU shall be responsible for the overall implementation, procurement, financial management, monitoring and evaluation of the Project.

(c) Without limitation upon the provision of Paragraph 1 (a) of this Section, the PCU shall consist of the following key staff with terms of reference, qualifications and experience satisfactory to the Association, and appointed in accordance with the provisions of Section II of Schedule 3 to this Agreement: (i) a Project Coordinator; (ii) a procurement specialist; (iii) a financial management and accounting specialist; (iv) a program officer; (v) an administrative assistant; and (vi) technical specialists agreed to with the Association.

Section III. Matching Grants

1. General

Without limitation upon the provisions of Section I of this Schedule, the Borrower shall appraise, or cause to be appraised, approve, or cause to be approved, and monitor, or cause to be monitored the activities under Part B.4 of the Project, and administer the Matching Grants in accordance with the provisions and procedures set forth in this Section III and in more detail in the PIM.

2. Eligibility Criteria, Terms and Conditions

(a) Eligibility Criteria for Extending Matching Grants

No Matching Grant activity shall be eligible for financing out of the proceeds of the Grant unless the Borrower has determined, or caused to be determined, on the basis of an appraisal conducted in accordance with this Section and the guidelines set forth in the PIM, that the Matching Grant activity satisfies the eligibility criteria specified below and in more detail in the PIM, which shall include, *inter alia*, the following:

- (i) the Matching Grant activity shall be initiated by a registered enterprise or a not-for-profit association which shall have been legally established and operating under the laws of the Borrower, and which shall not be a public institution, a public enterprise, or

an enterprise in which the Borrower or a public entity holds equity greater than 25%;

- (ii) the Matching Grant activity shall qualify either as consultant services or training under Part B.4 of the Project;
- (iii) a Beneficiary shall not be eligible for subsequent Matching Grants unless it has completed the previous Matching Grant activity in a manner satisfactory to the Borrower and the Association; and
- (iv) unless the Association may otherwise agree, the cumulative financing per Beneficiary for the duration of the Project shall not exceed an aggregate amount of \$10,000.

(b) Terms and Conditions of Matching Grants:

- (i) Matching Grant activities shall be carried out pursuant to a Matching Grant Agreement, to be concluded between the respective Chamber of Commerce and the Beneficiary, under terms and conditions described in more detail in the PIM and satisfactory to the Association, which shall include, *inter alia*, the following:
  - (A) the Beneficiary's obligation to contribute in cash for at least 50% of the proposed Matching Grant costs;
  - (B) the Beneficiary's obligation to carry out the Matching Grant activities with due diligence and efficiency and in accordance with sound technical, business, financial, managerial and administrative practices; and maintain adequate records to reflect, in accordance with sound accounting practices, the resources and expenditures used in carrying out the Matching Grant activities;
  - (C) the requirement that the consultants' services to be financed from the proceeds of the Matching Grant shall be procured in accordance with the provisions of Schedule 3 to this Agreement, and in accordance with the provisions of the PIM, and shall be used exclusively in the carrying out of the Matching Grant activities;
  - (D) the right of the respective Chamber of Commerce to: inspect by itself, or jointly with the Association and the Borrower, if the Association or the Borrower shall so

request, the activities financed by the Matching Grants; obtain all information as the Chamber of Commerce, the Association or the Borrower shall reasonably request regarding the administration, operation and financial conditions of the Matching Grant activities; and suspend or terminate the right of any Beneficiary to use the proceeds of the Matching Grant upon failure by the Beneficiary to perform any of its obligations under the Matching Grant Agreement.

- (ii) The Borrower shall cause the Chambers of Commerce to exercise their rights under the Matching Grant Agreement in such manner as to protect their interests and the interests of the Association and the Borrower and accomplish the purposes of the Project, and, except as the Borrower shall otherwise agree, the Chambers of Commerce shall not assign, amend, abrogate or waive the Matching Grant Agreements or any provision thereof.

#### Section IV. Monitoring and Reporting Arrangements

1. The Borrower shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof.

#### 2. Progress Reports and Reviews

(a) The Borrower shall prepare, under terms of reference satisfactory to the Association, and furnish to the Association, semi-annually beginning on or about the date six (6) months after the Effective Date, a report integrating the results of the monitoring and evaluation activities performed pursuant to Paragraph 1 of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date.

(b) The Borrower shall review with the Association the reports referred to in Paragraph 2 (a) of this Section, on or about the date one month after the submission of said reports, or such later date as the Association shall request, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said reports and the Association's views on the matter.

3. Mid-Term Review

(a) The Borrower shall carry out, jointly with the Association, on or about the date thirty (30) months after the Effective Date, a comprehensive mid-term review aimed at: (i) documenting progress toward Project objectives; (ii) identifying and resolving obstacles to Project implementation; and (iii) adjusting, in agreement with the Association, targets and corresponding programs to reflect progress achieved in the implementation of the Project as of the date of the review;

(b) the Borrower shall, not later than four weeks prior to the review referred to in Paragraph 3 (a) of this Section, furnish to the Association a mid-term report, in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in Project implementation; and

(c) Promptly after completing the mid-term review, the Borrower shall take all measures required to fulfill the recommendations arising out of said review, with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

## **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, works 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 \$800,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
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 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 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 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**

### **Performance Indicators**

**By mid term review, the following results will be achieved:**

- (i) The amount of total foreign direct investment has increased by US\$100 million since Project effectiveness with 2,000 jobs created;
- (ii) the commercial banks see a reduction in non-performing loans to 8 percent of their total loan portfolio;
- (iii) through the implementation of an electronic VISA system, 600 transactions totaling US\$5 million in foreign exchange annually have taken place since effectiveness;
- (iv) an action plan including measures for reducing administrative barriers has been adopted;
- (v) regulations and procedures for the labor code have been adopted, and a draft arbitration legislation as an alternative means for commercial disputes has been completed;
- (vi) as a result of the Matching Grant facility, on average, the entrepreneurs have: (a) an improvement in the efficiency ratios, which will be measured by the percentage of operating costs over revenue (sales) of at least 5 percent; and (b) an increase in production and/or services of at least 5 percent;
- (vii) with respect to the post privatization and divestiture, it is expected that: (a) a new telecom regulatory framework has been adopted; (b) at least one value added service has been developed; and (c) a draft strategy for private participation for infrastructure in relation to airport management has been prepared;
- (viii) at least one report on the status of governmental participation in private enterprises has been produced by the Borrower's Ministry in charge of finance;
- (ix) a system for the dissemination of legal information has been established (either through web-site or another means); and
- (x) Cape Verde has completed a legislative action plan for accession to the World Trade Organization.



**By end-project, the following results will be achieved:**

(i) The amount of total foreign direct investment has increased by US\$225 million since Project effectiveness with 5,000 jobs created.

(ii) measures have been adopted to ensure the pension system's sustainability, namely: (a) a strategy is in place to gradually unify the two existing schemes; (b) criteria of benefits for the labor intensive work programs (*Frentes da Alta Intensidade da Mão de Obra* - FAIMO) have been clearly defined; (c) parametric changes have been made to the structure of the national institute of social security (*Instituto Nacional da Previdência Social* - INPS);

(iii) through the implementation of an electronic VISA system, 950 transactions totaling US\$8 million have taken place since Project effectiveness;

(iv) tax reform brings a reduction of the corporate tax rate to 25%;

(v) tariffs are consistent with international best-practice and regional UEMOA norms;

(vi) the notaries on all islands are electronically inter-connected and the time needed to register a business has been reduced from 3 weeks to 72 hours when the request file is complete;

(vii) as a result of the Matching Grant facility, on average, the entrepreneurs have: (a) an improvement in the efficiency ratios, which will be measured by the percentage of operating costs over revenue (sales) of at least 10 percent; and (b) an increase in production and/or services of at least 10 percent;

(viii) at least three (3) value added services in the communication sector have been developed;

(ix) the research and studies department at the Borrower's Ministry in charge of finance is established and operational;

(x) at least two recommended activities from the action plan for reducing administrative barriers to investment have been fully implemented; and

(xi) the commercial banks see a reduction in non-performing loan to 7 percent of their total loan portfolio.