



Federal Register

**Monday,
July 25, 2005**

Part II

Millennium Challenge Corporation

**Notice of Entering into a Compact With
the Government of the Republic of Cape
Verde; Notice**

MILLENNIUM CHALLENGE CORPORATION

[MCC FR 05–12]

Notice of Entering Into a Compact With the Government of the Republic of Cape Verde

AGENCY: Millennium Challenge Corporation.

ACTION: Notice.

SUMMARY: In accordance with section 610(b)(2) of the Millennium Challenge Act of 2003 (Pub. L. 108–199, Division D), the Millennium Challenge Corporation is publishing a detailed summary and text of the Millennium Challenge Compact between the United States of America, acting through the Millennium Challenge Corporation, and the Government of the Republic of Cape Verde. Representatives of the United States Government and the Republic of Cape Verde executed the Compact documents on July 4, 2005.

Dated: July 14, 2005.

Jon A. Dyck,

Vice President & General Counsel, Millennium Challenge Corporation.

Summary of the Millennium Challenge Compact With the Republic of Cape Verde

I. Introduction

Since gaining its independence from Portugal in 1975, Cape Verde has achieved an annual growth rate of

approximately 6%. In addition, a major asset of Cape Verde is its strong record in terms of democratic governance, stability, transparency, and lack of corruption. Cape Verde, however, relies heavily on large inflows of foreign assistance and remittances, which together represent roughly 25% of GDP. Recognizing that reliance on such flows is not sustainable, Cape Verde has created a long-term development strategy predicated on moving from aid-dependency to self-sustaining, private-sector led economic growth, focused around services. Meanwhile, Cape Verde continues to have high levels of poverty and unemployment, which are partly attributable to a lack of obvious economic growth opportunities and a scarcity of resources, particularly water. Only 10% of the land is arable and roughly 83% of rainfall is lost through evaporation and runoff. Agricultural productivity is low and approximately 85% of the country’s food is imported—70% in the form of food aid.

Cape Verde conducted a comprehensive consultative process that identified key impediments to economic growth: severe water scarcity, lack of adequate infrastructure, weak institutional support for the private sector, and an insufficiently trained work force. To address these impediments, Cape Verde requested MCC support to:

- Increase agricultural productivity on the islands of Santo Antão, Fogo, and

São Nicolau by (i) improving water management, (ii) improving agribusiness development services, and (iii) increasing access to credit and capacity of financial institutions;

- Integrate internal markets and reduce transportation costs by: (i) improving road infrastructure on the islands of Santiago and Santo Antão, and (ii) upgrading the Port of Praia; and
- Develop the private sector by improving the investment climate and reforming the financial sector.

This MCC-funded program in Cape Verde (the “Cape Verde MCA Program”) comprises a solid investment in a country that has relatively limited opportunities. The expected impact of the three projects in the program is an increase in annual income to \$10 million in Year 5 and over \$22 million in Year 10. This corresponds to approximately 1.2% and 2.2% of annual GDP respectively, assuming a real GDP growth rate of 4% per annum.

The product of a strong consultative process, the MCA Program will complement the efforts of various multinational and bilateral donors working in Cape Verde. This program conforms with MCC’s goal to be a major donor and have a large economic impact in Cape Verde.

II. Program Activities, Costs and Performance

The proposed program is summarized in the table below:

PROGRAM COSTS
[\$ millions]

1. Watershed Management and Agricultural Support		10.8
(a) Water Management	6.8	
(b) Agribusiness Development	3.6	
(c) Credit	0.4	
2. Infrastructure		78.7
(a) Port	53.7	
(b) Roads and Bridges	25.0	
3. Private Sector Development		7.2
(a) Partnership to Mobilize Investment	5.0	
(b) Financial Sector Reform	2.2	
4. Monitoring and Evaluation		4.9
5. Program Administration and Control		8.4
(a) Program administration	5.8	
(b) Fiscal control and procurement management	1.0	
(c) Enhanced transparency initiative	1.1	
(d) Audits	0.5	
Total		110

1. Watershed Management and Agriculture Support (\$10.8 million)

Cape Verde forms part of the semi-desert Sahelian ecology, with its erratic, low rainfall and degraded soils. MCC will fund investments that increase the capture, storage and distribution of

rainfall water, thus enabling poor farmers to irrigate their fields and increase agricultural productivity. Increases in irrigated land and reliability of water supply will facilitate a shift from low-value, rain-fed agriculture to higher value-added crops

that are grown more intensively (e.g., from two to three annual crop cycles). This project includes the following:

- *Water Management and Soil Conservation* (“Water Management”): Construction of reservoirs, dikes, terraces, check dams and other

structures to capture water and recharge water tables.

- *Agribusiness Development Services* (“Agribusiness Development”): Applied technical and field research; training for farmers and extension agents; improvements in agricultural extension centers and farm demonstration sites; building capacity in export requirements; packing sheds; and centers for inspection and certification.

- *Access to Credit* (“Credit”): Provision of credit for drip irrigation, working capital, and agribusiness investment in the three watershed areas and technical assistance to increase capacity of financial institutions in the provision of financial services.

Improved watershed management will reduce or in some cases reverse erosion, thus preserving the value of land and water. Increased economic vitality in rural areas will create opportunities and reduce migration to urban centers. Continued growth in the tourism industry should provide a strong demand pull for the agricultural production by the project.

2. Infrastructure (\$78.7 million)

Cape Verde consists of ten separate islands, which inhibits the development of a common national market, increases the costs of production, and hinders the flow of resources between the more prosperous islands and the more rural, poorer islands. Economic activities such as tourism, manufacturing, and agricultural production are severely constrained by inadequate roads, ports, and inter-island transportation services. The following projects will be supported:

- *Upgrade and Expansion of the Port of Praia* (“Port”): Due to the complexity and scope of the port expansion plan, this project is intended to be done in two phases. Phase I involves improving quayside and off-terminal container handling facilities; providing for a second access road and breakwater; and initiating certain preparatory activities—geotechnical studies, cargo/passenger market studies, feasibility studies, and environmental impact assessments—that are needed for long-term expansion. Phase II will include extending the quay and creating space

for a new two-berth specialized terminal container storage area.

- *Roads and Bridges* (“Roads and Bridges”): This project is designed to achieve basic connectivity and improve mobility on two targeted island networks. This will be done by: (i) Rehabilitating two heavily traveled east-west axes on Santiago; (ii) Reconstructing three rural roads linking isolated agricultural and fishing communities to the main network; and (iii) ensuring all-weather and reliable access to two major towns by constructing a series of bridges in Santo Antão.

Improvements to the Port of Praia, which handles half of the island nation’s cargo and facilitates the movement of people to and from the population center of Cape Verde, are intended to maximize the existing operational capacity and productivity, given the existing constraints, followed by longer-term investments to create new infrastructure and facilities to alleviate the Port’s inherent berth, space, and geometry problems. The prime objective of the road investments is to ensure a continuous network linking the population with social services, employment opportunities, local markets, and ports and airports.

3. Private Sector Development (\$7.2 million)

The primary goal of Cape Verde’s long-term economic transformation strategy is to become less dependent on remittances and donor aid by developing a competitive, private-sector driven economy through a focus on priority sectors such as tourism, financial services, transportation services, and fisheries. Successfully implementing the economic transformation strategy will require cross-cutting investments to strengthen human capital; promote financial sector reform; upgrade capacity within the private sector and the policy-making apparatus; and improve infrastructure. In addition, financial institution competition is weak and depositors have few options to hold savings. Accordingly, this project includes the following:

- *Partnership to Mobilize Investment* (“Partnership to Mobilize Investment”): The International Finance Corporation (“IFC”) and the Government of Cape Verde will finance an analysis of the priority sectors to identify the constraints to private sector investments and the design of potential interventions to eliminate those constraints. Based on this analysis, MCC will fund the selected interventions such as policy reforms and/or projects (including physical infrastructure and other tangible assets) to address vocational training and education, human resource development, infrastructure, access to financial services, and entrepreneurship development. MCC will fund these interventions based on specific investment criteria, including meeting an economic rate of return (“ERR”) hurdle rate of 10%, having clearly identified target outcomes, and being consistent with MCC’s Environmental Guidelines.

- *Financial Sector Reform* (“Financial Sector Reform”): MCC funding will support microfinance institutions by providing technical assistance that will allow them to take advantage of expanded deposit-taking powers and to ease the transition to a new regulatory environment. In addition, technical assistance will be provided to help the Ministry of Finance and Planning design new auction procedures for the government securities market and the necessary supporting infrastructure, e.g., a registry of security ownership.

4. Program Monitoring and Evaluation (\$4.9 million)

A monitoring and evaluation plan (“M&E Plan”) is being developed for the Cape Verde MCA Program to measure progress toward achieving the program objectives. A series of indicators will be used to track implementation, improve program management, and evaluate the impact of the Program on increasing economic growth and reducing poverty. Indicators will be disaggregated by gender, income level and age, to the extent practicable.

The key indicators and expected results for each Project are listed below:

WATERSHED MANAGEMENT AND AGRICULTURE SUPPORT PROJECT: INCREASE AGRICULTURAL PRODUCTIVITY IN THE INTERVENTION AREAS

	Baseline	Year 5
Increase in profits and wages for farmers and agribusinesses (million dollars)	0	1.5
Productivity of horticulture crops (tons per hectare)	9	24
Area irrigated with drip irrigation (cumulative hectares)	9	121
Aquifer level	To be determined by the National Water Institute before implementation begins.	>Baseline.

INFRASTRUCTURE PROJECT: INCREASE INTEGRATION OF INTERNAL MARKETS AND REDUCE TRANSPORTATION COSTS

	Baseline	Year 5
Port:		
Volume of goods shipped between Praia and other islands (tons)	137,995	220,741
Tons of general cargo handled per hour	20	35
Containers handled per hour	8.66	11
Roads and Bridges:		
Savings on transport costs from asphalt roads and bridge improvements (million dollars)	0	1.9
Percentage of beneficiary population who take at least 5 trips per month	52%	65%
Kilometers of roads rehabilitated (cumulative)	0	63

PRIVATE SECTOR DEVELOPMENT PROJECT: DEVELOP PRIVATE SECTOR

	Baseline	Year 5
Partnership to Mobilize Investment:		
GDP contribution from priority sectors—tourism, financial services, transport, fisheries (escudos).	0	To be determined after specific activities have been identified.
Increase of public and private investment in priority sectors (escudos)	0	To be determined after specific activities have been identified.
Financial Sector Reform:		
Volume of deposits in micro-finance institutions as percentage of total deposits	0%	3%.
Percentage of government securities held outside of financial institutions and government agencies.	0%	8%.

5. Program Administration and Control (\$8.4 million)

MCA-Cape Verde will be an independent entity, responsible for management and oversight of the implementation of the program, the legal form of the entity to be agreed upon by the MCC and GOCV. It will be overseen by a Steering Committee composed of (i) voting representatives from government, the private sector, and non-governmental organizations (“NGOs”) that will make key strategic decisions, provide oversight to management, and monitor progress and (ii) non-voting observers including a MCC representative and representatives from the private sector or NGOs. A Stakeholders’ Committee comprised of representatives from central and municipal government as well as the private sector and civil society will provide feedback and recommendations to the Steering Committee in an advisory capacity.

The Government of Cape Verde has very strong financial management and procurement practices and will take the lead on these issues. Procurement and contract management will be carried out under the broad oversight and authority of the Steering Committee, through a Procurement Review Commission using World Bank guidelines. Cape Verde’s Ministry of Finance and Planning will serve as the fiscal agent and as an independent control mechanism, and will be the sole signatory to the permitted bank account. While the Ministry of Finance and Planning will not charge a fee for services rendered,

MCC will help build its institutional capacity by covering the cost of additional equipment and software necessary to provide these fiscal agent services as well as to improve program management and the reporting capacity for the monitoring and evaluation of the program. This support will help improve the government’s existing financial management system.

As another element of capacity building, MCC will work with Cape Verde to establish a transparent e-procurement system for all levels of government. Extending this system government-wide will allow suppliers, government officials, and the public to have access to the rules governing procurement; insight into the procurement transactions themselves; and a transparent record of competition and results of solicitations. In addition, the Government of Cape Verde has undertaken a process to enact and implement unified procurement legislation that will consolidate existing procurement rules into a single transparent system. Funding for technical assistance to support this effort will help draft appropriate legislation and regulations as well as to train individuals involved in the procurement system at all levels of government. The combination of unified procurement procedures and the establishment of completely electronic procurement transactions and documentation will result in one of the most transparent and efficient procurement systems in the developing world.

III. Other Highlights

1. Consultative Process

Cape Verde has a strong history of consultation, and the ideas in the MCC proposal build on previous priority-setting efforts and development strategies that have been evolving since 1996, including the “Grand Options” Plan, the National Development Strategy, the Economic Transformation Strategy, the Agricultural Development Strategy, and the Growth and Poverty Reduction Strategy Paper. An extensive series of consultations was held regarding the MCC proposal, which has led to widespread support in the relevant communities including the opposition political party’s support. Cape Verde was the first MCC-eligible country to post its Proposal on the Internet (<http://www.virtualcapeverde.net>).

2. Economic Analysis

A summary of the estimated economic rates of return is included in the table below:

Project	ERR (per annum)
Watershed Management and Agriculture Support	10%
Roads and Bridges	14
Port	23
Financial Sector Reform	11

These ERRs were arrived at through the following methodologies. The Watershed Management and Agriculture Support Project considers the increase in income that results from the

horticulture and fruit production made possible by the investments in watershed management. The ERR of the Roads and Bridges project measures the reduction in vehicle operating costs from improving existing roads and laying new ones, as well as the increased earnings resulting from new bridges connecting areas previously cut-off during rainy periods. For the Port project ERR, improvements to the port infrastructure are assumed to prevent a slowdown in growth in the tourism sector that would otherwise result from congestion and higher transportation costs at the port; additionally, benefits from the concession paid by the private operator, and tax collections, are included. The Partnership to Mobilize Investment project will require among the investment criteria that the intervention meet an ERR hurdle rate of at least 10%. Finally, the ERR of the Financial Sector Reform project is based on published econometric estimates of the impact of an improved financial sector on GDP growth. These estimates are conservative, as there are several potential positive externalities that have not been included in the calculations.

3. Government Commitment and Effectiveness

The Government of Cape Verde has exhibited a high degree of commitment to and ownership of this program, culminating in the fact that the MCA-Cape Verde Steering Committee's will have four cabinet members and the Chief Advisor to the Prime Minister. As part of the program, the Government of Cape Verde is taking such concrete steps as establishing a Road Maintenance Fund to ensure sustainable maintenance financing; committing to privatize the operations of the country's ports by the first half of 2006; and funding \$500,000 for the design/evaluation phase of the Partnership to Mobilize Investment project.

4. Sustainability

Watershed Management and Agriculture Support Project

The Ministry of Agriculture, Environment and Fisheries, the National Water Institute, and municipalities will receive technical assistance to build their capacity to improve soil and water management, through appropriate water pricing. The Government of Cape Verde has committed to establishing a water fee policy that reflects the economic cost (*i.e.*, scarcity) of the resource, in consultation with the local communities. This commitment is a major policy breakthrough that no other donor has been able to achieve. In the

first year of implementation, training and technical assistance centering on best practices will facilitate the establishment of realistic fee protocols and lead to actual collection and more rational water usage. The water user fees will be established as the farmers participating in the program realize the benefits of improved access to water and new technologies, allowing for higher value-added crops and resulting in higher incomes. As part of a national strategy, higher value crops will primarily meet growing tourism demand and related domestic markets.

Services will be demand-driven and designed to meet specific needs of the targeted beneficiaries in the watersheds. As farmers in the watershed areas increase their commercial activities, their ability to pay for services will increase. This will enable the Ministry of Agriculture, Environment and Fisheries to maintain the training and extension services provided to agricultural producers. The Ministry will implement a "fee for services" policy, charging fees for training, quality inspections and certifications. Through the life of the Compact, farmers who adopt drip irrigation will receive both the training and credit necessary for successful adoption and sustained use of the new technology.

Infrastructure Project

Port: The introduction of private sector participation in operations is a critical element to the sustainability of the Port activities. The Government has agreed to pursue privatization and commence the process to bring in private sector operators. Improved operating margins resulting from more efficient operations and the privatization of port operations, together with the institutional reorganization supported by the World Bank, will also improve the long-term sustainability for port services.

Roads and Bridges: The creation and ongoing funding of a Road Maintenance Fund is designed to address long-term maintenance and, hence, sustainability of the roads sector. It will finance maintenance with the proceeds of a fuel levy (and potentially other charges on heavy vehicles) the Government has agreed to introduce. In the first year, the amount committed to be collected will be approximately \$3.75 million. This amount will increase annually in subsequent years.

Private Sector Development Project

The Private Sector Development Project is oriented toward local capacity building. Technical assistance by its nature is provided to enhance

institutional sustainability of the recipient institutions. MCC's support for the Partnership to Mobilize Investment project is designed to complement the Government of Cape Verde's efforts to strengthen economic policy-making capabilities of Cape Verdean officials. In the case of the Financial Sector Reform project, the technical support directed to the microfinance institutions will assist them to reduce their reliance on donor funds for growth, while allowing them to offer new financial products. Technical support provided to the Ministry of Finance and Planning to help develop the primary market for Government securities will lay the groundwork for developing new financial institutions and products.

5. Environment and Social

Watershed Management and Agriculture Support Project Screening Category: B

Overall, this project is expected to be environmentally beneficial. The development of watershed management plans to include re-forestation, soil stabilization, livestock management, and water management will improve the overall quality of the environment and reduce runoff and soil erosion. Possible negative impacts could come from unsustainable water usage leading to depletion of reservoirs due to inadequate water pricing. Conditions to disbursements will be designed to ensure sustainable management of the watersheds.

Roads and Bridges Screening Category: B

This project is assessed a "Category B" with potentially adverse environmental impacts that are site-specific and largely mitigable. The improvements are all planned on existing alignments and do not directly affect protected areas or identified sensitive natural habitats. An Environmental Impact Study was completed for the World Bank, for which MCC contracted the U.S. Army Corps of Engineers to perform a technical review. In accordance with World Bank guidelines, contractors will be required to carry out an HIV/AIDS Awareness Program developed by the Cape Verde Committee to Fight HIV/AIDS. The Compact will also require adherence to road-specific environmental management plans.

Port Screening Category: A

The environmental impacts of most of the short-term upgrade activities should be mainly positive; the development and implementation of an Environmental Management and

Monitoring Plan should reduce the environmental impacts of the current port operations. However, there are potentially significant negative impacts from the new access road and breakwater at the Port of Praia, and the longer term upgrade activities including the quay extension, dredging, and reclamation. An Environmental Impact Assessment ("EIA") of the Port Master Plan was conducted in 2004. MCC Disbursements under this project will be conditioned upon the development of an environmental management and monitoring plan and a full EIA—to include gathering of environmental baseline data and public consultation—before disbursements for major civil works. The Compact budget includes funds to put in place an environmental management and monitoring plan, as well as completing the EIA.

Partnership To Mobilize Investment

While it is not possible in advance to assess the potential environmental impacts of possible follow-on investments under this project, the Compact requires that projects funded will have to adhere to MCC environmental guidelines, which require screening and appropriate analysis in advance of any funding decision.

6. Donor Coordination

Donor coordination has been particularly strong in Cape Verde, and includes parallel financing and policy reform harmonization. MCC is working on projects that leverage off many donors, particularly the World Bank, IFC, and other U.S. Government agencies. While all of the projects benefit from the expertise of other donors, some particular highlights include:

- The proposed MCC investment in transportation infrastructure benefits from the project-preparation activities funded by the World Bank. MCC was able to leverage off the World Bank's institutional-sustainability and capacity strengthening efforts for the road sector and its support for the privatization of port operations.

- The Partnership to Mobilize Investment project will use the expertise of the IFC to identify specific obstacles to investment at the sectoral level. This project will leverage existing support from the U.S. Trade and Development Agency in transportation services, and may also involve investment by other multilateral and bilateral donors. It is also designed to help investors to take advantage of opportunities under AGOA.

- The Financial Sector Reform project complements the efforts of the World Bank to strengthen the capacity of the Bank of Cape Verde to improve bank supervision, including for microfinance institutions.

7. Summary

The Cape Verde MCA Program will:

- Increase access to water and agribusiness development services for 70,000 people in farm households on the islands of Santo Antão, Fogo, and São Nicolau.
- Institute an appropriate water fee policy, a major breakthrough that no other donor has been able to achieve.
- Reduce transportation costs and improve access to markets, schools, and health facilities to over 60,000 people on the islands of Santiago and Santo Antão.
- Increase efficiency of container handling by 130% in the Port of Praia.
- Improve business climate nationwide and increase investment in priority sectors.
- Establish a completely electronic procurement transaction and documentation system, resulting in one of the most transparent and efficient procurement systems in the developing world.

The Cape Verde MCA Program will assist Cape Verde in achieving its overall development goal of transforming its economy from one of aid-dependency to one of competitive, private sector-led growth.

Millennium Challenge Compact Between the Government of the Republic of Cape Verde and the United States of America Acting Through the Millennium Challenge Corporation

Table of Contents

Article I. Purpose and Term	
Section 1.1	Objectives
Section 1.2	Projects
Section 1.3	Entry into Force; Compact Term
Article II. Funding and Resources	
Section 2.1	MCC Funding
Section 2.2	Government Resources
Section 2.3	Limitations on the Use or Treatment of MCC Funding
Section 2.4	Incorporation; Notice; Clarification
Section 2.5	Refunds; Violation
Article III. Implementation	
Section 3.1	Implementation Framework
Section 3.2	Government Responsibilities
Section 3.3	Government Deliveries
Section 3.4	Government Assurances
Section 3.5	Implementation Letters; Supplemental Agreements
Section 3.6	Procurement; Awards of Assistance
Section 3.7	Policy Performance; Policy Reforms
Section 3.8	Records and Information; Access; Audits; Reviews

Section 3.9	Insurance; Performance Guarantees
Section 3.10	Domestic Requirements
Section 3.11	No Conflict
Section 3.12	Reports
Article IV. Conditions Precedent; Deliveries	
Section 4.1	Conditions Prior to the Entry into Force and Deliveries
Section 4.2	Conditions Precedent to MCC Disbursements or Re-Disbursements
Article V. Final Clauses	
Section 5.1	Communications
Section 5.2	Representatives
Section 5.3	Amendments
Section 5.4	Termination; Suspension
Section 5.5	Privileges and Immunities
Section 5.6	Attachments
Section 5.7	Inconsistencies
Section 5.8	Indemnification
Section 5.9	Headings
Section 5.10	Interpretation; Definitions
Section 5.11	Signatures
Section 5.12	Designation
Section 5.13	Survival
Section 5.14	Consultation
Section 5.15	MCC Status
Section 5.16	Language
Section 5.17	Publicity; Information and Marking

Exhibit A: Definitions

Exhibit B: List of Certain Supplemental Agreements

Annex I: Program Description

*Schedule 1—*Watershed Management and Agricultural Support Project

*Schedule 2—*Infrastructure Project

*Schedule 3—*Private Sector Development Project

Annex II: Summary of Multi-Year Financial Plan

Annex III: Description of the M&E Plan

Millennium Challenge Compact

This *Millennium Challenge Compact* (the "Compact") is made between the United States of America, acting through the Millennium Challenge Corporation, a United States Government corporation ("MCC"), and the Government of the Republic of Cape Verde (the "Government") (referred to herein individually as a "Party" and collectively, the "Parties"). A compendium of capitalized terms defined herein is included in *Exhibit A* attached hereto.

Recitals

Whereas, MCC, acting through its Board of Directors, has selected the Republic of Cape Verde as eligible to present to MCC a proposal for the use of 2004 Millennium Challenge Account ("MCA") assistance to help facilitate poverty reduction through economic growth in Cape Verde;

Whereas, the Government has carried out a consultative process with the country's private sector and civil society to outline the country's priorities for the use of MCA assistance and developed a proposal, which was submitted to MCC on August 10, 2004 (the "Proposal");

Whereas, the Proposal focused on, among other things, social empowerment, poverty reduction and economic competitiveness;

Whereas, MCC has evaluated the Proposal and related documents to determine whether the Proposal is consistent with core MCA principles and includes proposed activities and projects that will advance the progress of Cape Verde towards achieving economic growth and poverty reduction; and

Whereas, based on MCC's evaluation of the Proposal and related documents and subsequent discussions and negotiations between the Parties, the Government and MCC determined to enter into this Compact to implement a program using MCC Funding to advance Cape Verde's progress towards economic growth and poverty reduction (the "Program");

Now, therefore, in consideration of the foregoing and the mutual covenants and agreements set forth herein, the Parties hereby agree as follows:

Article I. Purpose and Term

Section 1.1 Objectives

The Parties have identified the following objectives (each, an "Objective" and together, the "Objectives") of this Compact, each of which is (i) key to advancing the goal of economic growth and poverty reduction in Cape Verde (the "Compact Goal") and (ii) described in more detail in the Annexes attached hereto:

(a) Increase agricultural production in the intervention zones (the "Watershed Management and Agricultural Support Objective");

(b) Increase integration of the internal market and reduce transportation costs (the "Infrastructure Objective"); and

(c) Develop the private sector (the "Private Sector Development Objective").

The Government expects to achieve, and shall use its best efforts to ensure the achievement of, these Objectives during the Compact Term.

Section 1.2 Projects

The Annexes attached hereto describe the specific projects and the policy reforms and other activities related thereto (each, a "Project") that the Government will carry out, or cause to be carried out, in furtherance of this Compact to achieve the Objectives and the Compact Goal.

Section 1.3 Entry Into Force; Compact Term

This Compact shall enter into force on the date of the last letter in an exchange

of letters between the Principal Representatives of each Party confirming that all conditions set forth in Section 4.1 have been satisfied by the Government and MCC (the "Entry into Force"). This Compact shall remain in force for five (5) years from the Entry into Force, unless earlier terminated in accordance with Section 5.4 (the "Compact Term").

Article II. Funding and Resources

Section 2.1 MCC Funding

(a) *MCC's Contribution.* MCC hereby grants to the Government, subject to the terms and conditions of this Compact, an amount not to exceed One Hundred Ten Million Seventy-Eight Thousand and Four Hundred Eighty-Eight United States Dollars (USD \$110,078,488) ("MCC Funding") during the Compact Term to enable the Government to implement the Program and achieve the Objectives.

(i) Subject to Sections 2.1(a)(ii), 2.2(b) and 5.4(b), the allocation of the MCC Funding within the Program and among and within the Projects shall be as generally described in *Annex II* or as otherwise agreed upon by the Parties from time to time.

(ii) If at any time MCC determines that a condition precedent to an MCC Disbursement has not been satisfied, MCC may, upon written notice to the Government, reduce the total amount of MCC Funding by an amount equal to the amount estimated in the applicable Detailed Financial Plan for the Program or Project activity for which such condition precedent has not been met. Upon the expiration or termination of this Compact, (A) any amounts of MCC Funding not disbursed by MCC to the Government shall be automatically released from any obligation in connection with this Compact and (B) any amounts of MCC Funding disbursed by MCC to the Government as provided in Section 2.1(b)(i), but not re-disbursed as provided in Section 2.1(b)(ii) or otherwise incurred as permitted pursuant to Section 5.4(e) prior to the expiration or termination of this Compact, shall be returned to MCC in accordance with Section 2.5(a)(ii).

(b) Disbursements.

(i) *Disbursements of MCC Funding.* MCC shall from time to time make disbursements of MCC Funding (each such disbursement, an "MCC Disbursement") to a Permitted Account or through such other mechanism agreed by the Parties under and in accordance with the procedures and requirements set forth in *Annex I*, the Disbursement Agreement or as

otherwise provided in any other relevant Supplemental Agreement.

(ii) *Re-Disbursements of MCC Funding.* The release of MCC Funding from a Permitted Account (each such release, a "Re-Disbursement"), shall be made in accordance with the procedures and requirements set forth in *Annex I*, the Disbursement Agreement or as otherwise provided in any other relevant Supplemental Agreement.

(c) *Interest.* Unless the Parties agree otherwise in writing, any interest or other earnings on MCC Funding that accrue or are earned (collectively, "Accrued Interest") shall be held in a Permitted Account and accrue or be earned in accordance with the requirements for the treatment of Accrued Interest as specified in *Annex I* or any relevant Supplemental Agreement. On a quarterly basis and upon the termination or expiration of this Compact, the Government shall return, or ensure the return of, all Accrued Interest to any United States Government account designated by MCC.

(d) *Conversion; Exchange Rate.* The Government shall ensure that all MCC Funding that is held in the Permitted Account(s) shall be denominated in the currency of the United States of America ("United States Dollars") prior to Re-Disbursement; provided, that a certain portion of MCC Funding may be transferred to a Local Account and may be held in such Local Account in the currency of the Republic of Cape Verde prior to Re-Disbursement in accordance with the requirements of *Annex I* and any relevant Supplemental Agreement between the Parties. To the extent that any amount of MCC Funding held in United States Dollars must be converted into the currency of the Republic of Cape Verde for any purpose, including for any Re-Disbursement or any transfer of MCC Funding into a Local Account, the Government shall ensure that such amount is converted consistent with *Annex I*, including the rate and manner set forth in *Annex I*, and the requirements of the Disbursement Agreement or any other Supplemental Agreement between the Parties.

(e) *Guidance.* From time to time, MCC may provide guidance to the Government through Implementation Letters on the frequency, form and content of requests for MCC Disbursements and Re-Disbursements or any other matter relating to MCC Funding. The Government shall apply such guidance in implementing this Compact.

Section 2.2 Government Resources

(a) The Government shall provide or cause to be provided such Government funds and other resources, and shall take or cause to be taken such actions, including obtaining all necessary approvals and consents, as are specified in this Compact or in any Supplemental Agreement to which the Government is a party or as are otherwise necessary and appropriate to effectively carry out the Government Responsibilities or other responsibilities or obligations of the Government under or in furtherance of this Compact during the Compact Term and through the completion of any post-Compact Term activities, audits or other responsibilities.

(b) If at any time during the Compact Term, the Government materially reallocates or reduces the allocation in its national budget or any other Cape Verdean governmental authority at a departmental, municipal, regional or other jurisdictional level materially reallocates or reduces the respective budget allocation of the normal and expected resources that the Government or such other governmental authority, as applicable, would have otherwise received or budgeted, from external or domestic sources, for the activities contemplated herein, the Government shall notify MCC in writing within fifteen (15) days of such reallocation or reduction, such notification to contain information regarding the amount of the reallocation or reduction, the affected activities, and an explanation for the reallocation or reduction. In the event that MCC independently determines, upon review of the executed national annual budget that such a material reallocation or reduction of resources has occurred, MCC shall notify the Government and, following such notification, the Government shall provide a written explanation for such reallocation or reduction and MCC may (i) reduce, in its sole discretion, the total amount of MCC Funding or any MCC Disbursement by an amount equal to the amount estimated in the applicable Detailed Financial Plan for the activity for which funds were reduced or reallocated or (ii) otherwise suspend or terminate MCC Funding in accordance with Section 5.4(b).

(c) The Government shall use its best efforts to ensure that all MCC Funding is fully reflected and accounted for in the annual budget of the Republic of Cape Verde on a multi-year basis.

Section 2.3 Limitations on the Use or Treatment of MCC Funding

(a) *Abortions and Involuntary Sterilizations.* The Government shall

ensure that MCC Funding shall not be used to undertake, fund or otherwise support any activity that is subject to prohibitions on use of funds contained in (i) paragraphs (1) through (3) of section 104(f) of the Foreign Assistance Act of 1961 (22 U.S.C. 2151b(f)(1)–(3)), a United States statute, which prohibitions shall apply to the same extent and in the same manner as such prohibitions apply to funds made available to carry out Part I of such Act; or (ii) any provision of law comparable to the eleventh and fourteenth provisos under the heading “Child Survival and Health Programs Fund” of division E of Public Law 108–7 (117 Stat. 162), a United States statute.

(b) *United States Job Loss or Displacement of Production.* The Government shall ensure that MCC Funding shall not be used to undertake, fund or otherwise support any activity that is likely to cause a substantial loss of United States jobs or a substantial displacement of United States production, including:

(i) Providing financial incentives to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(ii) Supporting investment promotion missions or other travel to the United States with the intention of inducing United States firms to relocate a substantial number of United States jobs or a substantial amount of production outside the United States;

(iii) Conducting feasibility studies, research services, studies, travel to or from the United States, or providing insurance or technical and management assistance, with the intention of inducing United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(iv) Advertising in the United States to encourage United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(v) Training workers for firms that intend to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(vi) Supporting a United States office of an organization that offers incentives for United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States; or

(vii) Providing general budget support for an organization that engages in any activity prohibited above.

(c) *Military Assistance and Training.* The Government shall ensure that MCC Funding shall not be used to undertake, fund or otherwise support the purchase or use of goods or services for military purposes, including military training, or to provide any assistance to the military, police, militia, national guard or other quasi-military organization or unit.

(d) *Prohibition of Assistance Relating to Environmental, Health or Safety Hazards.* The Government shall ensure that MCC Funding shall not be used to undertake, fund or otherwise support any activity that is likely to cause a significant environmental, health, or safety hazard. Unless MCC and the Government agree otherwise in writing, the Government shall ensure that activities undertaken, funded or otherwise supported in whole or in part (directly or indirectly) by MCC Funding comply with environmental guidelines delivered by MCC to the Government or posted by MCC on its website or otherwise publicly made available, as such guidelines may be amended from time to time (the “Environmental Guidelines”), including any definition of “likely to cause a significant environmental, health, or safety hazard” as may be set forth in such Environmental Guidelines.

(e) *Taxation.*

(i) *Taxes.* As required by applicable United States law and consistent with the applicable requirement of Cape Verdean law that international cooperation assistance shall be exempt from taxes, the Government shall ensure that the Program, any Program Assets, MCC Funding and Accrued Interest shall be free from any taxes imposed under the laws currently or hereafter in effect in the Republic of Cape Verde during the Compact Term. This exemption shall apply to any use of any Program Asset, MCC Funding and Accrued Interest, including any Exempt Uses, and to any work performed under or activities undertaken in furtherance of this Compact by any person or entity (including contractors and grantees) funded by MCC Funding, and shall apply to all taxes, tariffs, duties, and other levies (each a “Tax” and collectively, “Taxes”), including:

(1) To the extent attributable to MCC Funding, income taxes and other taxes on profit or businesses imposed on organizations or entities, other than nationals of the Republic of Cape Verde, receiving MCC Funding, including taxes on the acquisition, ownership, rental, disposition or other use of real or personal property, taxes on investment or deposit requirements and currency controls in the Republic of Cape Verde, or any other tax, duty, charge or fee of

whatever nature, except fees for specific services rendered; for purposes of this Section 2.3(e), the term "national" refers to organizations established under the laws currently or hereafter in effect in the Republic of Cape Verde, other than MCA-Cape Verde or any other entity established solely for purposes of managing or overseeing the implementation of the Program or any wholly-owned subsidiaries, divisions, or Affiliates of entities not registered or established under the laws currently or hereafter in effect in the Republic of Cape Verde;

(2) Customs duties, tariffs, import and export taxes, or other levies on the importation, use and re-exportation of goods, services, or the personal belongings and effects, including personally-owned automobiles, for Program use or the personal use of individuals who are neither citizens nor permanent residents of the Republic of Cape Verde and who are present in the Republic of Cape Verde for purposes of carrying out the Program or their family members, including all charges based on the value of such imported goods;

(3) Taxes on the income or personal property of all individuals who are neither citizens nor permanent residents of the Republic of Cape Verde, including income and social security taxes of all types and all taxes on the personal property owned by such individuals, to the extent such income or property are attributable to MCC Funding; and

(4) Taxes or duties levied on the purchase of goods or services funded by MCC Funding, including sales taxes, tourism taxes, value-added taxes (VAT), or other similar charges.

(ii) This Section 2.3(e) shall apply, but is not limited to (A) Any transaction, service, activity, contract, grant or other implementing agreement funded in whole or in part by MCC Funding; (B) any supplies, equipment, materials, property or other goods (referred to herein collectively as "goods") or funds introduced into, acquired in, used or disposed of in, or imported into or exported from, the Republic of Cape Verde by MCC, or by any person or entity (including contractors and grantees) as part of, or in conjunction with, MCC Funding or the Program; (C) any contractor, grantee, or other organization carrying out activities funded in whole or in part by MCC Funding; and (D) any employee of such organizations (the uses set forth in clauses (A) through (D) are collectively referred to herein as "Exempt Uses").

(iii) If a Tax has been levied and paid contrary to the requirements of this Section 2.3(e), whether inadvertently,

due to the impracticality of implementation of this provision with respect to certain types or amounts of taxes, or otherwise, the Government shall refund promptly to MCC to an account designated by MCC the amount of such Tax in the currency of the Republic of Cape Verde, within thirty (30) days (or such other period as may be agreed in writing by the Parties) after the Government is notified of such levy and tax payment; *provided, however*, the Government shall apply national funds to satisfy its obligations under this paragraph and no MCC Funding, Accrued Interest, or any assets, goods, or property (real, tangible, or intangible) purchased or financed in whole or in part by MCC Funding ("Program Assets") may be applied by the Government in satisfaction of its obligations under this paragraph.

(iv) The Parties shall memorialize in a mutually acceptable Implementation Letter or Supplemental Agreement or other suitable document the mechanisms for implementing this Section 2.3(e), including (A) a formula for determining refunds for Taxes paid, the amount of which is not susceptible to precise determination, (B) a mechanism for ensuring the tax-free importation, use, and re-exportation of goods, services, or the personal belongings of individuals (including all Providers) described in paragraph (i)(2) of this Section 2.3(e), and (C) any other appropriate Government action to facilitate the administration of this Section 2.3(e).

(f) *Alteration.* The Government shall ensure that no MCC Funding, Accrued Interest or Program Assets shall be subject to any impoundment, rescission, sequestration or any provision of law now or hereafter in effect in the Republic of Cape Verde that would have the effect of requiring or allowing any impoundment, rescission or sequestration of any MCC Funding, Accrued Interest or Program Asset.

(g) *Liens or Encumbrances.* The Government shall ensure that no MCC Funding, Accrued Interest, or Program Assets shall be subject to any lien, attachment, enforcement of judgment, pledge, or encumbrance of any kind (each a "Lien"), except with the prior approval of MCC in accordance with Section 3(c) of *Annex I*, and in the event of the imposition of any Lien not so approved, the Government shall promptly seek the release of such Lien and shall pay any amounts owed to obtain such release; *provided, however*, the Government shall apply national funds to satisfy its obligations under this Section 2.3(g) and no MCC Funding, Accrued Interest, or Program

Assets may be applied by the Government in satisfaction of its obligations under this Section 2.3(g).

(h) *Other Limitations.* The Government shall ensure that the use or treatment of MCC Funding, Accrued Interest, and Program Assets shall be subject to and in conformity with such other limitations (i) as required by the applicable law of the United States of America now or hereafter in effect during the Compact Term, (ii) as advisable under or required by applicable United States Government policies now or hereafter in effect during the Compact Term, or (iii) to which the Parties may otherwise agree in writing.

(i) *Utilization of Goods, Services and Works.* The Government shall ensure that any Program Assets, services, facilities or works funded in whole or in part (directly or indirectly) by MCC Funding, unless otherwise agreed by the Parties in writing, shall be used solely in furtherance of this Compact.

(j) *Notification of Applicable Laws and Policies.* MCC shall notify the Government of any applicable United States law or policy affecting the use or treatment of MCC Funding, whether or not specifically identified in this Section 2.3, and shall provide to the Government a copy of the text of any such applicable law and a written explanation of any such applicable policy.

Section 2.4 Incorporation; Notice; Clarification

(a) The Government shall include, or ensure the inclusion of, all of the requirements set forth in Section 2.3 in all Supplemental Agreements to which MCC is not a party and shall use its best efforts to ensure that no such Supplemental Agreement is implemented in violation of the prohibitions set forth in Section 2.3.

(b) The Government shall ensure notification of all of the requirements set forth in Section 2.3 to any Provider and all relevant officers, directors, employees, agents, representatives, Affiliates, contractors, sub-contractors, grantees and sub-grantees of the Government or any Provider. The term "Provider" shall mean (i) MCA-Cape Verde and any Government Affiliate or Permitted Designee involved in any activities in furtherance of this Compact or (ii) any third party who receives at least USD \$50,000 in the aggregate of MCC Funding (other than employees of MCA-Cape Verde) during the Compact Term or such other amount as the Parties may agree in writing, whether directly from MCC, indirectly through Re-Disbursements, or otherwise.

(c) In the event the Government or any Provider requires clarification from MCC as to whether an activity contemplated to be undertaken in furtherance of this Compact violates or may violate any provision of Section 2.3, the Government shall notify, or ensure that such Provider notifies, MCC in writing and provide in such notification a detailed description of the activity in question. In such event, the Government shall not proceed, and shall use its best efforts to ensure that no relevant Provider proceeds, with such activity, and the Government shall ensure that no Re-Disbursements shall be made for such activity, until MCC advises the Government or such Provider in writing that the activity is permissible.

Section 2.5 Refunds; Violation

(a) Notwithstanding the availability to MCC, or exercise by MCC of, any other remedies, including under international law, this Compact, or any Supplemental Agreement:

(i) If any amount of MCC Funding or Accrued Interest, or any Program Asset, is used for any purpose prohibited under this Article II or otherwise in violation of any of the terms and conditions of this Compact, any guidance in any Implementation Letter, or any Supplemental Agreement between the Parties, MCC may, upon written notice, require the Government to repay promptly to MCC to an account designated by MCC or to others as MCC may direct the amount of such misused MCC Funding or Accrued Interest, or the cash equivalent of the value of any misused Program Asset, in United States Dollars, plus any interest that accrued or would have accrued thereon, within fifteen (15) days after the Government is notified, whether by MCC or otherwise, of such prohibited use; *provided, however*, the Government shall apply national funds to satisfy its obligations under this Section 2.5(a)(i) and no MCC Funding, Accrued Interest, or Program Assets may be applied by the Government in satisfaction of its obligations under this Section 2.5(a)(i); and

(ii) If all or any portion of this Compact is terminated or suspended and upon the expiration of this Compact, the Government shall, subject to the requirements of Sections 5.4(e) and 5.4(f), refund, or ensure the refund, to MCC the amount of any MCC Funding, plus any Accrued Interest, promptly, but in no event later than thirty (30) days after the Government receives MCC's request for such refund; *provided*, that if this Compact is terminated or suspended in part, MCC

may request a refund for only the amount of MCC Funding, plus any Accrued Interest, then allocated to the terminated or suspended portion; *provided, further*, that any refund of MCC Funding or Accrued Interest shall be to such account(s) as designated by MCC.

(b) Notwithstanding any other provision in this Compact or any other agreement to the contrary, MCC's right under this Section 2.5 for a refund shall continue during the Compact Term and for a period of (i) five (5) years thereafter or (ii) one (1) year after MCC receives actual knowledge of such violation, whichever is later.

(c) If MCC determines that any activity or failure to act violates, or may violate, any Section in this Article II, MCC may refuse any further MCC Disbursements for or conditioned upon such activity, and may take any action to prevent any Re-Disbursement related to such activity.

Article III. Implementation

Section 3.1 Implementation Framework

This Compact shall be implemented by the Parties in accordance with this Article III and as further specified in the Annexes and in relevant Supplemental Agreements.

Section 3.2 Government Responsibilities

(a) The Government shall have principal responsibility for oversight and management of the implementation of the Program (i) in accordance with the terms and conditions specified in this Compact and relevant Supplemental Agreements, (ii) in accordance with all applicable laws then in effect in Cape Verde, and (iii) in a timely and cost-effective manner and in conformity with sound technical, financial and management practices (collectively, the "Government Responsibilities"). Unless otherwise expressly provided, any reference to the Government Responsibilities or any other responsibilities or obligations of the Government herein shall be deemed to apply to any Government Affiliate and any of their respective directors, officers, employees, contractors, sub-contractors, grantees, sub-grantees, agents or representatives.

(b) The Government shall ensure that no person or entity shall participate in the selection, award, administration, or oversight of a contract, grant or other benefit or transaction funded in whole or in part (directly or indirectly) by MCC Funding, in which (i) the entity, the person, members of the person's

immediate family or household or his or her business partners, or organizations controlled by or substantially involving such person or entity, has or have a direct or indirect financial or other interest or (ii) the person or entity is negotiating or has any arrangement concerning prospective employment, unless such person or entity has first disclosed in writing to the Government the conflict of interest and, following such disclosure, the Parties agree in writing to proceed notwithstanding such conflict. The Government shall ensure that no person or entity involved in the selection, award, administration, oversight or implementation of any contract, grant or other benefit or transaction funded in whole or in part (directly or indirectly) by MCC Funding shall solicit or accept from or offer to a third party or seek or be promised directly or indirectly for itself or for another person or entity any gift, gratuity, favor or benefit, other than items of *de minimis* value and otherwise consistent with such guidance as MCC may provide from time to time.

(c) The Government shall not designate any person or entity, including any Government Affiliate, to implement, in whole or in part, this Compact or any Supplemental Agreement between the Parties (including any Government Responsibilities or any other responsibilities or obligations of the Government under this Compact or any Supplemental Agreement between the Parties) or to exercise any rights of the Government under this Compact or any Supplemental Agreement between the Parties, except as expressly provided herein or with the prior written consent of MCC; *provided, however*, the Government may designate MCA-Cape Verde or, with the prior written consent of MCC, such other mutually acceptable persons or entities, to implement some or all of the Government Responsibilities or any other responsibilities or obligations of the Government or to exercise any rights of the Government under this Compact or any Supplemental Agreement between the Parties (referred to herein collectively as "Designated Rights and Responsibilities"), in accordance with the terms and conditions set forth in this Compact or such Supplemental Agreement (each, a "Permitted Designee"). Notwithstanding any provision herein or any other agreement to the contrary, no such designation shall relieve the Government of such Designated Rights and Responsibilities, for which the Government shall retain ultimate responsibility. In the event that

the Government designates any person or entity, including any Government Affiliate, to implement any portion of the Government Responsibilities or other responsibilities or obligations of the Government, or to exercise any rights of the Government under this Compact or any Supplemental Agreement between the Parties, in accordance with this Section 3.2(c), then the Government shall (i) ensure that such person or entity performs such Designated Rights and Responsibilities in the same manner and to the full extent to which the Government is obligated to perform such Designated Rights and Responsibilities, (ii) ensure that such person or entity does not assign, delegate or contract (or otherwise transfer) any of such Designated Rights and Responsibilities to any person or entity and (iii) ensure that such person or entity certifies to MCC in writing that it will so perform such Designated Rights and Responsibilities in accordance with this Compact and any other relevant Supplemental Agreement and will not assign, delegate, or contract (or otherwise transfer) any of such Designated Rights and Responsibilities to any person or entity without the prior written consent of MCC.

(d) The Government shall, upon a request from MCC, execute, or ensure the execution of, an assignment to MCC of any cause of action which may accrue to the benefit of the Government, a Government Affiliate or any Permitted Designee, including MCA-Cape Verde, in connection with or arising out of any activities funded in whole or in part (directly or indirectly) by MCC Funding.

(e) The Government shall ensure that (i) no decision of MCA-Cape Verde is modified, supplemented, unduly influenced or rescinded by any governmental authority, except by a non-appealable judicial decision, and (ii) the authority of MCA-Cape Verde shall not be expanded, restricted, or otherwise modified, except in accordance with this Compact, the Governance Agreement, the Governing Documents or any other Supplemental Agreement between the Parties.

(f) The Government shall ensure that all persons and individuals that enter into agreements to provide goods, services or works under the Program or in furtherance of this Compact shall do so in accordance with the Procurement Guidelines and shall obtain all necessary immigration, business and other permits, licenses, consents and approvals to enable them and their personnel to fully perform under such agreements.

Section 3.3 Government Deliveries

The Government shall proceed, and cause others to proceed, in a timely manner to deliver to MCC all reports, documents or other deliveries required to be delivered by the Government under this Compact or any Supplemental Agreement between the Parties, in form and substance as set forth in this Compact or in any such Supplemental Agreement.

Section 3.4 Government Assurances

The Government hereby provides the following assurances to MCC that as of the date this Compact is signed:

(a) The information contained in the Proposal and any agreement, report, statement, communication, document or otherwise delivered or otherwise communicated to MCC by or on behalf of the Government on or after the date of the submission of the Proposal (i) are true, accurate and complete in all material respects and (ii) do not omit any fact known to the Government that if disclosed would (A) alter in any material respect the information delivered, (B) likely have a material adverse effect on the Government's ability to effectively implement, or ensure the effective implementation of, the Program or any Project or to otherwise carry out its responsibilities or obligations under or in furtherance of this Compact, or (C) have likely adversely affected MCC's determination to enter into this Compact or any Supplemental Agreement between the Parties.

(b) Unless otherwise disclosed in writing to MCC, the MCC Funding made available hereunder is in addition to the normal and expected resources that the Government usually receives or budgets for the activities contemplated herein from external or domestic sources.

(c) This Compact does not conflict and will not conflict with any international agreement or obligation to which the Government is a party or by which it is bound.

(d) No payments have been (i) received by any official of the Government or any other government body in connection with the procurement of goods or services to be undertaken or funded in whole or in part (directly or indirectly) by MCC Funding, except fees, taxes, or similar payments legally established in the Republic of Cape Verde (subject to Section 2.3(e)) and consistent with the applicable requirement of Cape Verdean law or (ii) made to any third party, in connection with or in furtherance of this Compact, in violation of the United States Foreign Corrupt Practices Act of

1977, as amended (15 U.S.C. 78a *et seq.*).

Section 3.5 Implementation Letters; Supplemental Agreements

(a) MCC may, from time to time, issue one or more letters to furnish additional information or guidance to assist the Government in the implementation of this Compact (each, an "Implementation Letter"). The Government shall apply such guidance in implementing this Compact.

(b) The details of any funding, implementing and other arrangements in furtherance of this Compact may be memorialized in one or more agreements between (A) the Government (or any Government Affiliate or Permitted Designee) and MCC, (B) MCC and/or the Government (or any Government Affiliate or Permitted Designee) and any third party, including any of the Providers or Permitted Designee or (C) any third parties where neither MCC nor the Government is a party, before, on or after the Entry into Force (each, a "Supplemental Agreement"). The Government shall deliver, or cause to be delivered, to MCC within five (5) days of its execution a copy of any Supplemental Agreement to which MCC is not a party.

Section 3.6 Procurement; Awards of Assistance

(a) The Government shall ensure that the procurement of all goods, services and works by the Government or any Provider in furtherance of this Compact shall be consistent with the procurement guidelines (the "Procurement Guidelines") reflected in a Supplemental Agreement between the Parties (the "Procurement Agreement"), which Procurement Guidelines shall include the following requirements:

(i) Open, fair and competitive procedures are used in a transparent manner to solicit, award and administer contracts, grants, and other agreements and to procure goods, services and works;

(ii) Solicitations for goods, services, and works shall be based upon a clear and accurate description of the goods, services or works to be acquired;

(iii) Contracts shall be awarded only to qualified and capable contractors that have the capability and willingness to perform the contracts in accordance with the terms and conditions of the applicable contracts and on a cost effective and timely basis; and

(iv) No more than a commercially reasonable price, as determined, for example, by a comparison of price quotations and market prices, shall be

paid to procure goods, services, and works.

(b) The Government shall maintain, and shall use its best efforts to ensure that all Providers maintain, records regarding the receipt and use of goods and services acquired in furtherance of this Compact, the nature and extent of solicitations of prospective suppliers of goods and services acquired in furtherance of this Compact, and the basis of award of contracts, grants and other agreements in furtherance of this Compact, for a period of ten years, or such other period as the Parties may otherwise agree in writing.

(c) The Government shall use its best efforts to ensure that information, including solicitations, regarding procurement, grant and other agreement actions funded (or to be funded) in whole or in part (directly or indirectly) by MCC Funding shall be made publicly available in the manner outlined in the Procurement Guidelines or in any other manner agreed upon by the Parties in writing.

(d) No goods, services or works may be funded in whole or in part (directly or indirectly) by MCC Funding which are procured pursuant to orders or contracts firmly placed or entered into prior to the Entry into Force, except as the Parties may otherwise agree in writing.

(e) The Government shall ensure that MCA-Cape Verde and any other Permitted Designee follows, and uses its best efforts to ensure that all Providers follow, the Procurement Guidelines in procuring (including soliciting) goods, services and works and in awarding and administering contracts, grants and other agreements in furtherance of this Compact, and shall furnish MCC evidence of the adoption of the Procurement Guidelines by MCA-Cape Verde no later than the time specified in the Disbursement Agreement.

(f) The Government shall include, or ensure the inclusion of, the requirements of this Section 3.6 into all Supplemental Agreements between the Government, any Government Affiliate or Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents, on the one hand, and a Provider, on the other hand.

Section 3.7 Policy Performance; Policy Reforms

In addition to the specific policy and legal reform commitments identified in *Annex I* and the Schedules thereto, the Government shall seek to maintain, and use its best efforts to improve, its level of performance under the policy criteria

identified in Section 607 of the Millennium Challenge Act of 2003, as amended (the "Act"), and the MCA selection criteria and methodology published by MCC pursuant to Section 607 of the Act from time to time ("MCA Eligibility Criteria").

Section 3.8 Records and Information; Access; Audits; Reviews

(a) *Reports and Information.* The Government shall furnish to MCC, and shall use its best efforts to ensure that all Providers and any other third party receiving MCC Funding, as appropriate, furnish to the Government (and the Government shall provide to MCC), any records and other information required to be maintained under this Section 3.8 and such other information, documents and reports as may be necessary or appropriate for the Government to effectively carry out its obligations under this Compact, including under Section 3.12.

(b) *Government Books and Records.* The Government shall maintain, and shall use its best efforts to ensure that all Providers maintain, accounting books, records, documents and other evidence relating to this Compact adequate to show, to the satisfaction of MCC, without limitation, the use of all MCC Funding, including all costs incurred by the Government and the Providers in furtherance of this Compact, the receipt and use of goods and services acquired in furtherance of this Compact by the Government and the Providers, agreed-upon cost sharing requirements, the nature and extent of solicitations of prospective suppliers of goods and services acquired by the Government and the Providers in furtherance of this Compact, the basis of award of Government and other contracts and orders in furtherance of this Compact, the overall progress of the implementation of the Program, and any documents required by this Compact or any Supplemental Agreement between the Parties or reasonably requested by MCC upon reasonable notice ("Compact Records"). The Government shall maintain, and shall use its best efforts to ensure that all Covered Providers maintain, Compact Records in accordance with generally accepted accounting principles prevailing in the United States, or at the Government's option and with the prior written approval by MCC, other accounting principles, such as those (1) prescribed by the International Accounting Standards Committee (an affiliate of the International Federation of Accountants) or (2) then prevailing in Cape Verde. Compact Records shall be maintained for at least five (5) years

after the end of the Compact Term or for such longer period, if any, required to resolve any litigation, claims or audit findings or any statutory requirements.

(c) *Access.* The Government shall, at all reasonable times, permit, or cause to be permitted, authorized representatives of MCC, the Inspector General, the United States Government Accountability Office, any auditor responsible for an audit contemplated herein or otherwise conducted in furtherance of this Compact, and any agents or representatives engaged by MCC or a Permitted Designee to conduct any assessment, review or evaluation of the Program, the opportunity to audit, review, evaluate or inspect activities funded in whole or in part (directly or indirectly) by MCC Funding or undertaken in connection with the Program, the utilization of goods and services purchased or funded in whole or in part (directly or indirectly) by MCC Funding, and Compact Records, including of the Government or any Provider, relating to activities funded or undertaken in furtherance of, or otherwise relating to, this Compact, and shall use its best efforts to ensure access by MCC, the Inspector General, the United States Government Accountability Office or relevant auditor, reviewer or evaluator or their respective representatives or agents to all relevant directors, officers, employees, Affiliates, contractors, representatives and agents of the Government or any Provider.

(d) *Audits.*

(i) *Government Audits.* The Government shall, on at least an annual basis and as the Parties may otherwise agree in writing, conduct, or cause to be conducted, financial audits of all MCC Disbursements and Re-Disbursements during the year since the Entry into Force or since the prior anniversary of the Entry into Force in accordance with the following terms, except as the Parties may otherwise agree in writing. As requested by MCC in writing, the Government shall use, or cause to be used, an auditor named on the approved list of auditors in accordance with the "Guidelines for Financial Audits Contracted by Foreign Recipients" ("Audit Guidelines") issued by the Inspector General of the United States Agency for International Development (the "Inspector General"), and as approved by MCC, to conduct such annual audits. Such audits shall be performed in accordance with such Guidelines and be subject to quality assurance oversight by the Inspector General in accordance with such Guidelines. An audit shall be completed and delivered to MCC no later than 90

days after the first period to be audited and no later than 90 days after each anniversary of the Entry into Force thereafter, or such other period as the Parties may otherwise agree in writing.

(ii) Audits of U.S. Entities. The Government shall ensure that Supplemental Agreements between the Government or any Provider, on the one hand, and a United States non-profit organization, on the other hand, state that the United States organization is subject to the applicable audit requirements contained in OMB Circular A-133, notwithstanding any other provision of this Compact to the contrary. The Government shall ensure that Supplemental Agreements between the Government or any Provider, on the one hand, and a United States for-profit Covered Provider, on the other hand, state that the United States organization is subject to audit by the cognizant United States Government agency, unless the Government and MCC agree otherwise in writing.

(iii) Audit Plan. The Government shall submit, or cause to be submitted, to MCC no later than 20 days prior to the date of its adoption a plan, in accordance with the Audit Guidelines, for the audit of the expenditures of any Covered Providers, which audit plan, in the form and substance as approved by MCC, the Government shall adopt, or cause to be adopted, no later than sixty (60) days prior to the end of the first period to be audited (such plan, the "Audit Plan").

(iv) Covered Provider. A "Covered Provider" is (A) a non-United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD \$300,000 or more of MCC Funding in any MCA-Cape Verde fiscal year or any other non-United States person or entity that receives, directly or indirectly, USD \$300,000 or more of MCC Funding from any Provider in such fiscal year or (B) any United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD \$500,000 or more of MCC Funding in any MCA-Cape Verde fiscal year or any other United States person or entity that receives, directly or indirectly, USD \$500,000 or more of MCC Funding from any Provider in such fiscal year.

(v) Corrective Actions. The Government shall use its best efforts to ensure that Covered Providers take, where necessary, appropriate and timely corrective actions in response to audits, consider whether a Covered Provider's audit necessitates adjustment of its own records, and require each such Covered Provider to permit independent auditors

to have access to its records and financial statements as necessary.

(vi) Audit Reports. The Government shall furnish, or use its best efforts to cause to be furnished, to MCC an audit report in a form satisfactory to MCC for each audit required by this Section 3.8, other than audits arranged for by MCC, no later than 90 days after the end of the period under audit, or such other time as may be agreed by the Parties from time to time.

(vii) Other Providers. For Providers who receive MCC Funding under this Compact pursuant to direct contracts or agreements with MCC, MCC shall include appropriate audit requirements in such contracts or agreements and shall, on behalf of the Government, unless otherwise agreed by the Parties, conduct the follow-up activities with regard to the audit reports furnished pursuant to such requirements.

(viii) Audit by MCC. MCC retains the right to perform, or cause to be performed, the audits required under this Section 3.8 by utilizing MCC Funding or other resources available to MCC for this purpose, and to audit, conduct a financial review, or otherwise ensure accountability of any Provider or any other third party receiving MCC Funding, regardless of the requirements of this Section 3.8.

(e) *Application to Providers.* The Government shall include, or ensure the inclusion of, at a minimum, the requirements of:

(i) Paragraphs (a), (b), (c), (d)(ii), (d)(iii), (d)(v), (d)(vi), and (d)(viii) of this Section 3.8 into all Supplemental Agreements between the Government, any Government Affiliate, any Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents (each, a "Government Party"), on the one hand, and a Covered Provider that is not a U.S. non-profit organization, on the other hand;

(ii) Paragraphs (a), (b), (c), (d)(ii), and (d)(viii) of this Section 3.8 into all Supplemental Agreements between a Government Party and a Provider that does not meet the definition of a Covered Provider; and

(iii) Paragraphs (a), (b), (c), (d)(ii), (d)(v) and (d)(viii) of this Section 3.8 into all Supplemental Agreements between a Government Party and a Covered Provider that is a U.S. non-profit organization.

(f) *Reviews or Evaluations.* The Government shall conduct, or cause to be conducted, such performance reviews, data quality reviews, environmental audits, or program evaluations during the Compact Term or

otherwise and in accordance with the M&E Plan or as otherwise agreed in writing by the Parties.

(g) *Cost of Audits, Reviews or Evaluations.* MCC Funding may be used to fund the costs of any Audits, reviews or evaluations required under this Compact, including as reflected on *Exhibit A to Annex II*, and in no event shall the Government be responsible for the costs of any such Audits, reviews or evaluations from financial sources other than MCC Funding.

Section 3.9 Insurance; Performance Guarantees

The Government shall, to MCC's satisfaction, insure or cause to be insured all Program Assets and shall obtain or cause to be obtained such other appropriate insurance and other protections to cover against risks or liabilities associated with the operations of the Program, including by requiring Providers to obtain adequate insurance and post adequate performance bonds or other guarantees. MCA-Cape Verde shall be named as the insured party on any such insurance and the beneficiary of any other such guarantee, including performance bonds. MCC shall be named as additional insured on any such insurance or other guarantee, to the extent permissible under applicable laws. The Government shall ensure that any proceeds from claims paid under such insurance or any other form of guarantee shall be used to replace or repair any loss of Program Assets or to pursue the procurement of the covered goods, services, works, or otherwise; provided, however, at MCC's election, such proceeds shall be deposited in a Permitted Account as designated by MCA-Cape Verde and acceptable to MCC or as otherwise directed by MCC. To the extent MCA-Cape Verde is held liable under any indemnification or other similar provision of any agreement between MCA-Cape Verde, on the one hand, and any other Provider or other third party, on the other hand, the Government shall pay in full on behalf of MCA-Cape Verde any such obligation; *provided, further*, the Government shall apply national funds to satisfy its obligations under this Section 3.9 and no MCC Funding, Accrued Interest, or Program Asset may be applied by the Government in satisfaction of its obligations under this Section 3.9.

Section 3.10 Domestic Requirements

The Government shall proceed in a timely manner to seek any required ratification of this Compact or similar domestic requirement, which process the Government shall initiate promptly

after the conclusion of this Compact. Notwithstanding anything to the contrary in this Compact, this Section 3.10 shall provisionally apply prior to the Entry into Force.

Section 3.11 No Conflict

The Government shall undertake not to enter into any agreement in conflict with this Compact or any Supplemental Agreement during the Compact Term.

Section 3.12 Reports

The Government shall provide, or cause to be provided, to MCC at least on each anniversary of the Entry into Force of this Compact (or such other anniversary agreed by the Parties in writing) and otherwise within thirty (30) days of any written request by MCC, or as otherwise agreed in writing by the Parties, the following information:

(a) The name of each entity to which MCC Funding has been provided;

(b) The amount of MCC Funding provided to such entity;

(c) A description of the Program and each Project funded in furtherance of this Compact, including:

(i) A statement of whether the Program or any Project was solicited or unsolicited; and

(ii) A detailed description of the objectives and measures for results of the Program or Project;

(d) The progress made by Cape Verde toward achieving the Compact Goal and Objectives;

(e) A description of the extent to which MCC Funding has been effective in helping Cape Verde to achieve the Compact Goal and Objectives;

(f) A description of the coordination of MCC Funding with other United States foreign assistance and other related trade policies;

(g) A description of the coordination of MCC Funding with assistance provided by other donor countries;

(h) Any report, document or filing that the Government, any Government Affiliate or any Permitted Designee submits to any government body in connection with this Compact;

(i) Any report or document required to be delivered to MCC under the Environmental Guidelines, any Audit Plan, or any component of the Implementation Plan; and

(j) Any other report, document or information requested by MCC or required by this Compact or any Supplemental Agreement between the Parties.

Article IV. Conditions Precedent; Deliveries

Section 4.1 Conditions Prior to the Entry Into Force and Deliveries

As conditions precedent to the Entry into Force, the Parties shall satisfy the conditions set forth in this Section 4.1.

(a) The Government (or a mutually acceptable Government Affiliate) and MCC shall execute a Disbursement Agreement, which agreement shall be in full force and effect as of the Entry into Force.

(b) The Government (or a mutually acceptable Government Affiliate) and MCC shall execute one or more term sheets that set forth the material and principal terms and conditions of each of the Supplemental Agreements identified in *Exhibit B* attached hereto (the "Supplemental Agreement Term Sheets").

(c) The Government (or mutually acceptable Government Affiliate) and MCC shall execute a Procurement Agreement, which agreement shall be in full force and effect as of the Entry into Force.

(d) The Government shall deliver a certificate signed and dated by the Principal Representative of the Government that:

(i) Certifies the Government has completed all of its domestic requirements for this Compact to be fully enforceable under Cape Verdean law;

(ii) Attaches thereto, and certifies that such attachments are, true, correct and complete copies of all decrees, legislation, regulations or other governmental documents relating to its domestic requirements for this Compact to enter into force, which MCC may post on its Web site or otherwise make publicly available; and

(iii) Attaches a written statement as to the incumbency and specimen signature of the Principal Representative and each Additional Representative of the Government executing any document under this Compact, such written statement to be signed by a duly authorized official of the Government other than the Principal Representative or any such Additional Representative.

(e) MCC shall deliver a certificate signed and dated by the Principal Representative of MCC that:

(i) Certifies that MCC has completed its domestic requirements for this Compact to enter into force; and

(ii) Attaches a written statement as to the incumbency and specimen signature of the Principal Representative and each Additional Representative of MCC executing any document under this Compact such written statement to be

signed by a duly authorized official of the Government other than the Principal Representative or any such Additional Representative.

Section 4.2 Conditions Precedent to MCC Disbursements or Re-Disbursements

Prior to, and as condition precedent to, any MCC Disbursement or Re-Disbursement, the Government shall satisfy, or ensure the satisfaction of, all applicable conditions precedent in the Disbursement Agreement.

Article V. Final Clauses

Section 5.1 Communications

Unless otherwise expressly stated in this Compact or otherwise agreed in writing by the Parties, any notice, certificate, request, report, document or other communication required, permitted, or submitted by either Party to the other under this Compact shall be: (a) in writing; (b) in English; and (c) deemed duly given: (i) upon personal delivery to the Party to be notified; (ii) when sent by confirmed facsimile or electronic mail, if sent during normal business hours of the recipient Party, if not, then on the next business day; or (iii) two (2) business days after deposit with an internationally recognized overnight courier, specifying next day delivery, with written verification of receipt to the Party to be notified at the address indicated below, or at such other address as such Party may designate:

To MCC:

Millennium Challenge Corporation,
Attention: Vice President for Country Relations, (with a copy to the Vice President and General Counsel), 875 Fifteenth Street, NW., Washington, DC 20005, United States of America. Facsimile: (202) 521-3700. Phone: (202) 521-3600. E-mail:

VPCountryRelations@mcc.gov (Vice President for Country Relations);
VPGeneralCounsel@mcc.gov (Vice President and General Counsel).

To the Government:

Ministry of Finance and Planning,
Attention: Minister of Finance and Planning, Avenida Amílcar Cabral, CP30, Praia, Republic of Cape Verde. Facsimile: (238) 261-3897. Phone: (238) 260-7644. E-mail: Ministro.Financas.Planeamento@gov1.gov.cv.

Notwithstanding the foregoing, any audit report delivered pursuant to Section 3.8, if delivered by facsimile or electronic mail, shall be followed by an original in overnight express mail. This Section 5.1 shall not apply to the exchange of letters contemplated in Section 1.3 or any amendments under Section 5.3.

Section 5.2 Representatives

Unless otherwise agreed in writing by the Parties, for all purposes relevant to this Compact, the Government shall be represented by the individual holding the position of, or acting as, Minister of Finance and Planning of the Republic of Cape Verde, and MCC shall be represented by the individual holding the position of, or acting as, Vice President for Country Relations (each, a "Principal Representative"), each of whom, by written notice to the other Party, may designate one or more additional representatives (each, an "Additional Representative") for all purposes other than signing amendments to this Compact. The names of the Principal Representative and any Additional Representative of each of the Parties shall be provided, with specimen signatures, to the other Party, and the Parties may accept as duly authorized any instrument signed by such representatives relating to the implementation of this Compact, until receipt of written notice of revocation of their authority. A Party may change its Principal Representative to a new representative of equivalent or higher rank upon written notice to the other Party, which notice shall include the specimen signature of the new Principal Representative.

Section 5.3 Amendments

The Parties may amend this Compact only by a written agreement signed by the Principal Representatives of the Parties.

Section 5.4 Termination; Suspension

(a) Subject to Section 2.5 and paragraphs (e) through (h) of this Section 5.4, either Party may terminate this Compact in its entirety by giving the other Party thirty (30) days' written notice.

(b) Notwithstanding any other provision of this Compact, including Section 2.1, or any Supplemental Agreement between the Parties, MCC may suspend or terminate this Compact or MCC Funding, in whole or in part, and any obligation or sub-obligation related thereto, upon giving the Government written notice, if MCC determines, in its sole discretion, that:

(i) Any use or proposed use of MCC Funding or Program Assets or continued implementation of the Compact would be in violation of applicable law or U.S. Government policy, whether now or hereafter in effect;

(ii) The Government, any Provider, or any other third party receiving MCC Funding or using Program Assets is engaged in activities that are contrary to

the national security interests of the United States;

(iii) The Government or any Permitted Designee has committed an act or omission or an event has occurred that would render the Republic of Cape Verde ineligible to receive United States economic assistance under Part I of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2151 *et seq.*), by reason of the application of any provision of the Foreign Assistance Act of 1961 or any other provision of law;

(iv) The Government or any Permitted Designee has engaged in a pattern of actions or omissions inconsistent with the MCA Eligibility Criteria, or there has occurred a significant decline in the performance of the Republic of Cape Verde on one or more of the eligibility indicators contained therein;

(v) The Government or any Provider has materially breached one or more of its assurances or any covenants, obligations or responsibilities under this Compact or any Supplemental Agreement;

(vi) An audit, review, report or any other document or other evidence reveals that actual expenditures for the Program or any Project or Project Activity were greater than the projected expenditure for such activities identified in the applicable Detailed Financial Plan or are projected to be greater than projected expenditures for such activities;

(vii) If the Government (A) materially reallocates or reduces the allocation in its national budget or any other Government budget of the normal and expected resources that the Government would have otherwise received or budgeted, from external or domestic sources, for the activities contemplated herein, (B) fails to contribute or provide the amount, level, type and quality of resources required to effectively carry out the Government Responsibilities or any other responsibilities or obligations of the Government under or in furtherance of this Compact, or (C) fails to pay any of its obligations as required under this Compact or any Supplemental Agreement, including such obligations which shall be paid solely out of national funds;

(viii) If the Government, any Provider, or any other third party receiving MCC Funding or using Program Assets, or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantee, sub-grantee, representatives or agents, is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking;

(ix) Any MCC Funding or Program Assets are applied, directly or

indirectly, to the provision of resources and support to, individuals and organizations associated with terrorism, sex trafficking or prostitution;

(x) An event or condition of any character has occurred that: (A) Materially and adversely affects, or is likely to materially and adversely affect, the ability of the Government or any other party to effectively implement, or ensure the effective implementation of, the Program or any Project or to otherwise carry out its responsibilities or obligations under or in furtherance of this Compact or any Supplemental Agreement or to perform its obligations under or in furtherance of this Compact or any Supplemental Agreement or to exercise its rights thereunder; (B) makes it improbable that the Objectives will be achieved during the Compact Term; (C) materially and adversely affects the Program Assets or any Permitted Account or (D) constitutes misconduct injurious to MCC, or constitutes a fraud or a felony, by the Government, any Government Affiliate, Permitted Designee or Provider, or any officer, director, employee, agent, representative, Affiliate, contractor, grantee, subcontractor or sub-grantee of any of the foregoing;

(xi) The Government or any Permitted Designee or Provider has taken any action or omission or engaged in any activity in violation of, or inconsistent with, the requirements of this Compact or any Supplemental Agreement to which the Government or any Permitted Designee or Provider is a party; or

(xii) There has occurred a failure to meet a condition precedent or series of conditions precedent to or any other requirements or conditions in connection with MCC Disbursement as set out in and in accordance with any Supplemental Agreement between the Parties.

(c) MCC may reinstate any suspended or terminated MCC Funding under this Compact or any Supplemental Agreement if MCC determines, in its sole discretion, that the Government or other relevant party has demonstrated a commitment to correcting each condition for which MCC Funding was suspended or terminated.

(d) The authority to suspend or terminate this Compact or any MCC Funding under this Section 5.4 includes the authority to suspend or terminate any obligations or sub-obligations relating to MCC Funding under any Supplemental Agreement without any liability to MCC whatsoever.

(e) All MCC Funding shall terminate upon expiration or termination of the Compact Term; *provided, however*, reasonable expenditures for goods,

services and works that are properly incurred under or in furtherance of this Compact before expiration or termination of the Compact Term may be paid from MCC Funding, provided that the request for such payment is properly submitted within sixty (60) days after such expiration or termination.

(f) Except for payments which the Parties are committed to make under noncancellable commitments entered into with third parties before such suspension or termination, the suspension or termination of this Compact or any Supplemental Agreement, in whole or in part, shall suspend, for the period of the suspension, or terminate, or ensure the suspension or termination of, as applicable, any obligation or sub-obligation of the Parties to provide financial or other resources under this Compact or any Supplemental Agreement, or to the suspended or terminated portion of this Compact or such Supplemental Agreement, as applicable. In the event of such suspension or termination, the Government shall use its best efforts to suspend or terminate, or ensure the suspension or termination of, as applicable, all such noncancellable commitments related to the suspended or terminated MCC Funding. Any portion of this Compact or any such Supplemental Agreement that is not suspended or terminated shall remain in full force and effect.

(g) Upon the full or partial suspension or termination of this Compact or any MCC Funding, MCC may, at its expense, direct that title to Program Assets be transferred to MCC if such Program Assets are in a deliverable state; *provided*, for any Program Asset(s) partially purchased or funded (directly or indirectly) by MCC Funding, the Government shall reimburse to a U.S. Government account designated by MCC the cash equivalent of the portion of the value of such Program Asset(s), such value as determined by MCC.

(h) Prior to the expiration of this Compact or upon termination of this Compact, the Parties shall consult in good faith with a view to reaching an agreement in writing on (i) the post-Compact Term treatment of MCA-Cape Verde, (ii) the process for ensuring the refunds of MCC Disbursements that have not yet been released from a Permitted Account through a valid Re-Disbursement or otherwise committed in accordance with Section 5.4(e), or (iii) any other matter related to the winding up of the Program and this Compact.

Section 5.5 Privileges and Immunities

MCC is an agency of the Government of the United States of America and its personnel assigned to the Republic of Cape Verde will be notified pursuant to the Vienna Convention on Diplomatic Relations as members of the mission of the Embassy of the United States of America. The Government shall ensure that any personnel of MCC so notified, including individuals detailed to or contracted by MCC, and the members of the families of such personnel, while such personnel are performing duties in the Republic of Cape Verde, shall enjoy the privileges and immunities that are enjoyed by a member of the United States Foreign Service, or the family of a member of the United States Foreign Service so notified, as appropriate, of comparable rank and salary of such personnel, if such personnel or the members of the families of such personnel are not a national of, or permanently resident in, the Republic of Cape Verde.

Section 5.6 Attachments

Any annex, schedule, exhibit, table, appendix or other attachment expressly attached hereto (collectively, the "Attachments") is incorporated herein by reference and shall constitute an integral part of this Compact.

Section 5.7 Inconsistencies

(a) Conflicts or inconsistencies between any parts of this Compact shall be resolved by applying the following descending order of precedence:

- (i) Articles I through V.
- (ii) Any Attachments.

(b) In the event of any conflict or inconsistency between this Compact and any Supplemental Agreement between the Parties, the terms of this Compact shall prevail. In the event of any conflict or inconsistency between any Supplemental Agreement between the Parties and any other Supplemental Agreement, the terms of the Supplemental Agreement between the Parties shall prevail. In the event of any conflict or inconsistency between Supplemental Agreements between any parties, the terms of a more recently executed Supplemental Agreement between such parties shall take precedence over a previously executed Supplemental Agreement between such parties. In the event of any inconsistency between a Supplemental Agreement between the Parties and any component of the Implementation Plan, the terms of the relevant Supplemental Agreement shall prevail.

Section 5.8 Indemnification

The Government shall indemnify and hold MCC and any MCC officer, director, employee, Affiliate, contractor, agent or representative (each of MCC and any such persons, an "MCC Indemnified Party") harmless from and against, and shall compensate, reimburse and pay such MCC Indemnified Party for, any liability or other damages which (i) are directly or indirectly suffered or incurred by such MCC Indemnified Party, or to which any MCC Indemnified Party may otherwise become subject, regardless of whether or not such damages relate to any third-party claim, and (ii) arise from or as a result of the negligence or willful misconduct of the Government, any Government Affiliate, MCA-Cape Verde or any Permitted Designee, directly or indirectly connected with, any activities (including acts or omissions) undertaken in furtherance of this Compact; provided, however, the Government shall apply national funds to satisfy its obligations under this Section 5.8 and no MCC Funding, Accrued Interest, or Program Asset may be applied by the Government in satisfaction of its obligations under this Section 5.8.

Section 5.9 Headings

The Section and Subsection headings used in this Compact are included for convenience only and are not to be considered in construing or interpreting this Compact.

Section 5.10 Interpretation; Definitions

(a) Any reference to the term "including" in this Compact shall be deemed to mean "including without limitation" except as expressly provided otherwise.

(b) Any reference to activities undertaken "in furtherance of this Compact" or similar language shall include activities undertaken by the Government, any Government Affiliate, any Permitted Designee, any Provider or any other third party receiving MCC Funding involved in carrying out the purposes of this Compact or any Supplemental Agreement, including their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents, whether pursuant to the terms of this Compact, any Supplemental Agreement or otherwise.

(c) References to "day" or "days" shall be calendar days unless provided otherwise.

(d) The term "U.S. Government" shall mean any branch, agency, bureau,

government corporation, government chartered entity or other body of the Federal government of the United States.

(e) The term "Affiliate" of a party is a person or entity that controls, is controlled by, or is under the same control as the party in question, whether by ownership or by voting, financial or other power or means of influence.

(f) The term "Government Affiliate" is an Affiliate, ministry, bureau, department, agency, government corporation or any other entity chartered or established by the Government.

(g) References to any Affiliate or Government Affiliate herein shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.

(h) Any references to "Supplemental Agreement between the Parties" shall mean any agreement between MCC on the one hand, and the Government or any Government Affiliate or Permitted Designee on the other hand.

Section 5.11 Signatures

Other than a signature to this Compact or an amendment to this Compact pursuant to Section 5.3, a signature delivered by facsimile or electronic mail in accordance with Section 5.1 shall be deemed an original signature, and the Parties hereby waive any objection to such signature or to the validity of the underlying document, certificate, notice, instrument or agreement on the basis of the signature's legal effect, validity or enforceability solely because it is in facsimile or electronic form. Such signature shall be accepted by the receiving Party as an original signature and shall be binding on the Party delivering such signature.

Section 5.12 Designation

MCC may designate any Affiliate, agent, or representative to implement, in whole or in part, its obligations, and exercise any of its rights, under this Compact or any Supplemental Agreement between the Parties.

Section 5.13 Survival. Any Government Responsibilities, covenants, or obligations or other responsibilities to be performed by the Government after the Compact Term shall survive the termination or expiration of this Compact and expire in accordance with their respective terms. Notwithstanding the termination or expiration of this Compact, the following provisions shall remain in force: Sections 2.2, 2.3, 2.5, 3.2, 3.3, 3.4, 3.5, 3.8, 3.9 (for one year), 3.12, 5.1, 5.2,

5.4(d), 5.4(e) (for sixty days), 5.4(f), 5.4(g), 5.4(h), 5.5, 5.6, 5.7, 5.8, 5.9, 5.10, 5.11, 5.12, this Section 5.13, 5.14, and 5.15.

Section 5.14 Consultation

Either Party may, at any time, request consultations relating to the interpretation or implementation of this Compact or any Supplemental Agreement between the Parties. Such consultations shall begin at the earliest possible date. The request for consultations shall designate a representative for the requesting Party with the authority to enter consultations and the other Party shall endeavor to designate a representative of equal or comparable rank. If such representatives are unable to resolve the matter within 20 days from the commencement of the consultations then each Party shall forward the consultation to the Principal Representative or such other representative of comparable or higher rank. The consultations shall last no longer than 45 days from date of commencement. If the matter is not resolved within such time period, either Party may terminate this Compact pursuant to Section 5.4(a). The Parties shall enter any such consultations guided by the principle of achieving the Compact Goal in a timely and cost-effective manner.

Section 5.15 MCC Status

MCC is a United States government corporation acting on behalf of the United States Government in the implementation of this Compact. As such, MCC has no liability under this Compact, is immune from any action or proceeding arising under or relating to this Compact and the Government hereby waives and releases all claims related to any such liability. In matters arising under or relating to this Compact, MCC is not subject to the jurisdiction of the courts or other body of Cape Verde.

Section 5.16 Language

This Compact is prepared in English and in the event of any ambiguity or conflict between this official English version and any other version translated into any language for the convenience of the Parties, this official English version shall prevail.

Section 5.17 Publicity; Information and Marking

The Parties shall give appropriate publicity to this Compact as a program to which the United States, through MCC, has contributed, including by posting this Compact, and any amendments thereto, on the MCC Web

site and the MCA-Cape Verde Web site, identifying Program activity sites, and marking Program Assets; provided, any announcement, press release or statement regarding MCC or the fact that MCC is funding the Program or any other publicity materials referencing MCC, including the publicity described in this Section 5.17, shall be subject to prior approval by MCC and shall be consistent with any instructions provided by MCC from time to time in relevant Implementation Letters. Upon the termination or expiration of this Compact, MCC may request the removal of, and the Government shall, upon such request, remove, or cause the removal of, any such markings and any references to MCC in any publicity materials or on the MCA-Cape Verde Web site.

In witness whereof, the undersigned, duly authorized by their respective governments, have signed this Compact this 4th day of July, 2005 and this Compact shall enter into force in accordance with Section 1.3.

Done at Praia, Cape Verde in the English language.

For Millennium Challenge Corporation,
on Behalf of the United States of
America.

Name: Paul V. Applegarth,
Title: Chief Executive Officer.

For the Government of the Republic of
Cape Verde.

Name: João António Pinto Coelho Serra,
Title: Minister of Finance and Planning.

Exhibit A—Definitions

The following compendium of capitalized terms that are used herein is provided for the convenience of the reader. To the extent that there is a conflict or inconsistency between the definitions in this *Exhibit A* and the definitions elsewhere in the text of this Compact, the definition elsewhere in this Compact shall prevail over the definition in this *Exhibit A*.

Accrued Interest is any interest or other earnings on MCC Funding that accrues or are earned.

Act means the Millennium Challenge Act of 2003, as amended.

Additional Representative is a representative as may be designated by a Principal Representative, by written notice, for all purposes other than signing amendments to this Compact.

Affiliate means the affiliate of a party, which is a person or entity that controls, is controlled by, or is under the same control as the party in question, whether by ownership or by voting, financial or other power or means of influence. References to Affiliate herein shall include any of their respective directors,

officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.

AGOA means the Africa Growth and Opportunity Act.

Agribusiness Development Activity is the Project Activity related to agribusiness development services under the Watershed Project described in Section 2(b) of Section 1 of *Annex I*.

Area(s) means wherever the targeted geographic areas of Cape Verde where certain activities of the Program will be undertaken.

ASA means the Airport and Aviation Security Company.

Attachments are any annex, schedule, exhibit, table, appendix or other attachment expressly attached to this Compact.

Audit Guidelines means the "Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the Inspector General of the United States Agency for International Development.

Audit Plan means a plan, in accordance with the Audit Guidelines, for the audit of the expenditures of any Covered Providers, which audit plan, in the form and substance as approved by MCC, the Government shall adopt, or cause to be adopted, no later than sixty (60) days prior to the end of the first period to be audited.

Auditor means the auditor(s) as defined in, and engaged pursuant to, Section 3(h) of *Annex I* and as required by Section 3.8(d) of the Compact.

Auditor/Reviewer Agreement is an agreement between MCA-Cape Verde and each Auditor or Reviewer, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect to the audit, review or evaluation, including access rights, required form and content of the applicable content of the applicable audit, review or evaluation and other terms and conditions such as payment of the Auditor or Reviewer.

Bank(s) means the National Bank and any bank holding an account referenced in Section 4(d)(iii) of *Annex I*.

Bank Agreement means an agreement between MCA-Cape Verde and a Bank, satisfactory to MCC, that sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to the Permitted Account.

Beneficiaries means the intended beneficiaries identified in accordance with *Annex I*.

CGAP means the Consultative Group for Assistance to the Poorest.

Chair means the Chair of the Steering Committee.

Civil Members means the representatives for the positions identified in Sections 3(d)(ii)(2)(A)(vi)–(ix) of *Annex I* designated to serve as voting members on the Steering Committee.

Compact means the Millennium Challenge Compact made between the United States of America, acting through the Millennium Challenge Corporation, and the Government of the Republic of Cape Verde.

Compact Goal means advancing economic growth and poverty reduction in Cape Verde.

Compact Goal Indicators are the Indicators that will measure the aggregation of estimated benefits of the three Projects, which is indicative of the overall impact from all of the Project Activities, as set out in the table at Section 2(a) of *Annex III*.

Compact Records shall have the meaning set forth in Section 3.8(b).

Compact Reports are any documents or reports delivered to MCC in satisfaction of the Government's reporting requirements under this Compact or any Supplemental Agreement between the Parties.

Compact Term means the term for which this Compact shall remain in force, which shall be the five (5) year period from the Entry into Force, unless earlier terminated in accordance with Section 5.4.

Covered Provider means (i) a non-United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD \$300,000 or more of MCC Funding in any MCA-Cape Verde fiscal year or any other non-United States person or entity that receives, directly or indirectly, USD \$300,000 or more of MCC Funding from any Provider in such fiscal year or (ii) any United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD \$500,000 or more of MCC Funding in any MCA-Cape Verde fiscal year or any other United States person or entity that receives, directly or indirectly, USD \$500,000 or more of MCC Funding from any Provider in such fiscal year.

Credit Activity is the Project Activity related to access to credit under the Watershed Project described in Section 2(c) of Schedule 1 of *Annex I*.

Designated Rights and Responsibilities shall have the meaning set forth in Section 3.2(c).

Detailed Financial Plan means the financial plans that specify respectively the annual and quarterly detailed budget and projected cash requirements for the Program (including monitoring

and evaluation and administrative costs) and each Project, projected both on a commitment and cash requirement basis.

Disbursement Agreement is a Supplemental Agreement that MCC, the Government (or a mutually acceptable Government Affiliate and MCA-CV shall enter into that (i) further specifies the terms and conditions of any MCC Disbursements and Re-Disbursements, (ii) is in a form and substance mutually satisfactory to the Parties, and (iii) is signed by the Principal Representative of each Party (or in the case of the Government, the principal representative of the applicable Government Affiliate) and of MCA-Cape Verde.

EIA means environmental impact assessment.

EIB means the European Investment Bank.

Emergency Management Plan means the Emergency Management Plan and Responses for Health and Safety (2004).

EMMP means an environmental management and monitoring plan.

EMP means the Environmental Management Plans.

ENAPOR means the current state entity that administers and operates the Port.

Entry into Force means the entry into force of this Compact which shall be on the date of the last letter in an exchange of letters between the Principal Representatives of each Party confirming that all conditions set forth in Section 4.1 have been satisfied by the Government and MCC.

Environmental Guidelines means the environmental guidelines delivered by MCC to the Government or posted by MCC on its website or otherwise publicly made available, as such guidelines may be amended from time to time.

ERR means economic rate of return.

ETS means Cape Verde's Economic Transformation Strategy which provides a long-term vision of building a globally competitive, services-oriented economy.

EU means the European Union.

Evaluation Component means the component of the M&E Plan that specifies a methodology, process and timeline for the evaluation of planned, ongoing, or completed Project Activities to determine their efficiency, effectiveness, impact and sustainability.

Exempt Uses means (i) any transaction, service, activity, contract, grant or other implementing agreement funded in whole or in part by MCC Funding; (ii) any supplies, equipment, materials, property or other goods (referred to herein collectively as "goods") or funds introduced into,

acquired in, used or disposed of in, or imported into or exported from, the Republic of Cape Verde by MCC, or by any person or entity (including contractors and grantees) as part of, or in conjunction with, MCC Funding or the Program; (iii) any contractor, grantee, or other organization carrying out activities funded in whole or in part by MCC Funding; and (iv) any employee of such organizations.

Final Evaluation shall have the meaning set forth in Section 3(a) of *Annex III*.

Financial Plan means collectively, the Multi-Year Financial Plan and each Detailed Financial Plan, each amendment, supplement or other change thereto.

Financial Plan Annex means *Annex II* of this Compact, which summarizes the Multi-Year Financial Plan for the Program.

Financial Sector Reform Activity is the Project Activity related to financial sector reform under the Private Sector Development Project described in Section 2(b) of Schedule 3 of *Annex I*.

Fiscal Accountability Plan shall have the meaning set forth in Section 4(c) of *Annex I*.

Fiscal Agent shall have the meaning set forth in Section 3(g) of *Annex I*.

Fiscal Agent Agreement is an agreement between MCA-Cape Verde and each Fiscal Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions, such as payment of the Fiscal Agent, goods' refers to any supplies, equipment, materials, property or other goods.

Governance Agreement means the governance agreement entered into by the Government and MCA-Cape Verde, and at MCC's option, MCC, in a form and substance satisfactory to MCC.

Governing Document means any decree, legislation, regulation, contractual arrangement or other charter document establishing or governing MCA-Cape Verde.

Government means the Government of the Republic of Cape Verde.

Government Affiliate is an Affiliate, ministry, bureau, department, agency, government, corporation or any other entity chartered or established by the Government. References to Government Affiliate shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.

Government Members are the government members identified in Section 3(d)(ii)(A)(i)-(v) of *Annex I* serving as voting members on the

Steering Committee, and any replacements thereof in accordance with Section 3(d)(ii)(A) of *Annex I*.

Government Party means the Government, any Government Affiliate, any Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents.

Government Responsibilities shall have the meaning set forth in Section 3.2(a).

GPRSP means the Growth and Poverty Reduction Strategy Paper published in 2004 by the Government.

Grand Options Plan means the program of economic development embarked upon by the Government in 2001.

IFC means the International Finance Corporation.

Implementation Letter is a letter that may be issued by MCC from time to time to furnish additional information or guidance to assist the Government in the implementation of this Compact.

Implementation Plan is a detailed plan for the implementation of the Program and each Project, which will be memorialized in one or more documents and shall consist of: (i) A Multi-Year Financial Plan; (ii) Detailed Financial Plans; (iii) Fiscal Accountability Plan; (iv) Procurement Plan; (v) Program and Project Work Plans; and (vi) M&E Plan.

Implementing Entity means a Government Affiliate, nongovernmental organization or other public- or private-sector entity or persons to which MCA-Cape Verde may provide MCC funding, directly or indirectly, through an Outside Project Manager, to implement and carry out the Projects or any other activities to be carried out in furtherance of this Compact.

Implementing Entity Agreement is an agreement between MCA-Cape Verde (or the appropriate Outside Project Manager) and an Implementing Entity, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of such Implementing Entity and other appropriate terms and conditions, such as payment of the Implementing Entity.

Indicator Baseline means the value of an Indicator for a Project Activity and Objective prior to it being affected by the Program.

Indicators means the quantitative, objective and reliable data that the M&E Plan will use to measure the results of the Program.

Infrastructure Objective means increase integration of the internal market and reduce transportation costs.

Infrastructure Project is the infrastructure project, and the Project

described in Schedule 2 of *Annex I*, that the Parties intend to implement in furtherance of the Infrastructure Objective.

Inspector General means the Inspector General of the United States Agency for International Development.

Investment Guidelines shall have the meaning set forth in Section 2(a)(iii) of Schedule 3 of *Annex I*.

ITP means the Infrastructure and Transport Program.

Lien means any lien, attachment, enforcement of judgment, pledge, or encumbrance of any kind.

Local Account is an interest-bearing local currency of Cape Verde bank account at the National Bank to which the Fiscal Agent may authorize transfer from any U.S. Dollar Permitted Account for the purpose of making Re-Disbursements payable in local currency.

M&E means Monitoring and Evaluation.

M&E Annex means *Annex III* of this Compact, which generally describes the components of the M&E Plan for the Program.

M&E Plan means the plan to measure and evaluate progress toward achievement of the Compact Goal and Objectives of this Compact.

Management Unit means the management team of MCA-Cape Verde to have overall management responsibility for the implementation of this Compact and further described in Section 3(d)(iii) of *Annex I*.

Managing Director means the Managing Director of MCA-Cape Verde.

Material Agreement shall have the meaning set forth in Section 3(c)(i)(5) of *Annex I*.

Material Re-Disbursement means any Re-Disbursement that requires MCC approval under applicable law, Procurement Agreement, the Governance Agreement, any Governing Document, or any Supplemental Agreement.

Material Terms of Reference means any terms of reference for the procurement of goods, services or works that requires MCC approval under applicable law, the Procurement Agreement, the Governance Agreement, any Governing Document, or any Supplemental Agreement.

MCA means the 2004 Millennium Challenge Account.

MCA-Cape Verde means the legal entity, in a form mutually agreeable to the Parties, which shall be a Permitted Designee and shall be responsible for the oversight and management of the implementation of this Compact on behalf of the Government.

MCA-Cape Verde Website means the website operated by MCA-Cape Verde.

MCA Eligibility Criteria means the MCA selection criteria and methodology published by MCC pursuant to Section 607 of the Act from time to time.

MCC means the Millennium Challenge Corporation.

MCC Disbursement means the disbursement of MCC Funding by MCC to a Permitted Account or through such other mechanism agreed by the Parties as defined in and in accordance with Section 2.1(b)(i).

MCC Disbursement Request means the applicable request that the Government and MCA-Cape Verde will jointly submit for an MCC Disbursement as may be specified in the Disbursement Agreement.

MCC Funding means an amount not to exceed One Hundred Ten Million Seventy-Eight Thousand and Four Hundred Eighty-Eight United States Dollars (USD \$110,078,488).

MCC Indemnified Party means MCC and any MCC officer, director, employee, Affiliate, contractor, agent or representative.

MCC Representative is a representative designated by MCC to serve as an Observer on the Steering Committee.

MCC Working Group means the working group selected from the participants at a national consultation convened in Praia in May 2004, as described in Section 1(b) of *Annex I*.

MEAF means the Ministry of Environment, Agriculture and Fisheries.

MEGC means the Ministry for Economy, Growth and Competitiveness.

MFIs means micro-finance institutions.

MIT means the Ministry of Infrastructure and Transport.

Monitoring Component means the component of the M&E Plan that specifies how progress toward the Objectives and Project Activity Outcomes will be monitored.

Multi-Year Financial Plan means the multi-year financial plan for the Program and for each Project, which is summarized in *Annex II* to this Compact.

Multi-Year Financial Plan Summary means a multi-year Financial plan summary attached to this Compact as Exhibit A of *Annex II*. national” means, for purposes of Section 2.3(e), organizations established under the laws currently or hereafter in effect in the Republic of Cape Verde, other than MCA-Cape Verde or any other entity established solely for purposes of managing or overseeing the implementation of the Program or any wholly-owned subsidiaries, divisions, or Affiliates of entities not registered or established under the laws currently or

hereafter in effect in the Republic of Cape Verde.

National Bank means the Bank of Cape Verde.

Objective(s) are the following objectives of this Compact that have been identified by the Parties, each of which is (i) key to advancing the Compact Goal and (ii) described in more detail in the Annexes attached hereto: (a) the Watershed Management and Agricultural Support Objective, (b) the Infrastructure Objective and (c) the Private Sector Development Objective.

Objective Indicator means the Indicator for each Objective that will measure the final results of the Projects in order to monitor their success in meeting each of the Objectives. A table of Objective Indicator definitions is set forth at Section 2(b)(i) of *Annex III*.

Observers means the non-voting observers of the Steering Committee.

Officers shall have the meaning set forth in 3(d)(iii)(3) of *Annex I*.

Outside Project Manager means the qualified persons or entities engaged by the Management Unit, on behalf of MCA-Cape Verde, to serve as outside project managers in accordance with Section 3(d)(iii)(5) of *Annex I*.

Partnership to Mobilize Investment Activity is a Project Activity related to the partnership to mobilize investment under the Private Sector Development Project described in Section 2(a) of Schedule 3 of *Annex I*.

Parties means the United States, acting through MCC, and the Government.

Party means (i) the United States, acting through MCC or (ii) the Government.

PCO means the Program Coordination Office attached directly to the Office of the Minister, Ministry of Infrastructure and Transport.

PEP means IFC's Private Enterprise Partnership for Africa program.

Permitted Account(s) shall have the meaning set forth in Section 4(d) of *Annex I*.

Permitted Designee shall have the meaning set forth in Section 3.2(c).

PIU means the Government's project implementation unit for the World Bank's Growth and Competitiveness Project.

Pledge means any pledge of any MCC Funding or any Program Assets, or any guarantee directly or indirectly of any indebtedness.

Port means the Porto de Praia.

Port Activity is the Project Activity related to the upgrade and expansion of the Port of Praia under the Infrastructure Project described in Section 2(a) of Schedule 2 of *Annex I*.

Principal Representative means (i) for the Government, the individual holding

the position of, or acting as, Minister of Finance and Planning of the Republic of Cape Verde, and (ii) for MCC, the individual holding the position of, or acting as, the Vice President for Country Relations.

Prioritized Activities are the prioritized IFC and unsolicited interventions or activities designed and/or evaluated in Phase II of the Partnership to Mobilize Investment Activity under Section 2(a)(iii) of Schedule 3 of *Annex I*.

Private Sector Development Objective is an Objective of this Compact and means to develop the private sector.

Private Sector Development Project is a private sector development project, and the Project described in Schedule 3 of *Annex I*, that the Parties intend to implement in furtherance of the Private Sector Development Objective.

Procurement Agreement is a Supplemental Agreement between the Parties, which includes the Procurement Guidelines, and governs the procurement of all goods, services and works by the Government or any Provider in furtherance of this Compact.

Procurement Guidelines shall have the meaning set forth in Section 3.6(a).

Procurement Plan means a procurement plan adopted by MCA-Cape Verde, which plan shall forecast the upcoming six month procurement activities and be updated every six months.

Procurement Review Commission means the procurement review commission that reports to MCA-Cape Verde on procurements related to the Program and provides oversight of the operational procurement activities of MCA-Cape Verde (further described in Section 3(i) of *Annex I*).

Procurement Review Commission Agreement means the agreement between MCA-Cape Verde and Ministry of Finance and Planning, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Review Commission with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Review Commission.

Program means a program, to be implemented under this Compact, using MCC Funding to advance Cape Verde's progress towards economic growth and poverty reduction.

Program Annex means *Annex I* to this Compact, which generally describes the Program that MCC Funding will support in Cape Verde during the Compact Term and the results to be achieved from the investment of MCC Funding.

Program Assets means (i) MCC Funding, (ii) Accrued Interest, or (iii) any assets, goods, or property (real, tangible, or intangible) purchased or financed in whole or in part by MCC Funding.

Project(s) are the specific projects and the policy reforms, and other activities related thereto that the Government will carry out, or cause to be carried out in furtherance of this Compact to achieve the Objectives and the Compact Goal.

Project Activity means the activities that will be undertaken in furtherance of each Project.

Project Activity Outcome means outcomes of each Project Activity.

Project Activity Outcome Indicator means the Indicator for each of the Project Activities that will measure the intermediate results achieved under each of the Project Activities in order to provide an early measure of the likely impact of the Project Activities. A table of Project Activity Outcome Indicator definitions is set forth at Section 2(b)(ii) of *Annex III*.

Project Manager means the following Officers in the Management Unit: (i) Watershed Management and Agricultural Support Manager, (ii) Infrastructure Manager, and (iii) the Private Sector Development Manager.

Proposal is the proposal for use of MCA assistance submitted to MCC by the Government on August 10, 2004.

Provider means (i) MCA-Cape Verde and any other Government Affiliate or Permitted Designee involved in any activities in furtherance of this Compact or (ii) any third party who receives at least USD \$50,000 in the aggregate of MCC Funding (other than employees of MCA-Cape Verde) during this Compact Term or such other amount as the Parties may agree in writing, whether directly from MCC, indirectly through Re-Disbursements, or otherwise.

Re-Disbursement is the release of MCC Funding from a Permitted Account.

Regional Stakeholders' Committees means all then existing regional stakeholders' committees, comprised of non-governmental organizations, municipalities, farmers associations, and enterprises in the private sector.

Review Committee is a review committee that will be formed during Phase III of the Partnership to Mobilize Investment Activity as described in Section 2(a)(iii) of Schedule 3 of *Annex I*.

Reviewer shall have the meaning set forth in Section 3(h) of *Annex I*.

Road Maintenance Fund means the road maintenance fund to be created and function in accordance with the Transport Sector Letter, as described in

Section 6(b)(i) of Schedule 2 of *Annex I*.

Roads and Bridges Activity means the Project Activity related to roads and bridges under the Infrastructure Project described in Section 2(b) of Schedule 2 of *Annex I*.

Selected Activity shall have the meaning set forth in Section 2(a)(iii) of Schedule 3 of *Annex I*.

SIGOF means the Government's existing government financial management system.

Special Account means a single, completely separate U.S. Dollar interest-bearing account at the Bank of Cape Verde to receive MCC Disbursements.

Stakeholders' Committee means a continued stakeholders' committee, such as the Stakeholders' Group, or a similar committee established in accordance with Section 3(e)(i) of *Annex I*.

Stakeholders' Group is a nationally representative committee established in October, 2004 to provide additional direction, feedback and oversight for the proposed MCA program.

Steering Committee means an independent steering committee to oversee MCA-Cape Verde's responsibilities and obligations under this Compact (including any Designated Rights and Responsibilities) and further described in Section 3(d)(ii) of *Annex I*.

STPC means the Strategic Transformation and Policy Center.

Strategic Programme is the Priority Strategic Programme for Infrastructure and Land Use Management that the Government formulated in 2003.

Supplemental Agreement is an agreement between (i) the Government (or any Government Affiliate or Permitted Designee) and MCC, (ii) MCC and/or the Government (or any Government Affiliate or Permitted Designee) and any third party, including any of the Providers or Permitted Designees, or (iii) any third parties where neither MCC nor the Government is a party, before, on or after the Entry into Force, which agreement memorializes details any funding, implementing and other arrangements in furtherance of this Compact.

Supplemental Agreement between the Parties means any agreement between MCC on the one hand, and the Government or any Government Affiliate or Permitted Designee on the other hand.

Supplemental Agreement Term Sheets means one or more term sheets that the Government (or mutually acceptable Government Affiliate) and MCC shall execute that set forth the material and principal terms and conditions of each of the Supplemental

Agreements identified in *Exhibit B* attached hereto.

Target means one or more expected results that specify the expected value and the expected time by which that result will be achieved.

Tax(es) shall have the meaning set forth in Section 2.3(e)(i).

Transport Sector Letter means the Government's Letter of Transport Sector Policy.

U.S. Government shall mean any branch, agency, bureau, government corporation, government chartered entity or other body of the Federal government of the United States.

United States Dollars (USD) means the currency of the United States of America.

Water Management Activity is the Project Activity related to water management and soil conservation under the Watershed Project described in Section 2(a) of Schedule 1 of *Annex I*.

Watershed Areas are the three rural intervention watershed areas: (i) Ribeira Paul on the island on Santo Antão; (ii) Mosteiros on the island of Fogo; and (iii) Ribeira Fajã on the island of São Nicolau.

Watershed Management and Agricultural Support Objective is an Objective of this Compact and means to increase agricultural production in the intervention zones.

Watershed Project is the watershed management and agricultural support project, and the Project described in Schedule 1 of *Annex I*, that the Parties intend to implement in furtherance of the Watershed Management and Agricultural Support Objective and a Project.

Work Plans means work plans for the overall administration of the Program and for each Project.

World Bank Road Sector Support Project is a project where several donors, notably the World Bank, Portugal and the EU, are financing selected priority investments, with the World Bank playing a leading role in supporting institutional reforms in road sector management and maintenance.

Exhibit B—List of Certain Supplemental Agreements

1. Governance Agreement.
2. Form of Fiscal Agent Agreement.
3. Form of Implementing Entity Agreement.
4. Form of Bank Agreement.

Annex I—Program Description

This Annex I to the Compact (the "Program Annex") generally describes the Program that MCC Funding will support in Cape Verde during the

Compact Term and the results to be achieved from the investment of MCC Funding. Prior to any MCC Disbursement or Re-Disbursement, including for the Projects described herein, MCC, the Government (or a mutually acceptable Government Affiliate) and MCA-Cape Verde shall enter into a Supplemental Agreement that (i) further specifies the terms and conditions of such MCC Disbursements and Re-Disbursements, (ii) is in a form and substance mutually satisfactory to the Parties, and (iii) is signed by the Principal Representative of each Party (or in the case of the Government, the principal representative of the applicable Government Affiliate) and of MCA-Cape Verde (the "Disbursement Agreement").

Except as specifically provided herein, the Parties may amend this Program Annex only by written agreement signed by the Principal Representative of each Party. Each capitalized term in this Program Annex shall have the same meaning given such term elsewhere in this Compact. Unless otherwise expressly stated, each Section reference herein is to the relevant Section of the main body of the Compact.

1. Background and Cape Verde Development Strategy; Consultative Process

(a) Background and Cape Verde Development Strategy

Since gaining its independence from Portugal in 1975, Cape Verde has achieved an annual growth rate of approximately six percent. This growth has resulted in impressive socio-economic gains in such areas as literacy rates, educational attainment, life expectancy, and per-capita income (which has increased from USD \$200 to USD \$1,485). Despite these achievements, Cape Verde continues to have high levels of poverty and unemployment. Further, income disparities are increasing between men and women and between urban and rural populations, as illustrated by the fact that approximately 40% of the rural population lives in poverty. The persistence of poverty can be partly attributed to the fact that Cape Verde is challenged by a relative lack of obvious economic growth opportunities and a scarcity of resources, particularly water. Only 10% of the land is arable and a short rainy period, marked by torrential downpours, results in roughly 83% of rainfall being lost through evaporation and runoff. Agricultural productivity is low; therefore, approximately 85% of the country's food is imported (70% of

which is in the form of food aid). In addition, Cape Verde suffers from adverse cost competitiveness owing to geographic discontinuity and a small population (450,000 people spread over nine inhabited islands), which result in redundant capital costs, high factor costs of production, and a lack of economies of scale.

Cape Verde's strong record of democratic governance, stability, transparency, and lack of corruption has allowed the country to maintain large inflows of foreign assistance and remittances from *émigrés*, which together represent roughly 25% of GDP. These financial flows have sustained the country's economic progress since independence. However, given that foreign assistance and remittances are likely to decline in the future, Cape Verde has designed an economic development strategy to move the country from an aid-dependency model of development to one of self-sustaining private-sector led growth. Given the constraints in other sectors resulting from the country's geography and small population, sectors such as tourism, financial services, transportation and fisheries are expected to serve as future engines of Cape Verde's growth. In order to achieve the goal of developing these target sectors, large investments must be made in strengthening human resources and upgrading infrastructure, together with relevant policy reforms to improve the investment climate.

Cape Verde's post-independence history can be divided into three periods. The first was characterized by an interventionist state that played a dominant role in the productive sectors; the second, by economic and political liberalization, marked by pluralism and multi-party democracy; while the third represents an ongoing attempt to develop a sustainable economy, based on a competitive private sector. The third phase began in 2001, when the Government—in consultations with the civil society and the private sector—embarked on a program of economic development (the "Grand Options Plan"). The outcome of a six-month exercise, the Grand Options Plan is based on the principles of good governance, private sector-led growth, human capital strengthening, and infrastructure development, and was designed to provide an overall guiding framework for the more specific national development planning efforts in Cape Verde.

An important achievement in the evolution of Cape Verde's economic development strategy occurred in 2004, when the Government published a Growth and Poverty Reduction Strategy

Paper ("GPRSP"). The GPRSP is consistent with the principles articulated in the Grand Options Plan, further defines public investment priorities, and is based on the following five strategic pillars:

- Promote good governance that reinforces effectiveness and guarantees fairness;
- Promote competitiveness to favor economic growth and employment creation;
- Develop and upgrade human capital;
- Develop infrastructure, promote land use planning and protect the environment; and
- Improve effectiveness and sustainability of the social protection system.

Described as "fully participatory" by the IMF/World Bank Joint Staff Assessment, the GPRSP is a comprehensive policy for social development that is being supported by the World Bank with a Poverty Reduction Support Credit.

Another milestone was Cape Verde's increased focus on private sector development through the preparation of an Economic Transformation Strategy ("ETS"), which provides a long-term vision of building a globally competitive, services-oriented economy. The key elements of the ETS include:

- Developing a high value-added tourism/ecotourism sector;
- Building upon Cape Verde's geographic location to become a gateway for cargo and passenger transportation and air traffic-control services;
- Developing its information technology and services industries to provide financial and back-office services to the Lusophone and African markets; and
- Processing and marketing of fish and seafood for export.

In the short term, the ETS seeks to expand upon effective programs to enhance the capacity of the poor to invest in drip irrigation and other productive activities that have successfully raised agricultural outputs and rural incomes.

The successful implementation of the ETS will require investments to strengthen human capital; upgrade capacity within the private sector and the policy-making apparatus; and improve infrastructure. To support the transformation, the Government also embarked on several policy reforms (legal framework, finance, and social security) to deepen market-economy reforms, ensure continued macro-economic stability, and enhance micro-economic competitiveness.

The Program represents the culmination of a process that began in 2001, with the Grand Options Plan. It addresses three key areas: watershed management and agricultural support, infrastructure improvement, and private sector development. The Program is consistent with the ETS, and adheres to the second, third and fourth pillars of the GPRSP. For example, the second pillar of the GPRSP includes increasing the country's competitiveness by fostering private sector development, particularly oriented to small and medium-size enterprises; sustainable growth of agriculture; and developing the financial sector, including micro-credit financing mechanisms. With respect to the watershed management and agricultural support area, the Program will focus on short- to medium-term initiatives to expand economic opportunities in rural areas. To improve infrastructure, the Program will focus on development and planning for a modern infrastructure to reduce the cost of inputs and improve the integration of internal markets. To promote private sector development, the Program is designed to establish the foundation for transforming Cape Verde's economy by focusing on mobilizing investment in the priority sectors and further developing the financial sector.

(b) Consultative Process

Cape Verde's Proposal was the result of a timely, meaningful and participatory consultative process for the Proposal that included several steps. A series of consultations were held with organizations and individuals with experience or links to Cape Verde in the United States to receive feedback on the initial program design. In Cape Verde, individual consultations were held with each cabinet minister, non-governmental organizations, and the various private sector associations to brief them about MCC and proposed plans for use of MCA funds and to obtain their views on initial program design ideas.

On May 28–30, 2004, a national consultation was launched with a forum convened in Praia that included representatives from civil society, the government and municipalities, the private sector, chambers of commerce, non-governmental organizations, academia, and others. The May 2004 forum determined a process for the formal preparation of the MCA proposal and selected from the participants a working group (the "MCC Working Group"). At the May 2004 forum, five teams were created with broad stakeholder representation to focus on such areas as: growth and

competitiveness; human resources; social empowerment; infrastructure; and institutions. These five teams shaped the initial draft proposal. At a final plenary session of the May 2004 forum, the participants debated and approved the initial draft proposal.

Following the outcome of the national forum, the MCC Working Group prepared recommendations and sectoral reports. A drafting task force, composed of representatives of the public administration, association of municipal governments, private sector and non-governmental organizations, prepared a further draft proposal based on the recommendations of the forum. This further draft proposal became the basis for a second round of consultations. The second round consisted of a series of sectoral consultations with private sector and civil society. Selective consultations were also held with Cape Verdean communities in the United States to obtain comments. Donors such as the World Bank, International Monetary Fund and United Nations Development Program also provided additional input. The resulting Proposal was then presented to MCC and posted on the Internet at www.virtualcapeverde.net.

In October, 2004, a nationally representative committee (the "Stakeholders' Group") was established to provide additional direction, feedback and oversight for the proposed MCA program. Members represent various sectors of society including government, private sector, municipalities, non-governmental organizations, community associations and political parties. The Stakeholders' Group, which is chaired by the "Plataforma das ONG," an umbrella association of non-governmental organizations in Cape Verde, had the responsibility of reviewing the proposed MCA program and the Proposal. It is anticipated that this Stakeholders' Group may have a continuing role during the implementation of the Program as described below. Finally, the opposition political party has publicly endorsed the Proposal.

The objectives, indicators, specific outcomes and targets of the Program were reviewed and refined by proposed Program implementing agents from the Ministry of Environment, Agriculture and Fisheries ("MEAF"), Ministry of Infrastructure and Transport ("MIT"), Ministry of Finance and Planning, as well as the National Institute of Statistics during a three-day M&E workshop held in São Jorge from April 23–25, 2005. They were subsequently presented to a conference in São Jorge on April 29, 2005, and agreed upon by

the key Program stakeholders, including municipalities from various islands, non-governmental organizations, civil society and private sector, in a continued effort to deepen the consultative process. Many of these views are being taken into account in the development of the M&E Plan. Once finalized, the M&E Plan will be posted on the website operated by MCA-Cape Verde (the "MCA-Cape Verde Website") and shared with Program stakeholders.

Following MCC's review of the Proposal and discussions and negotiations of the Parties, the Parties have identified certain mutually acceptable components of the Proposal and other components developed through the discussions of the Parties that together shall constitute the Program. The Program is fully consistent with, and directly supports, the Grand Options Plan, the GPRSP, and the ETS as noted above.

2. Overview

(a) *Program Objectives.* The Program involves a series of specific and complementary interventions that the Parties expect will achieve the Objectives and, thus, advance the progress of Cape Verde towards the Compact Goal. Specifically, the Program seeks to (i) increase agricultural productivity in three targeted watershed areas on three islands, through improved water capture and resource management, enhanced agricultural services, marketing, and credit; (ii) increase integration of internal markets and reduce transportation costs by improving road infrastructure on two islands and upgrading the Port of Praia; and (iii) spur private sector development on all islands through increased investment in the priority sectors and through financial sector reforms designed to increase financial intermediation and increase competition in the government securities market.

(b) *Projects.* The Parties have identified, for each Objective, Projects that the Government will implement, or cause to be implemented, using MCC Funding. Each Project is described in the Schedules to this Program Annex. The Schedules to this Program Annex identify the activities that will be undertaken in furtherance of each Project (each, a "Project Activity") as well as the various activities within a Project Activity. Notwithstanding anything to the contrary in this Compact, the Parties may agree to modify, amend, terminate or suspend these Projects or to create a new project by written agreement signed by the Principal Representative of each Party

without amending this Compact; provided, however, any such modification or amendment of a Project or creation of a new project is (i) Consistent with the Objectives; (ii) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact; (iii) does not cause the Government's responsibilities or contribution of resources to be less than specified in Section 2.2 of this Compact or elsewhere in this Compact; and (iv) does not extend the Compact Term. Certain activities of the Program will be undertaken in targeted geographic areas of Cape Verde (referred to herein as "Area" or "Areas"). Other activities (e.g., policy reforms) will have an impact on the national level. The Areas for the Watershed Management and Agricultural Support Project are the watershed management areas within each of the three targeted islands of Santo Antão, Fogo and São Nicolau. The Areas of the Infrastructure Development Project are the two islands of Santiago and Santo Antão. The Private Sector Development Project shall be implemented at the national level.

(c) *Beneficiaries.* The intended beneficiaries of each Project are described in the respective Schedule to this Program Annex and *Annex III* to the extent identified as of the date hereof. The intended beneficiaries shall be identified more precisely during the initial phases of the implementation of the Program. The Government shall provide to MCC information on the population of the Areas, disaggregated by gender, income level and age. The Parties shall agree upon the description of the intended beneficiaries and the Parties will make publicly available a more detailed description of the intended beneficiaries of the Program, including publishing such description on the MCA-Cape Verde Website. For each Project, the Government shall ensure that MCA-Cape Verde presents to the Stakeholders' Committee (described below) (i) a detailed description of the intended beneficiaries and (ii) the methodology used to determine the intended beneficiaries within sixty (60) days after the commencement of implementation and completion of the analysis of the intended beneficiaries therein, disaggregated, to the maximum extent practicable, by income level, gender, and age.

(d) *Civil Society.* Civil society shall participate in overseeing the implementation of the Program through its representation on the Steering Committee (by non-governmental organizations and private sector entities) and the Stakeholders' Committee, as

provided in Section 3(d) and Section 3(e), respectively, of this Program Annex. Local communities, local municipalities, local associations or others may be responsible or otherwise involved in the management of the infrastructure constructed as a result of the Water Management Activity. Water users will be responsible for the maintenance of the water infrastructures constructed as a result of the Water Management Activity. The Partnership to Mobilize Investment Activity may also receive from civil society unsolicited proposals for activities to be funded under that Project Activity. In addition, the Work Plans or Procurement Plans for each Project shall note the extent to which civil society will have a role in the implementation of a particular Project or Project Activity. Finally, members of civil society may be recipients of training, technical assistance, or other public awareness programs that are integral to the Projects. Delivery of financial services under the Program will be implemented by micro-finance institutions and non-governmental organizations and construction of the roads and port will be by private contractors. Local municipalities from the various islands will also be involved at various levels of the implementation of the program, including: (i) Representation on the Steering Committee through the National Municipality Association; (ii) representation on the Stakeholders' Committee; and (iii) involvement in the planning and procurement processes of the Project Activities on the various islands.

(e) *Monitoring and Evaluation ("M&E").* Annex III of this Compact generally describes the plan to measure and evaluate progress toward achievement of the Compact Goal and Objectives of this Compact (the "M&E Plan"). As outlined in the Disbursement Agreement and other Supplemental Agreements, continued disbursement of MCC Funding under this Compact (whether as MCC Disbursements and Re-Disbursements) shall be contingent, among other things, on successful achievement of targets set forth in the M&E Plan.

3. Implementation Framework

The implementation framework and the plan for ensuring adequate governance, oversight, management, monitoring, evaluation and fiscal accountability for the use of MCC Funding is summarized below and in the Schedules attached to this Program Annex, or as may otherwise be agreed in writing by the Parties.

(a) *General.* The elements of the implementation framework will be further described in relevant Supplemental Agreements and in a detailed plan for the implementation of the Program and each Project (the "Implementation Plan"), which will be memorialized in one or more documents and shall consist of: a Multi-Year Financial Plan, Detailed Financial Plans, Fiscal Accountability Plan, Procurement Plan, Program and Project Work Plans, and M&E Plan. MCA-Cape Verde shall adopt each component of the Implementation Plan in accordance with the requirements and timeframe as may be specified in this Program Annex, the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time. MCA-Cape Verde may amend the Implementation Plan or any component thereof without amending this Compact, provided any material amendment of the Implementation Plan or any component thereof has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties. By such time as may be specified in the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time, MCA-Cape Verde shall adopt one or more work plans for the overall administration of the Program and for each Project (collectively, the "Work Plans"). The Work Plan(s) shall set forth the details of each activity to be undertaken or funded by MCC Funding as well as the allocation of roles and responsibilities for specific Project activities, or other programmatic guidelines, performance requirements, targets, or other expectations for a Project.

(b) *Government.*

(i) The Government shall promptly take all necessary and appropriate actions to carry out the Government Responsibilities and other obligations or responsibilities of the Government under and in furtherance of this Compact, including undertaking or pursuing such legal, legislative or regulatory actions or procedural changes and contractual arrangements as may be necessary or appropriate to achieve the Objectives, to successfully implement the Program, to designate any rights or responsibilities to any Permitted Designee, and to establish a legal entity, in a form mutually agreeable to the Parties, the form, structure and other features of such legal entity to be determined and agreed upon by the Parties on or before the time specified in the Disbursement Agreement ("MCA-Cape Verde"), which shall be a

Permitted Designee and shall be responsible for the oversight and management of the implementation of this Compact on behalf of the Government. The Government shall promptly deliver to MCC certified copies of any documents, orders, decrees, laws or regulations evidencing such legal, legislative, regulatory, procedural, contractual or other actions.

(ii) The Government shall ensure that MCA-Cape Verde is duly authorized and organized, sufficiently staffed and empowered to fully carry out the Designated Rights and Responsibilities. Without limiting the generality of the preceding sentence, MCA-Cape Verde shall be organized, and have such roles and responsibilities, as described in Section 3(d) of this Program Annex and as provided in the Governance Agreement and any Governing Documents; *provided, however*, the Government or another Permitted Designee may, subject to MCC approval, carry out any of the roles and responsibilities designated to be carried out by MCA-Cape Verde and described in Section 3(d) of this Program Annex or elsewhere in this Program Annex, the Governance Agreement, or any other Supplemental Agreement prior to and during the initial period of the establishment and staffing of MCA-Cape Verde, but in no event longer than the earlier of (i) the formation of the Steering Committee, establishment of MCA-Cape Verde (including the Management Unit), and engagement of each of the Officers and (ii) six months from the Entry into Force, unless otherwise agreed by the Parties in writing.

(iii) Various ministries, bureaus and agencies of the Government may serve as Implementing Entities. In addition, within the MEAF, MIT, and Ministry of Economic Growth and Competitiveness, the Office of Studies and Planning will be responsible for the management of the Projects, consolidation of reports, and development of budgets.

(c) *MCC*.

(i) Notwithstanding Section 3.1 of this Compact or any provision in this Program Annex to the contrary, and except as may be otherwise agreed upon by the Parties from time to time, MCC must approve in writing each of the following transactions, activities, agreements and documents prior to the execution or carrying out of such transaction, activity, agreement or document and prior to MCC Disbursements or Re-Disbursements in connection therewith:

- (1) MCC Disbursements;
- (2) Each Detailed Financial Plan, and any amendments thereto;

(3) The Multi-Year Financial Plan and any amendments and annual supplements thereto;

(4) Any Audit Plan;

(5) Agreements (i) between the Government and MCA-Cape Verde, (ii) between the Government, a Government Affiliate, MCA-Cape Verde or any other Permitted Designee on the one hand, and any Provider or Affiliate of a Provider, on the other hand, (A) which require such MCC approval under applicable law, the Procurement Agreement, the Governance Agreement, any other Governing Document, or any other Supplemental Agreement or (iii) in which the Government, a Government Affiliate, MCA-Cape Verde or any other Permitted Designee appoints, hires, or engages any of the following in furtherance of this Compact:

- (A) Auditor;
- (B) Reviewer;
- (C) Fiscal Agent;
- (D) Procurement Review Commission;
- (E) Each Bank;
- (F) Outside Project Manager;
- (G) Implementing Entity; and
- (H) Steering Committee member, Observer, Officer, and other key employee of MCA-Cape Verde (including any compensation for such person).

(Any agreement described in clause (i) through (iii) of this Section 3(c)(i)(5) and any amendments and supplements thereto, each, a "Material Agreement");

(6) Any modification, termination or suspension of a Material Agreement, or any action that would have the effect of such a modification, termination or suspension of a Material Agreement;

(7) Any agreement that is (A) not at arm's length or (B) with a party related to the Government or MCA-Cape Verde or any of their respective Affiliates;

(8) Any Re-Disbursement (each, a "Material Re-Disbursement") that requires such MCC approval under applicable law, the Procurement Agreement, the Governance Agreement, any Governing Document, or any Supplemental Agreement;

(9) Any terms of reference (each, a "Material Terms of Reference") for the procurement of goods, services or works that requires such MCC approval under applicable law, the Procurement Agreement, the Governance Agreement, any Governing Document, or any Supplemental Agreement;

(10) The Implementation Plan, including each component plan thereto, and any material amendments and supplements to the Implementation Plan or any component thereto;

(11) Any pledge of any MCC Funding or any Program Assets or any guarantee

directly or indirectly of any indebtedness (each, a "Pledge");

(12) Any decree, legislation, regulation, contractual arrangement or other charter document establishing or governing MCA-Cape Verde ("Governing Document");

(13) Any disposition (in whole or in part), liquidation, dissolution, winding up, reorganization or other change of (A) MCA-Cape Verde, including any revocation or modification of or supplement to any Governing Document related thereto, or (B) any subsidiary or Affiliate of MCA-Cape Verde;

(14) Any change in character or location of any Permitted Account;

(15) Formation or acquisition of any subsidiary (direct or indirect) or other Affiliate of MCA-Cape Verde;

(16) Any (A) Change of a Steering Committee member, Observer, Officer or other key employee or contractor of MCA-Cape Verde, or change in the composition of the Steering Committee of MCA-Cape Verde, including approval of the nominee for Chair, (B) filling of any vacant seat of the Chair, Steering Committee member, or an Observer or vacant position of an Officer, key employee or contractor of MCA-Cape Verde, (C) filling of the seats designated as representatives nominated by the Stakeholders' Committee, if any, to the Steering Committee, (D) filling any vacant seat on the Stakeholders' Committee; and (E) approval of the nominee for chair of the Procurement Review Commission;

(17) The management information system to be developed and maintained by the Management Unit of MCA-Cape Verde, and any material modifications to such system;

(18) Any decision to amend, supplement, replace, terminate, or otherwise change any of the foregoing; and

(19) Any other activity, agreement, document or transaction requiring the approval of MCC in this Compact, applicable law, the Governance Agreement, any Governing Document, the Procurement Agreement, the Disbursement Agreement, or any other Supplemental Agreement between the Parties.

The Chair of the Steering Committee (the "Chair") and/or the Managing Director of MCA-Cape Verde (the "Managing Director") or other designated Officer, as provided in the Governance Agreement, shall certify any documents or reports delivered to MCC in satisfaction of the Government's reporting requirements under this Compact or any Supplemental Agreement between the Parties (the "Compact Reports").

(ii) MCC shall have the authority to exercise its approval rights set forth in this Section 3(c) in its sole discretion and independent of any participation or position taken by the MCC Representative at a meeting of the Steering Committee. MCC retains the right to revoke its approval of any matter, agreement, or action if MCC concludes, in its sole discretion, that its approval was issued on the basis of incomplete, inaccurate or misleading information furnished by the Government, MCA-Cape Verde, or any Government Affiliate or Permitted Designee. Notwithstanding any provision in this Compact or any Supplemental Agreement to the contrary, the exercise by MCC of its approval rights under this Compact or any Supplemental Agreement shall not (1) diminish or otherwise affect the Government Responsibilities or any other obligations or responsibilities of the Government under this Compact or any Supplemental Agreement, (2) transfer any such obligations or responsibilities of the Government, or (3) otherwise subject MCC to any liability.

(d) *MCA-Cape Verde*.

(i) *General*. Unless otherwise agreed by the Parties in writing, MCA-Cape Verde shall, as a Permitted Designee, be responsible for the oversight and management of the implementation of this Compact. MCA-Cape Verde shall be governed by applicable law, any Governing Documents, and the terms and conditions set forth in a governance agreement to be entered into by the Government and MCA-Cape Verde and at MCC's option, MCC, in a form and substance satisfactory to MCC, on or before the time specified in the Disbursement Agreement ("Governance Agreement"), and based on the following principles:

(1) The Government shall ensure that MCA-Cape Verde shall not assign, delegate or contract any of the Designated Rights and Responsibilities without the prior written consent of the Government and MCC. MCA-Cape Verde shall not establish any Affiliates or subsidiaries (direct or indirect) without the prior written consent of the Government and MCC.

(2) Unless otherwise agreed by the Parties in writing, MCA-Cape Verde shall consist of (a) an independent steering committee (the "Steering Committee") to oversee MCA-Cape Verde's responsibilities and obligations under the this Compact (including any Designated Rights and Responsibilities) and (b) a management team ("Management Unit") to have overall

management responsibility for the implementation of this Compact.

(ii) *Steering Committee*.

(1) *Formation*. The Government shall ensure that the Steering Committee shall be formed, constituted, governed and operated in accordance with the terms and conditions set forth in the Governance Agreement, any applicable Governing Document, and any other relevant Supplemental Agreement.

(2) *Composition*. Unless otherwise agreed by the Parties in writing, the Steering Committee shall consist of at least nine and no more than eleven voting members, one of whom shall be appointed the Chair as provided in applicable law, the Governance Agreement or any Governing Document and subject to MCC approval, and the non-voting observers identified below.

(A) The Steering Committee shall initially be composed of nine voting members as follows, provided that the Government members identified in subsections (i)–(v) below (the "Government Members") may be replaced by another government official of comparable rank from a ministry or other government body relevant to the Program activities, subject to approval by the Government and MCC (such replacement to be referred to thereafter as a Government Member):

- (i) Minister of Finance and Planning;
- (ii) Minister of Infrastructure and Transport;
- (iii) Minister of Economy, Growth, and Competitiveness;
- (iv) Minister of Environment, Agriculture and Fisheries;
- (v) Chief Advisor to the Prime Minister;
- (vi) The President of the National Municipalities Association;
- (vii) The President of the Chamber of Commerce of Sotavento;
- (viii) The President of the Chamber of Commerce and Agriculture of Barlavento; and
- (ix) The President of the Non-Governmental Organization Association.

(B) The non-voting observers (each, an "Observer") shall be:

- (i) A Representative designated by MCC (the "MCC Representative"); and
- (ii) Representatives-elect for positions identified in Sections 3(d)(ii)(2)(A)(vi)–(ix) of this Program Annex (such above identified positions, the "Civil Members"), and representatives-elect for any additional voting members in the event the Steering Committee size expands to eleven, who will be non-voting observers during the one-year period prior to the beginning of their respective terms.

(C) Each Government Member position shall be filled by the individual

then holding the office identified and such individuals shall serve in their capacity as the applicable Government official and not in their personal capacity; in the event that such member is unable to participate in a meeting of the Steering Committee such member's principal deputy may participate in the member's stead.

(D) Each Civil Member position shall be filled by the individual then holding the office identified and such individuals shall serve in their capacity as the applicable officer from the specified organization and not in their personal capacity.

(E) The voting members identified in Section 3(d)(ii)(A) by majority vote may expand the Steering Committee to a total of eleven members; in the event that such action is taken, the additional two voting seats of the Steering Committee shall be filled by individuals nominated by the Stakeholders' Committee, subject to the approval of the Government and MCC. Such individuals may be, but are not required to be, members of the Stakeholders' Committee. Each such member serving in such additional seat shall be deemed a Civil Member. The term of such additional voting members shall be two years and any vacancy to be filled by nomination of the Stakeholders' Committee.

(F) Subject to the Governance Agreement, the Parties contemplate that the Minister of Finance and Planning shall initially fill the seat of Chair.

(G) Each Observer shall have rights to attend all meetings of the Steering Committee, participate in the discussions of the Steering Committee, and receive all information and documents provided to the Steering Committee, together with any other rights of access to records, employees or facilities as would be granted to a member of the Steering Committee under the Governance Agreement and any Governing Document.

(3) *Role and Responsibilities*.

(A) The Steering Committee shall oversee the Management Unit, the overall implementation of the Program, and the performance of the Designated Rights and Responsibilities.

(B) Certain actions may be taken and certain agreements, documents or instruments executed and delivered, as the case may be, by MCA-Cape Verde only upon the approval and authorization of the Steering Committee provided under applicable law or as set forth in the Governance Agreement or any Governing Document, including each MCC Disbursement Request, selection or termination of certain Providers, any component of the

Implementation Plan, certain Re-Disbursements and certain terms of reference.

(C) The Chair shall certify the approval by the Steering Committee of all Compact Reports or any other documents or reports from time to time delivered to MCC by MCA-Cape Verde (whether or not such documents or reports are required to be delivered to MCC), and that such documents or reports are true, accurate and complete.

(D) Without limiting the generality of the Designated Rights and Responsibilities that the Government may designate to MCA-Cape Verde, and subject to MCC's contractual rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any relevant Supplemental Agreement, the Steering Committee shall have the exclusive authority as between the Steering Committee and the Management Unit for all actions defined for the Steering Committee in the Governance Agreement or any Governing Document and which are expressly designated therein as responsibilities that cannot be delegated further.

(4) Indemnification of Non-Government Steering Committee Representatives; MCC Representative. The Government shall ensure, at the Government's sole cost and expense, that appropriate insurance is obtained and appropriate indemnifications and other protections are provided, acceptable to MCC and to the fullest extent permitted under the laws of the Republic of Cape Verde, to ensure that as Civil Members and Observers shall not be held personally liable for the actions or omissions of the Steering Committee. Pursuant to Section 5.5 and Section 5.8 of this Compact, the Government and MCA-Cape Verde shall hold harmless the MCC Representative for any liability or action arising out of the MCC Representative's role as a non-voting observer on the Steering Committee. The Government hereby waives and releases all claims related to any such liability and acknowledges that the MCC Representative has no fiduciary duty to MCA-Cape Verde. In matters arising under or relating to the Compact, the MCC Representative is not subject to the jurisdiction of the courts or any other body of Cape Verde. MCA-Cape Verde shall provide a written waiver and acknowledgement that no fiduciary duty to MCA-Cape Verde is owed by the MCC Representative.

(iii) *Management Unit*. Unless otherwise agreed in writing by the Parties, the Management Unit shall report, through the Managing Director or other Officer as designated in the

Governance Agreement, directly to the Steering Committee and shall have the composition, roles and responsibilities described below and set forth more particularly in the Governance Agreement and any Governing Document.

(1) Appointment of the Managing Director. The Managing Director of MCA-Cape Verde shall be selected by the Steering Committee and hired after an open and competitive recruitment and selection process, which appointment shall be subject to MCC approval.

(2) Appointment of Other Officers. Unless otherwise specified in the Governance Agreement or any Governing Documents, the other Officers of MCA-Cape Verde shall be selected and hired by the Managing Director after an open and competitive recruitment and selection process, which appointment shall be subject to the approval of the Steering Committee and MCC.

(3) Composition. The Government shall ensure that the Management Unit shall be composed of qualified experts from the public or private sectors, including such offices and staff as may be necessary to carry out effectively its responsibilities, each with such powers and responsibilities as set forth in the Governance Agreement, any Governing Document, and from time to time in any Supplemental Agreement between the Parties, including without limitation the following: (i) Managing Director; (ii) Administration and Finance Director; (iii) Senior Economist; (iv) Monitoring and Evaluation Analyst; (v) a Watershed Management and Agricultural Support Manager, an Infrastructure Manager, and a Private Sector Development Manager (each a "Project Manager"); (vi) an Environmental and Social Assessment Manager; and (vii) a Procurement Manager (the persons holding the positions in sub-clauses (i) through (vii) and such other offices as may be created and designated in accordance with the Governance Agreement and any other Supplemental Agreement between the Parties, shall be collectively referred to as "Officers"). In addition, MCA-Cape Verde will have a procurement specialist, a communications specialist, and an administrative and financial assistant. The Parties contemplate that for purposes of the initial period of operations, and in no event longer than six months, MCA-Cape Verde may appoint an acting Managing Director, subject to the approval of MCC; *provided*, during such period, the Steering Committee shall ratify the actions of such acting Managing Director and MCA-Cape Verde shall

select a permanent Managing Director through a competitive selection process and subject to MCC approval in accordance with this *Annex I*.

(4) Role and Responsibilities.

(A) The Management Unit shall assist the Steering Committee in overseeing the implementation of the Program and shall have principal responsibility (subject to the direction and oversight of the Steering Committee and subject to MCC's contractual rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any relevant Supplemental Agreement) for the overall management of the implementation of the Program.

(B) Without limiting the foregoing general responsibilities or the generality of Designated Rights and Responsibilities that the Government may designate MCA-Cape Verde, the Management Unit shall develop the components of the Implementation Plan, oversee the implementation of the Projects, manage and coordinate monitoring and evaluation, maintain internal accounting records, conduct and oversee certain procurements, and such other responsibilities as set out in the Governance Agreement or delegated to the Management Unit by the Steering Committee from time to time.

(C) Appropriate Officers shall have the authority to contract on behalf of MCA-Cape Verde under any procurement under the Program.

(D) The Management Unit shall have the obligation and right to approve certain actions and documents or agreements, including certain Re-Disbursements, MCC Disbursement Requests, Compact Reports, certain human resources decisions, and certain procurement actions, as provided in the Governance Agreement.

(5) Additional Resources. The Management Unit, on behalf of MCA-Cape Verde, shall have the authority to engage qualified persons or entities to serve as outside project managers (each an "Outside Project Manager") in the event that it is advisable to do so for the proper and efficient day-to-day management of a Project; *provided*, *however*, that the appointment or engagement of any Outside Project Manager after a competitive selection process shall be subject to approval by the Steering Committee and MCC prior to such appointment or engagement. Upon Steering Committee approval, the Management Unit, on behalf of MCA-Cape Verde, may delegate, assign, or contract to the Outside Project Managers such duties and responsibilities as it deems appropriate with respect to the management of the Implementing Entities and the implementation of the

specific Projects or Project Activities; and *provided, further*, that the Management Unit and the relevant Project Manager shall remain accountable for those duties and responsibilities and all reports delivered by the Outside Project Manager notwithstanding any such delegation, assignment or contract and the Outside Project Manager shall be subject to the oversight of the Procurement Review Commission. The Steering Committee may, independent of any request from the Management Unit, determine that it is advisable to engage, on behalf of MCA-Cape Verde, one or more Outside Project Managers and instruct the Management Unit or, where appropriate, a Procurement Review Commission to commence and conduct the competitive selection process for such Outside Project Manager.

(e) *Stakeholders' Committee.*

(i) *Formation and Composition.* The Government shall ensure the continuation of a stakeholders' committee, such as the Stakeholders' Group, or establishment of a similar committee (the "Stakeholders' Committee") consisting of at least eight (8) and no more than twelve (12) members, unless otherwise agreed by the Parties, and comprised of the following individuals: (A) Director of the Office of Studies of the Planning Office of the Ministry of Finance and Planning; (B) one representative nominated by the Regional Stakeholders' Committees; (C) two representatives from micro-credit non-governmental organizations; (D) two representatives from the private sector (one from the tourism sector and one from the transportation sector), selected by trade associations from those sectors; and (E) two prominent businesspersons appointed by the Prime Minister from a list of individuals recommended by the private sector, including the Chambers of Commerce. The Government shall take all action necessary and appropriate actions to ensure the Stakeholders' Committee is established consistent with this Section 3(e) and as otherwise specified in the Governance Agreement or otherwise agreed in writing by the Parties. The composition of the Stakeholders' Committee may be adjusted by agreement of the Parties from time to time to ensure, among other things, a cross-section representative of the intended beneficiaries. The number of members of the Stakeholders' Committee may be increased, but in no event more than twelve (12), upon the majority vote of the then existing members and the vacancies created by such increase shall be filled by the majority vote of the then

existing members, subject to the approval of the Government and MCC; *provided, however*, in the event that the Ministry of Planning is separated from the Ministry of Finance, a seat shall be added to the Stakeholders' Committee to be filled by a Director nominated from the Ministry of Planning.

(1) The "Regional Stakeholders' Committees" shall mean all then existing regional stakeholders' committees, comprised of non-governmental organizations, municipalities, farmers associations, and enterprises in the private sector. As of the date hereof, there are three Regional Stakeholders' Committees; however, it is contemplated that there may be additional Regional Stakeholders' Committees formed during the Compact Term. The representative referred to in clause (B) above shall be nominated by a vote of all then existing Regional Stakeholders' Committees.

(2) Each member position identified in Sections 3(e)(i) of this Program Annex shall be filled by the individual then holding the office identified and such individuals shall serve in their capacity as the applicable Government official and not in their personal capacity; in the event that such member is unable to participate in a meeting of the Stakeholders' Committee such member's principal deputy may participate in the member's stead.

(3) In the event of a vacancy in positions identified in Sections 3(e)(i) (C)–(E) such vacancy to be filled by nomination of the organization or group for whom such seat is designated.

(ii) *Role.* The Stakeholders' Committee shall be a mechanism to provide representatives of the private sector, civil society and local and regional governments the opportunity to provide advice and input to MCA-Cape Verde regarding the implementation of the Compact. During quarterly meetings of the Stakeholders' Committee, the Management Unit shall present an update on the implementation of this Compact and progress towards achievement of the Objectives. The Stakeholders' Committee will have an opportunity to regularly provide to the Chairman of the Steering Committee its views or recommendations on the performance and progress on the Projects and Project Activities, components of the Implementation Plan, procurement, financial management or such other issues as may be presented from time to time to the Stakeholders' Committee or as otherwise raised by the Stakeholders' Committee. The Management Unit shall provide copies of the M&E Plan and

related reports to the Stakeholders' Committee simultaneously with the transmittal to the Steering Committee of such documents and reports. The Steering Committee may, in response to the Stakeholders' Committee, require the Management Unit to provide such other information and documents as the Steering Committee deems advisable.

(iii) *Meetings.* The Stakeholders' Committee shall hold quarterly meetings of the full Stakeholders' Committee as well as such other periodic meetings of the Stakeholders' Committee or subcommittees thereof designated along sectoral, regional (by Areas), or other lines, as may be necessary or appropriate from time to time.

(iv) *Steering Committee Representation.* In the event that the Steering Committee votes to expand its size to eleven voting members, the Stakeholders' Committee shall nominate, by majority decision, two (2) individuals, either from the Stakeholders' Committee or otherwise, each to serve as a voting member of the Steering Committee for a two-year term, along with two representatives-elect. A nominee to the Steering Committee shall become a member of the Steering Committee upon approval by MCC and the Government. The Stakeholders' Committee shall rotate its representative every two years. No Stakeholders' Committee nominated representative may serve on the Steering Committee for more than a single two-year term during the Compact Term. Any vacancy of any Stakeholders' Committee nominated seat on the Steering Committee shall be filled by the representative-elect designated for such seat; *provided*, that the elevation of any such representative-elect to the Steering Committee shall be subject to approval by MCC and the Government at the time of such proposed elevation and that, following such approval, the Stakeholders' Committee shall appoint a new representative-elect for such position; *provided, further*, that in the absence, or if MCC or the Government do not approve the elevation to the Steering Committee, of a representative-elect, the vacancy shall be filled by a nominee who shall be nominated by the Stakeholders' Committee and approved by MCC and the Government.

(v) *Accessibility; Transparency.* Stakeholders' Committee members will be accessible to the beneficiaries they represent to receive the beneficiaries' comments or suggestions regarding the Program. The minutes of all meetings of the Stakeholders' Committee and any subcommittees shall be made public on

the MCA-Cape Verde Website in a timely manner.

(f) *Implementing Entities*. Subject to the terms and conditions of this Compact and any other Supplemental Agreement between the Parties, MCA-Cape Verde may provide MCC Funding, directly or indirectly through an Outside Project Manager, to one or more Government Affiliate or to one or more nongovernmental organization or other public- or private-sector entities or persons to implement and carry out the Projects or any other activities to be carried out in furtherance of this Compact (each, an "Implementing Entity"). The Government shall ensure that MCA-Cape Verde (or the appropriate Outside Project Manager) enters into an agreement with each Implementing Entity, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of such Implementing Entity and other appropriate terms and conditions, such as payment of the Implementing Entity (the "Implementing Entity Agreement"). An Implementing Entity shall report directly to the relevant Project Manager or Outside Project Manager, as designated in the applicable Implementing Entity Agreement or as otherwise agreed by the Parties. The Implementing Entities shall be either (i) pre-determined ministries, bureaus or agencies of the Government based on their sector expertise with respect to certain activities or (ii) micro-finance institutions and/or non-governmental organizations, vendors and contractors selected according to a competitive international bidding process.

(g) *Fiscal Agent*. The Government shall ensure that MCA-Cape Verde engages one or more fiscal agents (each, a "Fiscal Agent"), initially the Ministry of Finance and Planning, who shall be responsible for, among other things: (i) Ensuring and certifying that Re-Disbursements are properly authorized and documented in accordance with established control procedures set forth in the Disbursement Agreement, the Fiscal Agent Agreement and other relevant Supplemental Agreements; (ii) Re-Disbursement and cash management, including instructing a Bank to make Re-Disbursements from a Permitted Account (to which Fiscal Agent has sole signature authority), following applicable certification by the Fiscal Agent; (iii) providing applicable certifications for MCC Disbursement Requests; (iv) maintaining proper accounting of all MCC Funding financial transactions and certain other accounting functions; (v) producing reports on MCC Disbursements and Re-Disbursements (including any requests

therefore) in accordance with established procedures set forth in the Disbursement Agreement, the Fiscal Agent Agreement or any other relevant Supplemental Agreements, (vi) funds control, and (vii) procurement functions, as may be specified from time to time. Upon the written request of MCC, the Government shall ensure that MCA-Cape Verde terminates the Fiscal Agent, without any liability to MCC, and the Government shall ensure that MCA-Cape Verde engages a new Fiscal Agent, subject to the approval by the Steering Committee and MCC. The Government shall ensure that MCA-Cape Verde enters into an agreement with each Fiscal Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions, such as payment of the Fiscal Agent (each, a "Fiscal Agent Agreement"). During the Compact Term, subject to MCC's approval, certain Fiscal Agent duties and responsibilities may be transferred to the duties and responsibilities of the Administration and Finance Officer of MCA-Cape Verde, if any, at which time the Fiscal Agent Agreement shall be amended accordingly.

(h) *Auditors and Reviewers*. The Government shall ensure that MCA-Cape Verde carries out the Government's audit responsibilities as provided in Sections 3.8(d), (e) and (f) of this Compact, including engaging one or more auditors (each, an "Auditor") required by Section 3.8(d) of this Compact. As requested by MCC in writing from time to time, the Government shall ensure that MCA-Cape Verde also engages (i) an independent reviewer to conduct reviews of performance and compliance under this Compact pursuant to Section 3.8(f) of this Compact, which reviewer shall have the capacity to (A) Conduct general reviews of performance or compliance, (B) conduct environmental audits, (C) conduct data quality assessments in accordance with the M&E Plan, as described more fully in *Annex III*, and/or (ii) an independent evaluator to assess performance as required under the M&E Plan (each, a "Reviewer"). MCA-Cape Verde shall select the Auditor(s) or Reviewers in accordance with the Governance Agreement, any Governing Document or other relevant Supplemental Agreement. The Government shall ensure that MCA-Cape Verde enters into an agreement with each Auditor or Reviewer, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect

to the audit, review or evaluation, including access rights, required form and content of the applicable audit, review or evaluation and other appropriate terms and conditions such as payment of the Auditor or Reviewer (the "Auditor/Reviewer Agreement"). In the case of a financial audit required by Section 3.8(f) of the Compact, such Auditor/Reviewer Agreement shall be effective no later than 120 days prior to the end of the relevant fiscal year or other period to be audited; *provided, however*, if MCC requires concurrent audits of financial information or reviews of performance and compliance under this Compact, then such Auditor/Reviewer Agreement shall be effective no later than the date agreed by the Parties in writing.

(i) *Procurement Review Commission*. The Government shall establish or ensure the establishment of a procurement review commission ("Procurement Review Commission") that reports to MCA-Cape Verde on procurements related to the Program and provides oversight of the operational procurement activities of MCA-Cape Verde. The Government shall ensure that MCA-Cape Verde enters into an agreement with the Ministry of Finance and Planning, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Review Commission with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Review Commission (the "Procurement Review Commission Agreement"). The role and responsibilities of such Procurement Review Commission may be as further set forth from time to time in the applicable Implementation Letter or Supplemental Agreement. The costs and expenses associated with the Procurement Review Commission in connection with this Program shall be paid out of MCC Funding as designated in the Detailed Financial Plan.

(j) The Procurement Review Commission shall be chaired by a representative of the General Inspector of Finance nominated by the Head of the General Inspector of Finance, subject to MCC approval, and composed of representatives of the Ministries of Environment and Agriculture, Ministry of Infrastructure and Transport, and the Direcção Geral do Património de Estado following the Procurement Guidelines. The Procurement Review Commission will establish a protest and disputes panel to objectively resolve any complaints under the Program procurement transactions. The

Procurement Review Commission shall be responsible for supervising the procurement activities of MCA-Cape Verde, Outside Project Managers, and Implementing Entities. The Procurement Review Commission shall adhere to the procurement standards set forth in the Procurement Guidelines and ensure procurements are consistent with the procurement plan (the "Procurement Plan") adopted by MCA-Cape Verde, which plan shall forecast the upcoming six month procurement activities and be updated every six months.

4. Finances and Fiscal Accountability

(a) Financial Plans.

(i) *Multi-Year Financial Plan.* The multi-year financial plan for the Program and for each Project (the "Multi-Year Financial Plan") is summarized in Annex II to this Compact.

(ii) *Detailed Financial Plan.* During the Compact Term, the Government shall ensure that MCA-Cape Verde timely delivers to MCC financial plans that specify respectively the annual and quarterly detailed budget and projected cash requirements for the Program (including monitoring and evaluation and administrative costs) and each Project, projected both on a commitment and cash requirement basis (each a "Detailed Financial Plan"). Each Detailed Financial Plan shall be delivered by such time as specified in the Disbursement Agreement or as may otherwise be agreed by the Parties. The Multi-Year Financial Plan and each Detailed Financial Plan and each amendment, supplement or other change thereto are collectively, the "Financial Plan."

(iii) *Expenditures.* No financial commitment involving MCC Funding shall be made, no obligation of MCC Funding shall be incurred, and no Re-Disbursement shall be made or MCC Disbursement Request submitted for any activity or expenditure, unless the expense is provided for in the Detailed Financial Plan and unless uncommitted funds exist in the balance of the Detailed Financial Plan for the relevant period or unless the Parties otherwise agree in writing.

(iv) *Modifications to Multi-Year Financial Plan or Detailed Financial Plan.* Notwithstanding anything to the contrary in this Compact, MCA-Cape Verde may amend or supplement the Multi-Year Financial Plan, or any component thereof or any Detailed Financial Plan without amending this Compact, provided any material amendment or supplement has been approved by MCC and is otherwise

consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties; provided, however, MCA-Cape Verde may modify the Detailed Financial Plan to reallocate MCC Funding without MCC prior approval if (A) re-allocating funds within a Project (i) would cause a reduction or increase of no more than the lesser of 10% of the amount in the Detailed Financial Plan for a Project Activity or USD \$200,000 and (ii) such reallocation would not be inconsistent with the Objectives or (B) re-allocating funds between Projects (i) would cause a reduction or increase of no more than the lesser of 20% of the amount in the Detailed Financial Plan for a Project Activity or USD \$300,000 and (ii) such reallocation would not be inconsistent with the Objectives, so long as MCA-Cape Verde promptly delivers to MCC any such modified Detailed Financial Plan, together with a modified Multi-Year Financial Plan to reflect the corresponding modifications.

(b) *Disbursement and Re-Disbursement.* The Disbursement Agreement (and disbursement schedules thereto), as amended from time to time, shall specify the terms, conditions and procedures on which MCC Disbursements and Re-Disbursements shall be made. The obligation of MCC to make MCC Disbursements or approve Re-Disbursements is subject to the fulfillment, waiver or deferral of any such terms and conditions. The Government and MCA-Cape Verde shall jointly submit the applicable request for an MCC Disbursement (the "MCC Disbursement Request") as may be specified in the Disbursement Agreement. MCC will make MCC Disbursements in tranches to a Permitted Account from time to time as provided in the Disbursement Agreement or as may otherwise be agreed by the Parties, subject to Program requirements and performance by the Government, MCA-Cape Verde and other relevant parties in furtherance of this Compact. Re-Disbursements will be made from time to time based on requests by an authorized representative of the appropriate party designated for the size and type of Re-Disbursement in accordance with the Governance Agreement and Disbursement Agreement; provided, however, unless otherwise agreed by the Parties in writing, no Re-Disbursement shall be made unless and until the written approvals specified herein or in the Governance Agreement and Disbursement Agreement for such Re-Disbursement have been obtained and delivered to the Fiscal Agent.

(c) *Fiscal Accountability Plan.* By such time as specified in the Disbursement Agreement or as otherwise agreed by the Parties, MCA-Cape Verde shall adopt as part of the Implementation Plan a fiscal accountability plan that identifies the principles and mechanisms to ensure appropriate fiscal accountability for the use of MCC Funding provided under this Compact, including the process to ensure that open, fair, and competitive procedures will be used in a transparent manner in the administration of grants or cooperative agreements and the procurement of goods and services for the accomplishment of the Objectives (the "Fiscal Accountability Plan"). The Fiscal Accountability Plan shall set forth, among other things, requirements with respect to the following matters: (i) Funds control and documentation; (ii) separation of duties and internal controls; (iii) accounting standards and systems; (iv) content and timing of reports; (v) policies concerning public availability of all financial information; (vi) cash management practices; (vii) procurement and contracting practices, including timely payment to vendors; (viii) the role of independent auditors; and (ix) the roles of fiscal agents and procurement agents.

(d) *Permitted Accounts.* The Government shall establish, or cause to be established, such accounts (each, a "Permitted Account," and collectively "Permitted Accounts") as may be agreed by the Parties in writing from time to time, including:

(i) A single, completely separate U.S. Dollar interest-bearing account (the "Special Account") at the Bank of Cape Verde ("National Bank") to receive MCC Disbursements;

(ii) If necessary, an interest-bearing local currency of Cape Verde account (the "Local Account") at the National Bank to which the Fiscal Agent may authorize transfer from any U.S. Dollar Permitted Account for the purpose of making Re-Disbursements payable in local currency; and

(iii) Such other interest-bearing accounts to receive MCC Disbursements in such banks as the Parties mutually agree upon in writing.

No other funds shall be commingled in a Permitted Account other than MCC Funding and Accrued Interest thereon. All MCC Funding held in an interest-bearing Permitted Account shall earn interest at a rate of no less than such amount as the Parties may agree in the respective Bank Agreement or otherwise. MCC shall have the right, among other things, to view any Permitted Account statements and activity directly on-line, where feasible,

or at such other frequency as the Parties may otherwise agree. By such time as shall be specified in the Disbursement Agreement or as otherwise agreed by the Parties, the Government shall ensure that MCA-Cape Verde enters into an agreement with each Bank, respectively, satisfactory to MCC, that sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to the Permitted Account, respectively (each, a "Bank Agreement"). For purposes of this Compact, the National Bank and any bank holding an account referenced in Section 4(d)(iii) of this Program Annex are each a "Bank" and are collectively referred to as the "Banks."

(e) *Currency Exchange*. The Bank shall convert MCC Funding to the currency of Cape Verde at the National Bank prior to the transfer to the Local Account. For this purpose, the National Bank will use as a standard the announced rate of the National Bank for the day on which the currency exchange is made as otherwise may be agreed to by the Parties in writing.

5. Institutional Capacity Building

The Program will use certain Government systems in administration and implementation. To enhance those systems, the following Projects will be undertaken as part of the Program and funded with MCC Funding:

(a) To enhance transparency and efficiency of Government systems, MCC Funding will support an expansion of systems upgrade in the context of a procurement policy reform, including the establishment and implementation of unified procurement legislation and regulations. Through an electronic procurement system, suppliers, government officials, and the public will have access to the rules governing procurement, insight into the procurement transactions themselves and a transparent record of competition and results of solicitations. As part of the Program administration functions, this institutional capacity building activity will seek to expand the e-procurement system throughout the Government. First, it will establish and implement a public e-procurement system for use in procurements undertaken in support of this Compact. Second, it will expand the use of that e-procurement system to all other units of the Government. Finally, the adoption and implementation of unified procurement legislation and regulations shall be a condition to certain MCC Disbursements and Re-Disbursements related to this activity as shall be set forth in the Disbursement Agreement.

(b) To develop a Program results reporting and program management system in connection with the M&E Plan, MCC Funding will be used to fund the augmentation of the existing government financial management system ("SIGOF"). This M&E activity will develop improvements to SIGOF to capture Program performance and results data, along with financial information, from Program implementing government ministries. This electronic reporting mechanism will facilitate program management, provision of fiscal agent services, and the generation of progress reports required under the M&E Plan. This upgrade will be used for the Program and indirectly may build capacity and be a benefit to the government systems outside the Program.

6. Transparency; Accountability

Transparency and accountability to MCC and to the beneficiaries are important aspects of the Program and Projects. Without limiting the generality of the foregoing, in an effort to achieve the goals of transparency and accountability, the Government shall ensure that MCA-Cape Verde:

(a) Establishes an e-mail suggestion box as well as a means for other written comments that interested persons may use to communicate ideas, suggestions or feedback to MCA-Cape Verde.

(b) Considers as a factor in its decision-making the recommendations of the Stakeholders' Committee, particularly in MCA-Cape Verde's deliberations over pending key Management Unit decisions and key Steering Committee decisions as shall be specified in the Governance Agreement and relevant Governing Document.

(c) Develops and maintains the MCA-Cape Verde Website in a timely, accurate and appropriately comprehensive manner, such MCA-Cape Verde Website to include postings of information and documents in English and Portuguese.

(d) Posts on the MCA-Cape Verde Website and otherwise makes publicly available the following documents or information, including by posting on the MCA-Cape Verde Website, with links to and from the official website of the Government (www.governo.cv) and the website of the Embassy of Cape Verde in the United States (www.virtualcapeverde.net), from time to time:

(i) All minutes of the meetings of the Stakeholders' Committee and the meetings of the Steering Committee;

(ii) The M&E Plan, as amended from time to time, along with periodic reports on Program performance;

(iii) Such financial information as may be required by this Compact or as may otherwise be agreed from time to time by the Parties;

(iv) All Compact Reports;

(v) All audit reports by an Auditor and any periodic reports or evaluations by a Reviewer;

(vi) A copy of the Disbursement Agreement, as amended from time to time;

(vii) A copy of any documents related to the formation, organization and governance of MCA-Cape Verde including any Governing Documents, together with any amendments thereto and the Governance Agreement and any amendments thereto;

(viii) A copy of the Procurement Agreement (including Procurement Guidelines), as amended from time to time and the any procurement policies or procedures and standard documents;

(ix) A copy of each Procurement Plan and all bid requests and awarded contracts.

Schedule 1 to Annex I—Watershed Management and Agriculture Support Project

This Schedule 1 describes and summarizes the key elements of the watershed management and agriculture support project ("Watershed Project") that the Parties intend to implement in furtherance of the Watershed Management and Agricultural Support Objective. Additional details regarding the implementation of the Watershed Project will be included in the Implementation Plan and in relevant Supplemental Agreements.

1. Background

The islands of Cape Verde are extremely arid in climate, widely dispersed and characterized by geographic isolation, fragile ecosystems and a scarcity of natural resources. The lack of water is the dominant factor limiting productivity and economic growth in agriculture and the rural economy. It is currently estimated that more than 80 percent of rainfall is "lost" to evaporation and surface water runoff into the Atlantic Ocean. Agricultural producers in Cape Verde face numerous additional obstacles to increasing their agricultural productivity: limited arable land; limited availability of inputs (fertilizer and credit); poor physical infrastructure (roads, ports and inter-island transportation); low quality of production (no standards and high post harvest-losses); limited information on markets and prices; limited private

sector activities; and weak consumer demand. Virtually every point in the farm production chain, from seeds to the table, is affected by these obstacles. An additional constraint on at least one island is the negative impact of insect pests, for which phyto-sanitary regulations presently limit exports from this island. The Watershed Project is focused on removing these constraints to agricultural productivity and is designed to improve the management of critical water resources and to mobilize key agricultural support activities (research, extension and credit) that will enable rural agricultural producers to improve their environment, increase their productivity, and raise their incomes.

The Watershed Project reflects the Government's commitment to poverty reduction and improved natural resource management as articulated in the Grand Options Plan and the GPRSP. The GPRSP identified the enhancement of the following as key to rural economic growth and the development of the agricultural sector: Water and agrarian resources, agricultural products, and technical and financial capacities of farmers and entrepreneurs. Further, the MCA consultative process identified increasing agricultural productivity as a high priority. The Project Activities in the Watershed Project complement the country's strategic goal of developing the tourism sector, which, in turn, is expected to create demand for increased production of domestic horticulture products. It is expected that the Watershed Project will also lead to an increase in food security. The Watershed Project is consistent with the approaches set out in GPRSP for achieving the goal of sustainable rural economic growth, e.g., organization of watersheds and water management, promotion of rural financial services, applied research, and dissemination of new varieties of agricultural products.

2. Summary of the Project and Activities

The Watershed Project is designed to increase agricultural productivity in three rural intervention watershed areas: Ribeira Paul on the island on Santo Antão; Mosteiros on the island of Fogo; and Ribeira Fajã on the island of São Nicolau (the "Watershed Areas"). The Watershed Project includes the following three Project Activities:

- *Water Management and Soil Conservation.* Development of water management infrastructure to slow runoff, capture water in reservoirs, and re-charge aquifers.
- *Agribusiness Development Services.* Establishment of demonstration farms,

extension training centers and technical assistance targeted to farmers, small agribusinesses and local municipalities and support of processing and marketing efforts, including addressing the impact of pests by building institutional capacity to implement sanitary and phyto-sanitary regulations, and establishing an inspection and certification center and an applied research center.

- *Access to Credit.* Provision of credit for drip irrigation, working capital and agribusiness investments and technical assistance to increase the capacity of financial institutions in the provision of financial services.

The M&E Plan (described in *Annex III*) will set forth anticipated results and, where appropriate, regular benchmarks that may be used to monitor implementation progress. Performance against these benchmarks and the overall impact of the Watershed Project will be assessed and reported at the intervals to be specified in the M&E Plan or as otherwise agreed by the Parties from time to time. The Parties expect that additional indicators will be identified during the implementation of the Watershed Project. The expected results from, and the key benchmarks to measure progress on the Project, Project Activities and sub-activities undertaken or funded under this Watershed Project are set forth in *Annex III*.

Estimated amounts of MCC Funding for each Project Activity for this Watershed Project are identified in *Annex II* of this Compact. Conditions precedent to each Watershed Project Activity and sequencing of these Project Activities shall be set forth in the Disbursement Agreement or other relevant Supplemental Agreements.

The following summarizes the Watershed Project Activities:

- (a) Project Activity: Water Management and Soil Conservation (the "Water Management Activity")

MCC Funding will be used to increase agricultural productivity by supporting the conversion of farm land from traditional dry land production to higher-value horticultural production, by improving natural resource management, including sustainable use of soil and water resources, and by building capacity to support the development and implementation of community-based watershed management plans. The Water Management Activity is designed to slow surface runoff through the construction of walls, terrace, dikes and check dams and the capture of water in reservoirs. This will increase the re-charge of water into underground

aquifers. The Water Management Activity will improve on-farm water use by promoting the adoption of drip irrigation technology. With an improved supply of water for a longer period of time, farmers will be able to switch from producing low-value grains and beans to higher-value horticultural products, thereby increasing their incomes. Specifically, MCC Funding will be used for the following activities in the Watershed Areas:

- (i) Technical assistance to national, municipal and local governments to develop community-based watershed management plans, including:

(1) An overall water resource inventory in the Watershed Areas, including a measurement of the water table levels;

(2) The establishment of a water user fee system and a system for the collection of such fees and the building of the capacity of municipalities to establish such a fee and collection system;

(3) A public awareness campaign that engages and informs local communities on the benefits of sustainable management planning; and

(4) The design, implementation and management of water infrastructure in the Watershed Areas.

(ii) Construction of physical infrastructure (reservoirs, terraces, dikes, contour walls, check dams, vegetative barriers and other structures) to capture surface water and replenish water tables, including:

(1) Acquisition of cement and other building materials and equipment to construct reservoirs and dikes;

(2) Cultivation and distribution of plantings for vegetative barriers for use on public lands; and

(3) Construction of cement "mirrors" on selected surfaces to capture rainwater and channel it to culverts to feed reservoirs.

The Ministry of Environment, Agriculture and Fisheries will work with local communities on the design and implementation of these activities with a focus on sustainable, cost-effective, environmentally appropriate water management, including management of surface water and water table replenishment. In the first year of the Water Management Activity, the Parties shall review and agree upon the appropriate roles of local communities, local municipalities, local associations or other entities for the responsibility of proper management, maintenance, and sustainability of the watersheds in each of the Watershed Areas, guided by the principle of sustainability. Water users will be responsible for the maintenance

of the water infrastructures in the Watershed Areas.

(iii) Provision of water to the farm gate, including the construction of a series of dikes, culverts and tubes of diminishing sizes from the reservoirs to the individual plots of land. Farmers will be responsible for obtaining and installing irrigation equipment on their own farms.

(b) Project Activity: Agribusiness Development Services (the "Agribusiness Development Activity")

Training of farmers in the technical and managerial aspects of new technology will be critical to the adoption of drip irrigation and is the focus of the Agribusiness Development Activity. Building capacity of the Ministry of the Environment, Agriculture, and Fisheries is key to this training effort. In addition, this Project Activity will increase productive capacity and marketing of agricultural products by farmers and small agribusinesses. With improved access to water, farmers will diversify production towards higher-valued horticultural crops. Due to a variety of factors (including poor infrastructure, low quality standards, and poor or non-existing packaging), existing marketing systems are weak.

MCC Funding will be used for the following:

(i) (1) Creation of demonstration farm plots to illustrate the use and management of drip irrigation to local farmers and (2) equipping of existing extension training and outreach centers operated by local representatives of the Ministry of Environment, Agriculture and Fisheries for farmers in the Watershed Areas;

(ii) Training of, and outreach to, farmers by extension workers through the extension centers referred to in the previous paragraph, including courses in (1) Drip irrigation and environmentally sustainable agricultural practices (*e.g.*, proper soil conservation and land cultivation), (2) the proper use, application and storage of fertilizers, pesticides, herbicides and fungicides, (3) where relevant, integrated pest management, (4) vegetable and fruit production, (5) on-farm water management and (6) down stream marketing;

(iii) Training of Ministry of Environment, Agriculture and Fisheries employees and extension workers to increase technical capacity in areas such as water management, fruit development, rural engineering, agricultural economics, project planning and management, and animal genetics and nutrition;

(iv) Establishment of a research center in Santo Antão to support the institutional research capacity of the Ministry of Environment, Agriculture and Fisheries (in particular the National Institute of Agriculture Research and Development) with a focus on applied research in water management, new varieties of fruits and vegetables and integrated pest management;

(v) Development and distribution by the Ministry of the Environment, Agriculture and Fisheries of seedlings and saplings of new and improved varieties of fruit and vegetables;

(vi) Establishment and operation of quality control centers for fruit and vegetable production to develop and enforce quality standards and separate products by quality;

(vii) Construction and operation of low-technology packing sheds in each of the Watershed Areas to improve the quality and marketing conditions of horticultural products and to allow farmers collectively to market their produce. These centers are to be managed by the local delegation of the Ministry of Environment, Agriculture and Fisheries; however, management plans will be developed to allow the transfer of operations and management to the private sector during the Compact Term;

(viii) Establishment and operation of an inspection and certification center on Santo Antão and the provision of technical assistance to the Ministry of the Environment, Agriculture, and Fisheries in developing and applying phyto-sanitary standards (including a plant inspection and certification system); and

(ix) Technical assistance for the development of sustainability plans by the Ministry of Environment, Agriculture and Fisheries, which plans will also identify ways to increase private sector participation in the delivery of services and in the entire agricultural value chain.

(c) Project Activity: Access to Credit (the "Credit Activity")

Few, if any, of the financial institutions in the Watershed Areas possess the resources to meet the anticipated demands for financing drip irrigation, working capital and agribusiness development. Through the Credit Activity, credit will be made available to enable farmers to finance drip irrigation, promote the conversion to horticultural products on newly irrigated land, and support post-harvest agribusinesses in the Watershed Areas.

MCC funding will support the following:

(i) Loans to farmers through local banks and micro-finance institutions (MFIs) for approximately 60% of the cost of new drip irrigation equipment and the cost of agricultural inputs (*e.g.*, fertilizer) and other working capital needs.

These loans to farmers will be funded by zero-interest loans from MCA-Cape Verde to the local financial institutions. Loans to financial institutions can be converted to grants at the end of the Compact Term. By providing USD \$350,000 in loans-to-grants, this sub-activity is expected to provide over USD \$700,000 in financing for drip irrigation. Loans to financial institutions converted to grants at the end of the Compact Term will be used in turn by such financial institutions to expand and maintain the supply of credit in the Watershed Areas.

(ii) Loans to post-harvest and other agribusinesses in the Watershed Areas through local banks and MFIs.

These loans to agribusinesses will be funded by zero-interest loans from MCA-Cape Verde to the local financial institutions. Loans to financial institutions can be converted to grants at the end of the Compact Term. By providing USD \$100,000 in loans-to-grants, this sub-activity is expected to provide over USD \$200,000 in financing for post-harvest agriculture-related business and other small and medium-sized rural businesses in the Watershed Areas.

(iii) Technical assistance to micro-finance and local financial institutions participating in the loan programs described above to (1) manage the origination, monitoring and collection of these loans, (2) inform farmers and others of the existence of these loan programs, and (3) strengthen credit-analysis techniques.

Loans to financial institutions provided under this Credit Activity will convert to grants (loans-to-grants) at the end of the Compact Term if the financial institutions are able to demonstrate acceptable levels of diligence in making loans and success in collecting them. Financial institutions that will participate in the Credit Activity will be chosen on a competitive basis. Banks and micro-finance institutions will be selected by MCA-Cape Verde based on their geographic proximity to the Watershed Areas, the financial terms that they propose for each type of loan, their financial viability, and their ability to manage these loan portfolios. Funds will be disbursed to financial institutions in tranches in amounts sufficient to meet only their near-term loan demand.

3. Beneficiaries

The principal intended beneficiaries of the Watershed Project will be individual farmers and farm households in the Watershed Areas, approximately one-third of which are headed by women. Other beneficiaries will include actors along the supply chain, including owners and operators of small- and medium-sized farms, agribusiness, providers and users of transportation and distribution services, and farmers associations and cooperatives in the Watershed Areas. Farmers in the Watershed Areas will benefit from increased access to water—both in volume and for more months of the year—as well as through training and extension opportunities and the increased availability of credit. Other intended beneficiaries include small agribusinesses and cooperatives, which are owned and operated mainly by women. Outside the Watershed Areas, additional beneficiaries will be government and private sector participants in the capacity building activities (training and technical assistance).

4. Coordination With Other Donors; Private Sector; Role of Civil Society; USAID

(a) *Donor Coordination.* The Parties consulted other donors regularly during the design of this Project to ensure that the Project Activities complement the efforts of other donors without replacing, duplicating or hindering such efforts.

A number of donors are involved in similar assistance programs (watershed management, drip irrigation, credit) in other areas of Cape Verde, including The Netherlands, Japan, Germany, the European Union, the World Bank and UN agencies.

For example, the Ministry of Environment, Agriculture and Fisheries receives approximately USD \$60 million a year in assistance from a variety of donors (most European countries, Japan and specialized UN agencies) to support a range of projects throughout Cape Verde, including water and forest resource management, fisheries, crop improvements for bananas and coffee, food safety and inspection, and capacity building. Donor coordination within the Ministry of Environment, Agriculture and Fisheries is the responsibility of the Director General, who participated in the development and design of the Watershed Project from the beginning. His participation has ensured that the Watershed Project is consistent with the efforts undertaken by other donors.

(b) *Private Sector.* In the rural areas of Cape Verde, there is little commercial activity other than production agriculture. This Project will support and promote small-scale agro-based industry development through the provision of technical assistance and training and increasing the availability of credit. Such potential industries include fruit processing, input suppliers and downstream produce marketing.

(c) *Civil Society.* Various associations, such as the Farmers Associations, will play an active role in implementing the Watershed Project. The demonstration farm plots and extension centers will also serve a critical role in community development and participation.

(d) *USAID.* The U.S. Agency of International Development does not have a mission in Cape Verde. However, the United States has a program supported by USAID P.L. 480 Title II funds and implemented by ACDI/VOCA, a U.S. based non-governmental organization. The approach adopted by ACDI/VOCA focuses on the promotion of drip irrigation, provision of technical assistance and training to farmers and small lending institutions, and includes a credit program to encourage farmers to adopt drip irrigation. The Watershed Project will expand this model, building on USAID's experience and lessons learned, to additional watersheds, making it available to a greater number of farmers.

5. Sustainability

(a) *Water Management Activity.* The Water Management Activity aims to establish community-based water management plans in each of the watersheds in order to ensure that water remains available for continued agricultural production. MCC Funding will assist national, municipal and local officials and water users to establish such plans. In addition, the price charged to water users will contribute to the long term sustainability of the resource. Pursuant to Section 2(a)(i)(2), technical assistance will also be provided to assist in building the capacity of the municipalities to establish a water user fee system and a system for the collection of such fees. Water users will be responsible for maintaining all water structures constructed pursuant to the Water Management Project Activity. Pursuant to Section 6 below, the Government shall undertake the establishment of water user fee system acceptable to MCC.

(b) *Agribusiness Development Activity.* Services will be demand-driven and designed to meet specific needs of the targeted beneficiaries in the

Watershed Areas. As farmers in the Watershed Areas increase their commercial activities, their ability to pay for services will increase. This will enable the Ministry of Environment, Agriculture and Fisheries to maintain the research and extension services provided to agricultural producers. The Ministry of Environment, Agriculture and Fisheries will implement a "fee for services" policy, charging fees for training, quality inspections, and certifications. During the Compact Term, farmers who adopt drip irrigation will receive both the training and credit necessary for successful adoption and sustained use of the new technology. The Ministry of Environment, Agriculture and Fisheries will initially manage the packing sheds funded by MCC Funding, but management plans will be developed with the ownership and management of such entities being transferred to the private sector by the end of the Watershed Project. The Government shall ensure that the Ministry of Environment, Agriculture and Fisheries develops a plan, acceptable to MCC, for the sustainability after the Compact Term of the activities undertaken in Agribusiness Development Activity, and the development of such plan shall be a condition precedent to certain MCC Disbursements. Under this Project Activity, technical assistance will be provided to assist in the development of such sustainability plans, including mechanisms for the collection of fees for services described above and pursuant to Section 6 below, which will also identify ways to increase private sector participation in the delivery of services and in the entire agricultural value chain.

(c) *Credit Activity.* Providers of the financial services under the Credit Activity will be required to demonstrate their ability not only to originate loans but to monitor and collect the loans and, thus, the sustainability of their services. Combined with technical assistance provided under the Private Sector Development Project, the Credit Activity is designed to encourage lending and repayment practices that will result in an increased and sustainable supply of rural credit after the expiration of the Compact Term. Furthermore, these institutions may benefit from the interventions contemplated in the Private Sector Development Project.

6. Policy and Legal Reform

The Parties have identified the following policy, legal and regulatory reforms and actions that the Government shall pursue in support, and to reach the full benefits, of the

Watershed Project, the satisfactory implementation of which will be conditions precedent to certain MCC Disbursements as provided in the Disbursement Agreement:

(a) Establishment of a water fee system. This includes: (i) A fee paid by users that (A) covers operating, delivery, and maintenance costs and (B) reflects the scarcity of water resources in the country and (ii) a formula for an annual adjustment in the fee rate based on consistent measurement of changes in the water table, and otherwise acceptable to MCC. This water fee system will be implemented according to a schedule agreed upon by the Parties for each Watershed Area.

(b) Build municipal capacity and a regulatory system, including any necessary or advisable policy reforms or procedural changes, to implement the water fee system and collect the fees described in paragraph (a) above.

(c) Establishment of a fee for services system for agribusiness and development of a sustainability plan. The Ministry of Environment, Agriculture and Fisheries shall implement a "fee for services" policy, charging fees for training, quality inspections, and certifications and develop a sustainability plan (including a management plan for the transfer of ownership and management to the private sector of the packing sheds).

(d) Elimination of key regulatory and legal obstacles to movement of inspected and certified horticultural products, including taking all necessary regulatory or other actions to lift the embargo on exports of horticultural products from Santo Antão.

7. Proposals

Under the Watershed Project, it is anticipated that there will be public solicitations of proposals for: (i) Technical assistance for the development of watershed management plans; and (ii) selection of the financial institutions to act as intermediaries in supplying credit. MCA-Cape Verde will develop, subject to MCC approval, a process for consideration of both solicited and unsolicited proposals. With respect to solicited proposals, the evaluation process will include, consistent as appropriate with the Procurement Guidelines, the issuance of a published request for proposals with specific identified evaluation criteria and peer reviewers.

Schedule 2 to Annex I—Infrastructure Project

This Schedule 2 generally describes and summarizes the key elements of an infrastructure project (the

"Infrastructure Project") that the Parties intend to implement in furtherance of the Infrastructure Objective. Additional details regarding the implementation of the Infrastructure Project will be included in the Implementation Plan and in relevant Supplemental Agreements.

1. Background

In the context of the Grand Options planning exercise, the Government formulated in 2003 a Priority Strategic Programme for Infrastructure and Land Use Management ("Strategic Programme"). The underlying principle of the Strategic Programme is to divide responsibilities clearly between the public and private sectors in the areas of transport, water and basic sanitation, telecommunications, land management and energy. In line with these principles, the Government supports the private provision of services and public ownership and investment in public goods infrastructure. For example, road transport and maritime services are now, with few exceptions, provided by the private sector and the Government is committed to increase the presence of the private sector in the port and aviation sectors.

(a) Port of Praia.

Being an archipelago, Cape Verde has port facilities on each of the country's islands, including two major ports located adjacent to Cape Verde's two largest cities: Porto de Praia (the "Port") on the island of Santiago and Porto Grande on the island of São Vicente. These two ports handle most international cargo imported to or exported from Cape Verde, in addition to supporting domestic cargo flows to Cape Verde's smaller and less populated islands. The Port is the country's busiest port, accounting for approximately 50% of the total volume of port traffic. An assessment of Port operations has identified a number of facilities-design problems that constrain and complicate cargo handling activities. The lack of backup space and the inability to expand landward impedes the development of container operations. The layout of the terminal and the absence of an adequate breakwater greatly reduce the operational effectiveness of the quays, particularly during the Kalymna (sea swells) months. These built-in shortcomings are exacerbated by the rapid growth in cargo traffic. The result is that the Port suffers from inefficient cargo handling operations, severe terminal congestion, and inadequate services. These inadequacies serve as a constraint to economic development and the efficient

movement of people and goods throughout Cape Verde.

(b) Roads and Bridges.

Cape Verde's road network consists of 1,350 km spread among the nine inhabited islands. While progress has been made in expanding road network coverage, lack of investment has left the basic network incomplete and lack of proper maintenance has led to deterioration of sections of the network. Based on the Strategic Programme and a Consultation Meeting with Development Partners in Praia April 2003, several donors, notably the World Bank, Portugal and the European Union ("EU"), are financing selected priority investments, with the World Bank playing a leading role in supporting institutional reforms in road sector management and maintenance (the "World Bank Road Sector Support Project"). Within this context, the Government identified eleven high priority road improvements on five islands aimed at: (i) Filling a gap in an incomplete island network through road upgrading on an existing earth track or the construction of small bridges; and (ii) rehabilitating key links that are in a deteriorated state. The World Bank Road Sector Support Project will partially fund these projects. The World Bank's sector management efforts will complement these improvements by addressing institutional reform and capacity building to ensure sustainable maintenance and delivery of road transport services.

The Government has identified the re-design and development of the Port and the upgrading of roads and bridges as critical steps in Cape Verde's development that is fully consistent with the infrastructure development pillar of the GPRSP.

2. Summary of the Project and Activities

The Infrastructure Project is designed to increase integration of the internal market and to reduce transportation costs. The Infrastructure Project includes the following two Project Activities:

- *Upgrade and Expansion of the Port.* Improvements to the Port are intended to maximize, in the short term, the Port's existing operational capacity and productivity to the extent possible given constraints, followed by longer-term investments to create new infrastructure and facilities to alleviate the Port's inherent berth, space and geometry problems.

- *Roads and Bridges.* This Project Activity is designed to achieve basic connectivity and improve mobility on two targeted island networks by: (i) closing network gaps and/or (ii)

ensuring all-weather and reliable access both to intra-island markets and services, as well as transportation linkages on the targeted islands.

The M&E Plan (described in *Annex III*) will set forth anticipated results and, where appropriate, regular benchmarks that may be used to monitor implementation progress. Performance against these benchmarks and the overall impact of the Infrastructure Project will be assessed and reported at the intervals to be specified in the M&E Plan or as otherwise agreed by the Parties from time to time. The Parties expect that additional benchmarks will be identified during the implementation of the Infrastructure Project. The expected results from, and the key benchmarks to measure progress on, the Project, Project Activities and sub-activities undertaken or funded under this Project are set forth in *Annex III*.

Estimated amounts of MCC Funding for each Project Activity within the Infrastructure Project are identified in *Annex II* of this Compact. Conditions precedent to the Infrastructure Project and each Project Activity and sequencing of the Infrastructure Project Activities shall be set forth in the Disbursement Agreement or other relevant Supplemental Agreements.

The following summarizes the Infrastructure Project Activities:

(a) Project Activity: Upgrade and Expansion of the Port of Praia (the "Port Activity")

The Port will require a number of major long-term expansion investments to meet Cape Verde's long-term development needs. In order to accommodate the growing traffic demand while long-term expansion is being completed, changes and upgrades will be required in the existing Port facilities. The implementation requirements for the Port Activity will require appropriate compliance with applicable international port security standards.

To address both short-term and long-term upgrade needs at the Port, MCC Funding will be used to fund the following:

(i) Short-term upgrade of Port operations to remove non-essential container storage, packing and unpacking, and customs impoundment from the active port, improve quayside facilities to increase space available for active cargo operations and initiate certain preparatory activities related to the long-term expansion plan, including:

(1) Conducting the following studies and assessments as pre-requisites and conditions precedent to both the short-

term upgrade activities described in this Section 2(a)(i) (other than this paragraph (1)) and long-term expansion activities of the Port described in Section 2(a)(ii): (A) cargo and passenger market studies, (B) geotechnical studies, (C) feasibility studies, (D) environmental impact assessment ("EIA"), and (E) engineering and design of the access road described in Section 2(a)(i)(4), the breakwater described in Section 2(a)(i)(5), and long-term expansion contemplated in Section 2(a)(ii); provided, however, these studies and assessments shall not be conditions precedent to the off terminal transport services center described in Section 2(a)(i)(2) and the quayside improvements described in Section 2(a)(i)(3), unless otherwise determined by the relevant authorities that such studies or assessments are pre-requisites;

(2) Development of an off-terminal transport services center on the plateau above the Port to include port services and logistics, container unpacking and warehouses/storage area, customs impoundment area, and associated facilities;

(3) Quayside improvements, including removal of the quayside warehouse and container activities and relocation to the new off-terminal transport services center, repaving Berth 2 backup area, and expansion of the cabotage terminal;

(4) Construction of second access route in and out of the operating Port through extension of a new access road from the Port to the industrial park to be located on the plateau above the Port;

(5) Construction and creation of an effective detached breakwater to reduce or eliminate the effects of the Kalyмна (sea swells) to enable year-round operations, while minimizing deposition of sediments in the bay; and

(6) Development and implementation of an environmental management and monitoring plan ("EMMP") for the Port.

(ii) Long-term Port expansion through the creation of new usable land areas and the development of specialized, high-efficiency terminals, including:

(1) Extension of Quay 1 to an operationally effective length (450 m) to handle multiple vessels concurrently; and

(2) Creation of space (over four hectares) for construction of a new two-berth specialized terminal container storage area through land reclamation behind Quay 1.

(b) Project Activity: Roads and Bridges (the "Roads and Bridges Activity")

The Roads and Bridges Activity will focus on improving transportation networks on two islands, Santiago and

Santo Antão. These improvements will link agricultural and fishing communities to the main traffic network and improve all-weather access.

To enable basic access and improved mobility on these two islands, MCC Funding will support the following:

(i) Road rehabilitation on Santiago Island, including:

(1) Rehabilitation of Org'os-Pedra Badejo (10 km) from cobblestone to asphalt standard;

(2) Rehabilitation of Cruz Grand Calhetona (14 km) from cobblestone to paved asphalt standard;

(3) Rehabilitation and reconstruction of Volta Monte-Ribeira Prata (15 km) to improved cobblestone standard;

(4) Rehabilitation and reconstruction of Assomada-Rincão (16 km) to a mixed cobblestone/asphalt standard—asphalt standard for the first 7 km and cobblestone standard for the remaining 9 km; and

(5) Rehabilitation and reconstruction of Fonte Lima—João Bernardo (9 km) to improved cobblestone standard.

(ii) Bridge construction and related works on Santo Antão Island, including:

(1) Construction of two small bridges at Ribeira Grande (200 m) and Ribeira Torre (60 m) and construction of protection works along the river banks; and

(2) Construction of bridges at Vila das Pombas and Liaison Vila das Pombas—Eito replacing the present access within the riverbed to the adjacent side for a length of 1 km and construction of a small bridge to assure access into the town of Paul.

3. Beneficiaries

(a) *Port Activity*. With respect to the Port Activity, as the economy of Cape Verde is import dependent, all consumers of imported products will benefit directly or indirectly from efficiency gains in Port operations that translate into lower delivered cost of goods or increased operating margins for Cape Verde operators and businesses. Other beneficiaries include Cape Verdean importers and exporters, including individuals and businesses, through improved quality of transportation services following the upgrades to and expansion of the Port. Direct beneficiaries of the Port Activity include residents of the island of Santiago and shippers.

(b) *Roads and Bridges Activity*. The principal intended beneficiaries of the Roads and Bridges Activity are expected to be rural and urban populations in the two islands where the interventions will occur. These include Cape Verdean families, farmers, businesses, non-governmental organizations, and social-

service providers and communities located along the roads or bridges proposed for improvement and construction. Improved access over continuous island road networks is viewed as a prerequisite and facilitator of all other development and poverty reduction programs on these islands. Other direct benefits of the Roads and Bridges Activity investments will include increased employment for men and women, particularly where cobblestone technologies will be applied. Stakeholders will include local contractors, design engineers, consultants, transport service providers and traders, all of whom will benefit directly from increased business opportunities resulting from the implementation and ongoing maintenance of the overall Roads and Bridges Activity.

The intended beneficiaries of the Infrastructure Project will be identified more precisely, including where possible disaggregated by gender, age, location and income level, during the initial phases of the implementation of the Project.

4. Donor Coordination; USAID

(a) *Donor Coordination.* The Parties consulted other donors regularly during the design of this Project to ensure that the Project Activities complement the efforts of other donors without replacing, duplicating or hindering such efforts.

(i) *Port Activity.* MCC and the World Bank have coordinated on such issues as policy reforms and privatization of Port operations. The World Bank has been assisting the transport sector in Cape Verde since July 1993 through the Infrastructure and Transport Program ("ITP") (multiple IDA credits). The ITP assisted the Government in increasing its international competitiveness through port modernization and reorganization of shipping. Other donors that co-financed the ITP include the Africa Development Bank, Arab Bank for Economic Development in Africa, European Investment Bank ("EIB"), Kreditanstalt für Wiederaufbau, Organization for Petroleum Exporting Countries, and Portugal. In addition to funding port modernization, the ITP facility was used to fund the new Praia airport to increase the airport's capacity and security. EIB is financing modernization of air navigation operations with the Airport and Aviation Security Company ("ASA"). With respect to other port-related donor activities: (i) The U.S. Trade and Development Agency has committed over USD \$700,000 for transportation infrastructure development in Cape

Verde, to fund the development of studies related to the expansion of the airport on Sal and for transshipment port development in Mindelo, São Vicente and (ii) the Maritime Administration of the U.S. Department of Transportation and the United States Coast Guard of the Department of Homeland Security have provided assistance to Cape Verde in matters related to maritime safety, container security and inspection, and implementation of the International Ship and Port Security Code.

(ii) *Roads and Bridges Activity.*

(1) MCC Funding will be a parallel source of funding to the existing World Bank Road Sector Support Project. MCC and the World Bank have coordinated on issues such as policy reforms and institutional sustainability measures. The MCC—World Bank coordination will continue during the implementation of the Roads and Bridges Activity since the Implementing Entity for this Project Activity will be the World Bank Project Implementation Unit. Other road projects supported by donors include: (i) EU co-financing with Luxembourg and Cape Verde of the construction of the Janela-Porto Novo road and (ii) Portuguese funding in the amount of Euros 30 million for a number of road projects on several islands. Donor coordination in the road sector will be assured by the Ministry of Infrastructure and Transport, through a Program Coordination Office ("PCO"), attached directly to the Minister's Office. The responsibility of the PCO will be to ensure overall management of this Project Activity and coordination of other related donor support for the overall transport sector program. Operational costs for the PCO will be supported by the World Bank.

(2) With respect to the bridge-related sub-activities in Santo Antão, an EU-funded project is constructing a road from Porto Novo along the west coast to Paul, and the construction of this bridge would guarantee continuity along the coast to Ribeira Grande.

(b) *USAID.* USAID is not currently active in Cape Verde in the infrastructure sector.

5. Sustainability

(a) *Port Activity.*

(i) Improvements to the cargo handling operations and the physical layout of the Port will allow the Port to handle its current workload and projected traffic in a manner that will likely lead to improved financial performance. The introduction of private sector participation in operations is a critical element to the sustainability of the Port Activity. The

Government has agreed to pursue privatization and commence the process to bring in private sector operators. MCC will monitor these reforms, which are being supported by the World Bank. Successful completion of this privatization will be a condition precedent to certain MCC Disbursements related to the Port Activity.

(ii) The implementation of an EMMP, to be undertaken pursuant to Section 2(a)(i)(6), is an important element to the environmental sustainability of the Port Activity. The Port has developed an Emergency Management Plan and Responses for Health and Safety (2004) ("Emergency Management Plan"), but an EMMP, which can also be critical to an Emergency Management Plan, is not yet in place. Successful implementation of the EMMP will be a condition precedent to the long-term expansion activities contemplated in Section 2(a)(ii).

(b) *Roads and Bridges Activity.* The Government's commitment to and ownership of the Road and Bridges Activity are evidenced by the concrete steps it has taken to reform road sector institutions, as set out in its Letter of Transport Sector Policy (the "Transport Sector Letter"). This includes maintaining a Road Agency and the commitment to establish a Road Maintenance Fund to ensure stable and sustainable maintenance financing. The Government has also committed significant domestic resources to the design of this Project Activity and achievement of the overall Strategic Programme.

(i) *Maintenance.* Keeping the Road Agency and Road Maintenance Fund on a solid footing will be critical to the sustainability of the Roads and Bridges Activity. MCC will monitor these reforms, supported by the World Bank. It is intended that the Government will undertake with the World Bank an early assessment of the efficiency of the institutional arrangements conducted pursuant to the World Bank Roads Sector Support Program. The satisfactory completion of this capacity building through the World Bank program and establishment and adequate funding of the Road Maintenance Fund will be conditions precedent to certain MCC Disbursements.

(ii) *Environment and Social Sustainability.* To ensure environmental and social sustainability of the Roads and Bridges Activity, the implementation of this Project Activity must be carried out in compliance with the road-specific Environmental Management Plans ("EMP"). In

addition, contractors will be required to carry out an HIV/AIDS Awareness Program for contractor employees and others. This will be based on the standard format for engaging communications specialists developed by the Cape Verde Committee to fight HIV/AIDS.

6. Policy and Legal Reform

The Parties have identified the following policy, legal and regulatory reforms and actions that the Government shall pursue in support, and to reach the full benefits, of the Infrastructure Development Project, the satisfactory implementation of which will be conditions precedent to certain MCC Disbursements as provided in the Disbursement Agreement:

(a) Port Activity.

(i) Reorganization of the current state entity that administers and operates the Port ("ENAPOR") to create a port authority (including establishment of a legal entity, a public owned corporation) having responsibility for ownership and management of port infrastructure, provision of services in areas of port infrastructure, strategic and operational planning for the harbor, security maintenance and ports environmental protection and provision through concession, licenses, contracts, or leasing of participation of private sector operators in the operations of the ports;

(ii) Creation of a regulatory authority which will be responsible for the technical and economic regulation of the ports and maritime sectors and for establishment and supervision of standards of service in terms of price, quality, security, and competition and adoption of corresponding legislation to establish this agency;

(iii) Completion of the ongoing customs modernization program which includes simplification of the tax and fee structure, improved access control at customs facilities, information technology improvements, and improved organizational structure;

(iv) Further development of the Emergency Management Plan to include the establishment and implementation of an EMMP for the operation of the Port and full implementation of health and safety measures; and

(v) Satisfactory compliance by the Government with recommended environmental and social impact mitigation measures specified in the EIA conducted pursuant to Section 2(a)(i)(1).

(b) Roads and Bridges Activity.

(i) A road maintenance fund ("Road Maintenance Fund") is created and functions in accordance with the Transport Sector Letter (e.g., promotion

of commercial management approaches and sustainable maintenance based on user fees and progressive establishment of a maintainable network through investments on the core and local road network), and as necessary adoption of legislation to create the Road Maintenance Fund;

(ii) The Road Maintenance Fund establishes and manages annual road maintenance budgets, in accordance with the Transport Sector Letter;

(iii) Adoption of legislation to establish user fees (e.g. fuel levy or tax, levy on heavy vehicles);

(iv) The Government fully funds the Road Maintenance Fund through the collection of user fees (as described above) with a first year minimum annual revenue stream of CVE300,000,000, adjusted thereafter to meet the maintenance needs of the nation's road network;

(v) The Road Agency completes the National Road Plan;

(vi) The Road Agency implements annual road network maintenance plans within the planned execution period and within budget; and

(vii) Pilot performance-based road maintenance and management contracts are implemented by the Government.

Schedule 3 to Annex I—Private Sector Development Project

This Schedule 3 generally describes and summarizes the key elements of a private sector development project (the "Private Sector Development Project") that the Parties intend to implement in furtherance of the Private Sector Development Objective. Additional details regarding the implementation of the Private Sector Development Project will be included in the Implementation Plan and in the relevant Supplemental Agreements.

1. Background

Cape Verde's strong record of democratic governance, stability, transparency, and lack of corruption has allowed the country to maintain large inflows of foreign assistance and remittances from émigrés, which together represent roughly 25% of GDP. These financial flows have underpinned the country's economic progress since independence. In addition, Cape Verde's geography, climatic conditions, and small population (450,000 people spread out over nine different islands) limit the possibilities for growth based on productive sectors such as agriculture and manufacturing. Agriculture is constrained by extremely low annual rainfall levels, poor soil quality, and limited arability (10%) of land. Cape Verde's manufacturing

competitiveness is hampered by a lack of economies of scale and high factor costs of production.

Cape Verde's economic development strategy is focused on transition from an aid-dependency model of development to one of self-sustaining private-sector led growth. Cape Verde, through the ETS, has identified as potential engines of economic growth: tourism, financial services, transportation services, and fisheries (referred to herein as the "priority sectors"). The successful implementation of the ETS will require interventions to strengthen human capital, promote financial sector reform and increase access to financial services, support entrepreneurship development, encourage small and medium-sized enterprise linkages, and facilitate infrastructure development. The GPRSP complements the goals of the ETS and articulates, among other priorities, a focus on promoting the competitiveness of industry to facilitate growth and job creation, developing human capital and developing infrastructure (including promoting land use planning and protecting the environment). The Project Activities in this Private Sector Development Project are consistent with the overall orientation for Cape Verde's economic development, as articulated in the ETS and the GPRSP.

2. Summary of the Project and Activities

The Private Sector Development Project Activities will support Cape Verde's long-term economic transformation strategy of becoming less dependent on remittances and donor aid by developing a competitive, private-sector driven economy through a focus on the priority sectors. The Private Sector Development Project includes the following two Project Activities:

- Partnership to Mobilize Investment: To remove constraints to investment and stimulate the priority sectors of the economy by reducing early-stage project development risks that dissuade both domestic and international private investors; and

- Financial Sector Reform: To increase access to financial services and improve financial intermediation.

The M&E Plan (described in *Annex III*) will set forth anticipated results and, where appropriate, regular benchmarks that may be used to monitor implementation progress. Performance against these benchmarks and the overall impact of the Private Sector Development Project will be assessed and reported at the intervals to be specified in the M&E Plan or as otherwise agreed by the Parties from time to time. The Parties expect that additional indicators will be identified

during the implementation of the Private Sector Development Project. The specific expected results from, and the key benchmarks to measure progress on, the Project, Project Activities and sub-activities undertaken or funded under this Project are set forth in more detail in *Annex III*.

Estimated amounts of MCC Funding for each Project Activity for the Private Sector Development Project are identified in *Annex II* of this Compact. Conditions precedent to, and the sequencing of, each Project Activity under the Private Sector Development Project shall be set forth in the Disbursement Agreement or other relevant Supplemental Agreements.

The following summarizes the Private Sector Development Project Activities:

(a) Project Activity: Partnership To Mobilize Investment (the "Partnership to Mobilize Investment Activity")

The overall goal of this Project Activity is to increase private sector investment in the priority sectors as well as other sectors. In order to achieve this goal, the Government wishes to identify (i) those segments of the priority sectors where the country has a competitive advantage, (ii) the existing constraints (such as human resources, infrastructure, entrepreneurship and investment climate policy) to private sector investment in such segments, and (iii) the public or private interventions that must be undertaken in order to remove such constraints. In addition, the identified interventions may have to be prioritized given the limited government, donor and private sector resources available to address these issues.

Under this Project Activity, MCA-Cape Verde will collaborate with the International Finance Corporation ("IFC") Private Enterprise Partnership for Africa ("PEP") program, the Government's project implementation unit ("PIU") for the World Bank's Growth and Competitiveness Project, and the Ministry for Economy, Growth and Competitiveness ("MEGC") to identify those segments of the priority sectors where the country has a competitive advantage and the constraints to private investment in those segments and to identify, prioritize, design and implement the required interventions.

MCC Funding will support the activities set forth in paragraph (iv) below, provided, however, the four phases shall be carried out sequentially and the satisfactory completion of Phases I-III will be a condition precedent to Phase IV:

(i) *Phase I*: Conduct an analysis to identify those segments of the priority sectors where the country has a competitive advantage, the constraints to private sector investments in such segments and the potential public or private interventions to eliminate such constraints.

This phase will be undertaken and financed by the IFC. At the completion of this phase, IFC shall deliver to MEGC its analysis of constraints and possible interventions, including whether such interventions may be funded by private, public, or public-private support. This analysis will be informed by discussions with representatives of the government (national and local), private sector, non-governmental organizations, and civil society. The IFC will ensure that its analysis includes a preliminary estimate of the economic rate of return ("ERR") associated with any proposed interventions. This estimate will allow IFC and MEGC to narrow the potential interventions for MCC funding to those likely to achieve an ERR hurdle of 10%. The methodology to be utilized for determining whether the ERR hurdle of 10% is met shall be subject to MCC approval.

(ii) *Phase II*: Design specific activities to carry out the interventions identified in Phase I and determine the potential ERR associated with such activities.

This phase will be financed by the Government and/or other donors. Phase II will be implemented in the following manner. After reviewing the interventions identified in Phase I, MCA-Cape Verde, working with MEGC, will prioritize the proposed interventions based on their potential ability to facilitate private sector investment in the priority sectors. Then, the MEGC, through the IFC, will hire a local and international team to design detailed activities to carry out such prioritized interventions. These activities might involve policy reforms and/or projects (including physical infrastructure and other tangible assets) to address vocational training and education, human resource development, infrastructure, access to financial services, entrepreneurship development or small and medium-sized enterprises linkages. Other stakeholders may, at this stage, present to MCA-Cape Verde unsolicited proposals for interventions or activities that were not identified or designed by IFC in this Phase II. IFC will evaluate and prioritize such proposed interventions and activities as part of its responsibilities under this Phase II.

(iii) *Phase III*: Evaluation and selection of investment mobilization activities.

This phase will be funded by the Government and/or other donors. The MEGC, the Management Committee of the PIU (whose existing members include representatives of the MEGC, Ministry of Finance and Planning, National Bank, Agência Caboverdiana de Investimentos, the Chambers of Commerce, and labor unions, and to which a representative of the Strategic Transformation and Policy Center ("STPC") will be added), the IFC and, as appropriate, other stakeholders, will form a review committee ("Review Committee"). IFC will deliver to the Review Committee the prioritized IFC and unsolicited interventions or activities designed and/or evaluated in Phase II (the "Prioritized Activities") (as part of the recommendations the IFC will provide a list of those unsolicited proposals that it is not recommending to the Review Committee). The Review Committee will evaluate the Prioritized Activities and recommend to MCA-Cape Verde those specific Prioritized Activities the Review Committee believes should be supported by MCC Funding. MCA-Cape Verde, in consultation with the Stakeholders' Committee, will then evaluate and select from the activities recommended by the Review Committee those activities, if any, that should receive MCC Funding based on criteria adopted by MCA-Cape Verde in its Investment Guidelines (each, a "Selected Activity"). Prior to evaluating and selecting any Selected Activity, MCA-Cape Verde shall develop, subject to MCC approval, detailed investment guidelines ("Investment Guidelines"), procedures for evaluation and selection of Selected Activities, and procedures for determining composition (and replacement) of and other matters related to members of the Review Committee. The Investment Guidelines shall include the following criteria in assessing a proposed activity. The activity must:

(1) Be consistent with the procedures outlined above for Phases I-III;

(2) Be consistent with the Environmental Guidelines;

(3) Be consistent with the limitations on the use and treatment of MCC Funding set forth in Section 2.3 of this Compact;

(4) Represent a transformational intervention;

(5) Meet an ERR of no less than ten percent (10%) (calculated based on a methodology approved by MCC);

(6) Have clearly identified target outcomes and indicators;

(7) Support the Objectives or Project Outcomes as described in *Annex III*; and

(8) Have detailed budgets and work plans consistent with requirements for the standards for the Detailed Financial Plan and Work Plan components of the Implementation Plan.

Any Selected Activity shall be presented to MCC for its approval prior to the implementation of any such Selected Activity in Phase IV, no less than 20 days prior to the intended commencement of implementation of the Selected Activity. MCA-Cape Verde shall deliver to MCC any documentation related to the Selected Activity that MCC may request.

(iv) *Phase IV: Implement Selected Activities*, subject to MCC approval.

This implementation of Selected Activities shall be funded by MCC Funding, with possible parallel or co-financing by IFC or other donors. IFC or other donors may finance the implementation of other activities considered but not selected in Phase III. To the extent that a Selected Activity includes policy reforms, the Government shall take all necessary or advisable action to implement such reforms in a timely and effective manner.

The evaluation process for any person or entity that will implement a Selected Activity under this Phase IV (whether or not such Selected Activity was identified and designed by the IFC) will include, consistent as appropriate with the Procurement Guidelines, the issuance of a published request for proposals with specific identified evaluation criteria and peer reviewers.

(b) *Project Activity: Financial Sector Reform* (the "Financial Sector Reform Activity")

The Financial Sector Reform Activity consists of two sub-activities with the following objectives: (i) to increase access to credit by supporting the development of micro-finance institutions ("MFIs") and (ii) to increase financial intermediation by expanding access to the primary market for government securities.

To achieve these objectives, MCC Funding will support:

(i) *Development of MFIs.*

The National Bank has drafted new enabling legislation to grant expanded deposit-taking powers to MFIs and to authorize the National Bank to begin to regulate MFIs and their activities as deposit-takers. It is expected that this legislation will be enacted in 2005 after allowing the affected institutions to comment on the proposed changes. To encourage financial sector development, this sub-activity will focus on transitioning MFIs to being both deposit-takers and regulated entities and

enabling them to become more significant providers of credit, savings, and other financial services to both rural residents and the urban poor.

Specifically, MCC Funding will support:

(1) Technical assistance to assist MFIs to take advantage of expanded deposit-taking powers and to ease the transition to a new regulatory environment (e.g., defining governance structure and institutional policies, design and pricing of liability products, asset-liability management and tracking, marketing, and regulatory reporting requirements, among others); and

(2) Provision of software to support the record-keeping associated with those deposit-taking powers.

(ii) *Expansion of access to the primary market for government securities.*

The Government currently limits access to its auction of domestic debt to banks, insurance companies, and a small number of government agencies such as EMPS (the pension system) and ASA (the aviation authority). These participants have extraordinary influence over the interest rate on these securities and banks have little incentive to redistribute them to other investors. This sub-activity will support financial sector competitiveness by enabling domestic, non-bank investors, including individuals and corporations, to access the primary market for government securities. It is expected that this activity will assist in creating a more transparent market. Specifically, MCC Funding will support:

(1) Technical assistance to the Ministry of Finance to assist with the development of new auction procedures and related matters such as the design of a registry of ownership and the role of financial intermediaries; and

(2) Provision of software to support the primary government securities market.

3. *Beneficiaries*

(a) *Partnership to Mobilize Investment Activity.* The principal intended beneficiaries of the Partnership to Mobilize Investment Activity will be: (a) Individuals and companies who will benefit from an improved investment climate in the priority sectors, and (b) individuals who will benefit from increased availability of jobs and enhanced entrepreneurial opportunities resulting from the interventions in the priority sectors.

(b) *Financial Sector Reform Activity.* The principal intended beneficiaries of the Financial Sector Reform Activity will be (a) the urban and rural poor who will gain access to a broader menu of financial services from stronger

financial intermediaries, (b) existing MFIs and non-governmental organizations that will receive specialized technical assistance for institutional transformation, and (c) all investors and borrowers, including the Government, who will gain from a more open financial system and who will be better equipped to develop new financial products based on market-determined interest rates.

4. *Donor Coordination; Private Sector; Role of Civil Society; USAID*

(a) *Donors.* The Parties consulted other donors regularly during the design of this Project to ensure the Project Activities complement the efforts of other donors without replacing, duplicating or hindering such efforts.

(i) *Partnership to Mobilize Investment Activity:*

(1) The African Capacity Building Foundation awarded a grant to the Government to strengthen economic policy-making capabilities for public sector officials by supporting the establishment of the STPC. It is anticipated over time that the STPC will, among other things, provide greater leadership for the Partnership to Mobilize Investment Activity. As noted above, MCC will also leverage the expertise and funding of the IFC's PEP program as well as possible funding by other multilateral and bilateral donors. Through the Growth and Competitiveness Project, funding and other credits from the World Bank/IDA are available to the Government to support activities that complement the focus of the Partnership to Mobilize Investment Activity. The IFC PEP team will be working in partnership with the PIU and the Management Committee in order to prevent duplication in implementation.

(2) The U.S. Trade and Development Agency has provided funding for the Government to explore investment opportunities for both maritime and air-cargo transshipment. MCC will ensure that this analysis is provided to the IFC for its work during Phase I. Several donors are involved in education and human resource development in Cape Verde. When considering potential interventions in this sector, MCA-Cape Verde will ensure that other donors are consulted to complement and prevent duplication of efforts. The World Bank/IDA has made funding available through the Growth and Competitiveness Project as well as other credits to the Government to support activities that complement the focus of the Partnership to Mobilize Investment Activity. When considering potential interventions in priority sectors, MCA-Cape Verde will

ensure that relevant materials and analyses funded through the Growth and Competitiveness Project will be provided to IFC to prevent duplication of efforts.

(ii) *Financial Sector Reform Activity*. A number of donors support financial sector reform efforts targeted at micro-finance. The World Bank is supporting a number of projects related to the development of skills at the National Bank to improve financial system monitoring, including the supervision of MFIs. The World Bank is also providing assistance with the development of new financial instruments such as factoring and leasing and the introduction of a stock exchange. MCC is not aware of donor plans to provide support to MFIs with respect to the National Bank's proposed new regulation of MFIs or to provide support for expanding access to the primary market for government securities.

(b) *Private Sector and Civil Society*.

(i) *Partnership to Mobilize Investment Activity*. The private sector and civil society will be actively involved in all phases, including needs assessment and activity design and selection. Furthermore, the Partnership to Mobilize Investment Activity is intended to help Cape Verdean and international private sector investors to take advantage of opportunities presented by the Africa Growth and Opportunity Act ("AGOA") in the those priority sectors that are also a focus for AGOA (e.g., ecotourism and light industry, including fisheries).

(ii) *Financial Sector Reform Activity*. Existing micro-finance and other non-bank financial institutions in Cape Verde were created as informal alliances of citizens in order to support women heads of household or small business owners as well as members of other community-based associations. A loan from a micro-finance provider is often the first interaction that an individual will have with the financial system. The Financial Sector Reform Activity will augment these efforts and help these financial institutions to grow and to offer an expanded menu of products to a broader cross-section of potential savers and borrowers.

(c) *USAID*. The U.S. Agency for International Development does not have a mission in Cape Verde. However, USAID has a PL-480 program that has provided technical assistance to several community-based associations through ACDI/VOCA in connection with its drip irrigation and small- and medium-sized enterprise financing projects. To the extent possible, MCC efforts to support MFIs would be structured to coordinate with those efforts and to benefit from

the relationships that ACDI/VOCA has successfully developed and build on USAID's experience and lessons learned.

5. Sustainability

The Partnership to Mobilize Investment Activity will develop significant governmental capacity to prioritize and implement business climate interventions after the Compact Term without donor technical assistance. This will occur through the transfer of considerable knowledge and expertise to the local staff of the various participants in this Project Activity. At the conclusion of the Growth and Competitiveness Project in February 2008, the MEGC shall hire as employees of MEGC sufficient relevant PIU staff to continue oversight of the Partnership to Mobilize Investment Activity. The Government shall provide necessary funding to MEGC prior to and during Phase IV of this Project Activity to ensure proper day-to-day operations and appropriate oversight and implementation of the Partnership to Mobilize Investment Activity. It is anticipated that the MEGC and STPC will carry on similar business climate improvement activities after the Compact Term.

The Financial Sector Reform Activity will be accomplished through technical assistance that is intended to transfer the requisite knowledge that will allow the MFIs to develop into self-sustaining deposit-taking institutions.

6. Policy and Legal Reform

The Parties have identified the following policy, legal and regulatory reforms and actions (in addition to those being funded under the Private Sector Development Project) that the Government shall pursue in support, and to reach the full benefits, of the Private Sector Development Project, the satisfactory implementation of which will be conditions precedent to certain MCC Disbursements as provided in the Disbursement Agreement:

(a) If the success and implementation of a Selected Activity is dependent upon the implementation of policy or legal reforms or procedural changes that are not being funded by MCC, the Government shall take all necessary or advisable action to adopt or implement such reforms and changes in a timely and effective manner.

(b) The enactment of legislation to regulate MFIs and their deposit-taking powers.

(c) The modification of rules and procedures regarding the auction of Government of Cape Verde securities

intended to enhance price discovery and broaden distribution.

7. Proposals

With respect to the Partnership to Mobilize Investment Activity, unsolicited proposals for activities shall be considered in the manner described in Section 2(a)(iii) of this Schedule. There will be no solicitation for proposals for activities under this Project Activity.

Annex II—Summary of Multi-Year Financial Plan

This Annex II to the Compact (the "Financial Plan Annex") summarizes the Multi-Year Financial Plan for the Program. Each capitalized term in this Financial Plan Annex shall have the same meaning given such term elsewhere in this Compact.

1. *General*. A multi-year financial plan summary ("Multi-Year Financial Plan Summary") is attached hereto as *Exhibit A*. By such time as specified in the Disbursement Agreement, MCA-Cape Verde will adopt, subject to MCC approval, a Multi-Year Financial Plan that includes, in addition to the multi-year summary of anticipated estimated MCC Funding and the Government's contribution of funds and resources, an estimated draw-down rate for the first year of the Compact based on the achievement of performance milestones, as appropriate, and the satisfaction or waiver of conditions precedent. Each year, at least 30 days prior to the anniversary of the entry into force of the Compact, the Parties shall mutually agree in writing to a Detailed Financial Plan for the upcoming year of the Program, which shall include a more detailed plan for such year, taking into account the status of the Program at such time and making any necessary adjustments to the Multi-Year Financial Plan.

2. *Implementation and Oversight*. The Multi-Year Financial Plan and each Detailed Financial Plan shall be implemented by MCA-Cape Verde, consistent with the approval and oversight rights of MCC and the Government as provided in this Compact, the Governance Agreement and the Disbursement Agreement.¹

3. *Estimated Contributions of the Parties*. The Multi-Year Financial Plan Summary identifies the estimated

¹ The role of civil society in the implementation of the Compact (including through participation on the Stakeholders' Committee and Steering Committee), the responsibilities of the Government and MCC in achieving the Compact Goal and Objectives, and the process for the identification of beneficiaries are addressed elsewhere in this Compact and therefore are not repeated here.

annual contribution of MCC Funding for Program administration, monitoring and evaluation, and each Project. The Government's contribution of resources to Program administration, monitoring and evaluation, and each Project shall consist of (i) "in-kind" contributions in the form of Government Responsibilities and any other obligations and responsibilities of the Government identified in this Compact, including contributions identified in the notes to the Multi-Year Financial Plan Summary, (ii) such other contributions or amounts as identified in notes to the Multi-Year Financial Plan Summary, and (iii) such other contributions or amounts as may be identified in relevant Supplemental Agreements between the Parties or as may otherwise be agreed by the Parties; provided, in no event shall the Government's contribution of resources be less than the amount, level, type and quality of resources required to effectively carry out the Government Responsibilities or any other responsibilities or obligations of the

Government under or in furtherance of this Compact.

4. Modifications. The Parties recognize that the anticipated distribution of MCC Funding between and among the various Program activities and Project and Project Activities will likely require adjustment from time to time during the Compact Term. In order to preserve flexibility in the administration of the Program, the Parties may, upon agreement of the Parties in writing and without amending the Compact, change the designations and allocations of funds between Program administration and a Project, between one Project and another Project, between different activities within a Project, or between a Project identified as of the entry into force of this Compact and a new Project, without amending the Compact; provided, however, that such reallocation (i) is consistent with the Objectives, (ii) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact, and (iii) does not cause the

Government's obligations or responsibilities or overall contribution of resources to be less than specified in Section 2.2(a) of this Compact, this Annex II or elsewhere in the Compact.

5. Conditions Precedent; Sequencing. MCC Funding will be disbursed in tranches. The obligation of MCC to approve MCC Disbursements and Material Re-Disbursements for the Program and each Project is subject to satisfactory progress in achieving the Objectives and on the fulfillment or waiver of any conditions precedent specified in the Disbursement Agreement for the relevant Program activity or Project or Project Activity. The sequencing of Project activities or Project Activities and other aspects of how the Parties intend the Projects to be implemented will be set forth in the Implementation Plan, including Work Plans for the applicable Project, and MCC Disbursements and Re-Disbursements will be disbursed consistent with that sequencing.

BILLING CODE 9210-01-P

EXHIBIT A: MULTI-YEAR FINANCIAL PLAN SUMMARY¹

Project	Year 1	Year 2	Year 3	Year 4	Year 5	Total
1. Watershed Management and Agricultural Support²						
(a) Water Management Activity	1,561,405	2,035,513	1,829,973	1,037,145	336,214	6,800,249
(b) Agribusiness Development Services Activity	1,278,311	1,503,576	665,603	84,383	66,508	3,598,380
(c) Credit Activity	0	145,000	145,000	105,000	55,000	450,000
Sub-Total	2,839,715	3,684,089	2,640,576	1,226,528	457,722	10,848,630
2. Infrastructure³						
(a) Port Activity ⁴	7,067,100	7,201,541	17,936,346	14,406,594	7,128,628	53,740,208
(b) Roads and Bridges Activity	5,000,000	8,520,000	9,500,000	2,000,000	0	25,020,000
Sub-Total	12,067,100	15,721,541	27,436,346	16,406,594	7,128,628	78,760,208
3. Private Sector Development⁵						
(a) Partnership to Mobilize Investment Activity	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	5,000,000
(b) Financial Sector Reform Activity ⁶	571,500	865,000	573,500	190,000	0	2,200,000
Sub-Total	1,571,500	1,865,000	1,573,500	1,190,000	1,000,000	7,200,000
4. Monitoring and Evaluation	939,036	375,000	1,575,000	425,000	1,575,000	4,889,036
Sub-Total	939,036	375,000	1,575,000	425,000	1,575,000	4,889,036
5. Program Administration and Control⁷						
(a) Program administration	852,123	1,213,118	1,237,380	1,262,128	1,287,370	5,852,120
(b) Fiscal control and procurement management	600,783	375,241	0	0	0	976,024
(c) Enhanced transparency initiative	305,482	539,759	96,386	110,843	0	1,052,470
(d) Audits	100,000	100,000	100,000	100,000	100,000	500,000
Sub-Total	1,858,389	2,228,118	1,433,766	1,472,971	1,387,370	8,380,614
TOTAL ESTIMATED MCC CONTRIBUTION	19,275,740	23,873,747	34,659,188	20,721,093	11,548,721	110,078,488

EXHIBIT A: MULTI-YEAR FINANCIAL PLAN SUMMARY

¹ Amounts shown are U.S. Dollars

² Government will provide USD \$ 520,000 in-kind contributions in the form of Ministry of Environment, Agriculture and Fisheries staff time, resources, and systems development and upgrade to work towards the expected results of this Project.

³ Government will provide USD \$ 350,000 in-kind contributions in the form of Ministry of Infrastructure and Transport staff time, resources, and systems development to work towards the expected results for this Project.

⁴ Prior to any MCC Disbursement or Re-Disbursement for the access road and breakwater sub-activities under the short-term upgrade, the following must be completed: (i) satisfactory results from the feasibility study and environmental impact assessment and (ii) commitment by the Government to fund necessary mitigation and remediation costs related thereto identified in the environmental impact assessment in excess of the budgeted amount in the Detailed Financial Plan for such costs.

Prior to any MCC Disbursement or Re-Disbursement for the construction under the long-term Port expansion, the following must be completed: (i) completion of the privatization transaction called for in the May 2005 ENAPOR Privatization Action Plan agreed by and between the Government and the World Bank; (ii) satisfactory results from the feasibility studies and environmental impact assessment; (iii) development and implementation of an Environmental Management and Monitoring Plan for the Port; (iv) commitment by the Government to fund necessary mitigation and remediation costs identified in the environmental impact assessment in excess of the budgeted amount in the Detailed Financial Plan for such costs; and (v) commitment of funding by the Government or other satisfactory funding source (e.g., regional development bank, export credit agency or other) for amounts in excess of budgeted amount in the Detailed Financial Plan.

⁵ Government will provide USD \$ 1.3 million in cash (including USD \$500,000 for Phase II and Phase III of the Partnership to Mobilize Investment Activity) and in-kind contributions in the form of Ministry of Economy, Growth and Competitiveness staff time and resources towards the expected results of this Project.

⁶ Prior to any MCC Disbursement or Re-Disbursement for the development of micro-finance institution sub-activity, the following must be completed: (i) passage of legislation for non-bank credit providers and (ii) adoption of international best practices and performance standards for MFIs, such as those relating to Consultative Group for Assistance to the Poorest ("CGAP").

⁷ Government will provide USD \$ 5.4 million in-kind contributions in the form of Ministry of Finance and Planning staff time and resources towards systems and management support.

BILLING CODE 9210-01-C

Annex III—Description of the M&E Plan

This Annex III to the Compact (the "M&E Annex") generally describes the components of the M&E Plan for the Program. Each capitalized term in this Annex III shall have the same meaning given such term elsewhere in this Compact.

1. Overview

MCC and the Government (or a mutually acceptable Government Affiliate or Permitted Designee) shall formulate, agree to and the Government shall implement, or cause to be implemented, an M&E Plan that specifies (1) how progress toward the Objectives and Project Activity Outcomes will be monitored (the "Monitoring Component"), (2) a methodology, process and timeline for the evaluation of planned, ongoing, or completed Project Activities to determine their efficiency, effectiveness,

impact and sustainability (the "Evaluation Component"), and (3) other components of the M&E Plan described below. Information regarding the Program's performance, including the M&E Plan, and any amendments or modifications thereto, as well as periodically generated reports, will be made publicly available on the MCA-Cape Verde Website and elsewhere.

2. Monitoring Component

To monitor progress toward the achievement of the Objectives and Project Activity Outcomes, the Monitoring Component of the M&E Plan shall identify (1) Program levels, (2) the Indicators, (3) the party or parties responsible, the timeline, and the instrument for collecting data and reporting on each Indicator to MCA-Cape Verde, and (4) the method by which the reported data will be validated.

(a) *Program Levels.* The M&E Plan in general as well as the Performance

Monitoring Component in particular shall describe the Program at multiple levels of aggregation and shall describe the expected Program results at each of those levels. The highest level of results to be achieved by the Program, the Compact Goal, is understood to be the aggregation of the estimated benefits of the three Projects, as shown in the table below (the "Compact Goal Indicators"), which is indicative of the overall impact expected from all of the Project Activities. While these benefits can be estimated, it is methodologically impossible to attribute with a high degree of precision changes in income at the end of the Compact Term specifically to interventions undertaken under the or in furtherance of the Compact due to the existence of other factors, unrelated to the Program, that may affect income changes. However, these estimated benefits may be used to inform impact evaluation.

COMPACT GOAL: ECONOMIC GROWTH AND POVERTY REDUCTION IN CAPE VERDE

	Definition of benefit stream	Year 5	Year 10
Compact Goal Indicator: Increase in annual income (US\$ millions) ¹ .....	.....	\$10	\$22.3
Measured by:			
Increase in income from the Watershed Management and Agricultural Support Project.	Increase in farm profits, farm wages, retained earnings of agribusinesses, and returns to micro-finance institutions.	1.5	1.5
Increase in income from the Roads and Bridges Activity.	Savings on vehicle operating costs from the roads upgraded with asphalt plus the increase in income from the construction of the bridges.	1.9	2.9
Increase in income from the Port Activity	Estimated increase of value-added in the tourism industry and in government revenue as a result of increasing the efficiency of the Port.	5.4	16.7

COMPACT GOAL: ECONOMIC GROWTH AND POVERTY REDUCTION IN CAPE VERDE—Continued

	Definition of benefit stream	Year 5	Year 10
Increase in income from the Financial Sector Reform Activity.	Estimated contribution to economic growth calculated from the expected elasticity of growth with respect to the ratio of liquid liabilities to GDP.	0.2	0.3
Increase in income from the Partnership to Mobilize Investment Activity.	Imputed benefits based on the criteria that all investment projects will have an ERR of at least 10% over 20 years.	0.9	0.9

¹ The increase in annual income is approximately 1.2% of annual GDP in Year 5 and 2.3% in Year 10, assuming a real GDP growth rate of 4%.

(i) *Project*. At the second highest level of the Compact, or the Project level, the M&E Plan shall describe Program activities, results and measures of results' attainment in three categories which relate to the: (1) Watershed Management and Agricultural Support Project; (2) Infrastructure Project; and (3) Private Sector Development Project. The Objectives to be achieved by the activities under each of these Projects shall be understood as being directly and measurably attributable to the Program's interventions within the timeframe of the Compact.

(ii) *Project Activity*. At the third highest level of the Program, or the Project Activity level, the M&E Plan shall describe the results to be achieved within each Project Activity. The outcomes of each Project Activity ("Project Activity Outcome") shall be understood to be directly attributable to the Compact interventions and measurable within an intermediate period during the Compact Term.

(b) *Indicators*. The M&E Plan shall measure the results of the Program using quantitative, objective and reliable data ("Indicators"). Each Indicator will have one or more expected results that specify the expected value and the expected time by which that result will be achieved ("Target"). The M&E Plan will measure and report on Indicators at each of the two levels corresponding to those described above. First, the Indicators for each Objective (each, an "Objective Indicator") will measure the final results of the Projects in order to monitor their success in meeting each of the Objectives, including results for the intended beneficiaries identified in accordance with *Annex I* (collectively, the "Beneficiaries"). Second, Indicators for each Project Activity (each, a "Project Activity Outcome Indicator") will measure the intermediate results achieved under each of the Project Activities in order to provide an early measure of the likely impact of the

Project Activities. For each Indicator for a Project Activity Outcome and Objective, the M&E Plan shall define a strategy for obtaining and validating the value of such Indicator prior to being affected by the Program ("Indicator Baseline"). All Indicators will be disaggregated by gender, income level and age, to the extent practicable.

(i) *Objective Indicators*. The M&E Plan shall contain the Objective Indicators listed in the table below, with their definitions. The corresponding Indicator Baselines and Targets to be achieved are in the following tables. MCA-Cape Verde, subject to prior written approval from MCC, may only add Objective Indicators or refine the Targets of existing Objective Indicators prior to any MCC Disbursement or Re-Disbursement for any Project or Project Activity that may influence that Indicator, unless the Parties otherwise agree in writing.

OBJECTIVE INDICATOR DEFINITIONS

Objective Indicators	Definitions
Watershed Management and Agricultural Support Objective: Productivity: Horticulture (tons per hectare)	Average yield per production cycle for horticulture products across the three intervention areas. Horticulture includes the following products: tomato, cabbage, carrot, pepper, potato, sweet potato, yucca, and onion.
Value-added for farms and agribusinesses (million dollars)	Value-added for farms is defined as "Farm profits plus wages from the drip irrigation activities in the intervention areas." Value-added for agribusinesses is defined as "Retained earnings of agribusinesses in the intervention areas." This indicator is measured in 2005 dollars, exchange rate adjusted.
Infrastructure Objective: Volume of goods shipped between Praia and other islands (tons) ..	Total annual volume of goods shipped from the Port of Praia to other islands and arriving at the Port of Praia from the other islands.
Mobility Ratio (%)	Percentage of beneficiary population who take at least 5 trips per month. Beneficiaries are those living within 2 kilometers of the road. Trips include trips to school, health centers, markets, workplace, and other locations as defined in the World Bank's socio-economic baseline survey. This indicator is only relevant for roads (3) Volta Monte-Ribeira and (5) Fonte Lima—Joao Bernardo.
Savings on transport costs from asphalt roads and bridge improvements.	The savings on vehicle operating costs are calculated using the RED model for roads (1) Orgãos-Pedra Badejo, (2) Cruz Grand-Calhetona, and (4) Assomada-Rincão. An alternative methodology is used for bridge construction, which estimates the benefit as recouping wages foregone by bridge closures.
Private Sector Development Objective:	

OBJECTIVE INDICATOR DEFINITIONS—Continued

Objective Indicators	Definitions
Value added in priority sectors above current trends (escudos)	Value added in priority sectors (tourism, fisheries, financial services, transport and communication) above that predicted by extrapolating a linear 1999–2004 trendline.
Volume of private investment in priority sectors above current trends (escudos).	Volume of private investment in priority sectors (tourism, fisheries, financial services, transport and communication) above that predicted by extrapolating a linear 1999–2004 trendline.

WATERSHED MANAGEMENT AND AGRICULTURAL SUPPORT OBJECTIVE: INCREASE AGRICULTURAL PRODUCTIVITY IN THE INTERVENTION AREAS

	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
Objective Indicators: ² (Metric of Project success observable by end of Compact Term)						
Productivity: Horticulture (tons per hectare)	9	11	14	18	21	24
Value-added for farms and agribusinesses (million dollars)	0	0	0.4	0.8	1.1	1.5

² Baseline data were obtained for a variety of agricultural products including horticulture, fruits, milk and meat. Horticulture was chosen as the most important product group to indicate success of the Project. The indicators are specific to the intervention areas.

INFRASTRUCTURE OBJECTIVE: INCREASE INTEGRATION OF INTERNAL MARKETS AND REDUCE TRANSPORT COSTS

	Baseline ³	Year 1	Year 2	Year 3	Year 4	Year 5
Objective Indicators: (Metric of Project success observable by end of Compact Term)						
Port Activity:						
Volume of goods shipped between Praia and other islands (tons)	137,995	182,311	192,311	202,063	211,485	220,741
Roads and Bridges Activity: ⁴						
Mobility Ratio—"Percentage of beneficiary population who take at least 5 trips per month"	52%	.....	.....	.....	65%	65%
Savings on transport costs from asphalt roads and bridge improvements ⁵ (million dollars)	0	0	0	0	1.6	1.9

³ Baseline data is from 2004 and Year 1 is January 1 to December 31, 2006 for all Port-related indicators.

⁴ These baselines and targets are averages across the relevant roads and/or bridges.

⁵ This indicator is the benefit stream for the economic rate of return calculations.

PRIVATE SECTOR DEVELOPMENT OBJECTIVE: DEVELOP PRIVATE SECTOR

	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
Objective Indicators: (Metric of Project success observable by end of Compact Term)						
Value added in priority sectors above current trends	0	TBD	TBD	TBD	TBD	⁶ TBD
Volume of private investment in priority sectors above current trends	0	TBD	TBD	TBD	TBD	⁷ TBD

⁶ This target will be estimated after the investment opportunities have been identified.

⁷ Ibid.

(ii) *Project Activity Outcome Indicators.* The M&E Plan shall contain the Project Activity Outcome Indicators listed in the table below with their definitions. The baseline and targets to

be achieved are shown in the subsequent table. MCA-Cape Verde, subject to prior approval from MCC, may only add Project Activity Outcome Indicators or refine the Targets of

existing Project Outcome Indicators prior to any MCC Disbursement or Re-Disbursement for any Project Activity that may influence that Indicator, unless the Parties otherwise agree in writing.

PROJECT ACTIVITY OUTCOME INDICATOR DEFINITIONS

Project activity outcome indicators	Definitions
Watershed Management and Agricultural Support Objective: Water Management Activity	
Volume of available water (m ³)	Captured surface water plus water available through new wells.
Area treated with soil conservation and water capturing infrastructure (hectares).	Total number of hectares with rural infrastructure for soil conservation and water catchment like terraces, contour walls, vegetation, dikes, check dams, etc.
Aquifer level (m and m ³)	Level of the aquifers in each intervention area.
Agribusiness Development Activity:	
Adoption rate of drip irrigation (%)	Number of farmers using drip irrigation divided by the total number of farmers in the watershed area.
Area irrigated with drip irrigation (hectares)	Total number of hectares irrigated with drip irrigation in the intervention areas.
Number of agribusinesses	Agribusinesses are defined as: (1) Formal or informal transformation units (production centers for sweets, marmalade, cheese, etc) belonging to groups of producers (2) Formal or informal transformation units belonging to individual producers; and (3) Marketing units (packaging and storing centers).
Sales revenue of agribusinesses (escudos)	Revenue to agribusinesses of products processed, conserved, and sold. Agribusinesses are defined as: (1) Formal or informal transformation units (production centers for sweets, marmalade, cheese, etc) belonging to groups of producers (2) Formal or informal transformation units belonging to individual producers; and (3) Marketing units (packaging and storing centers).
Credit Activity:	
Volume of new loans disbursed (dollars)	Volume of new loans disbursed for drip irrigation, inputs, and agribusiness as part of the MCA Program.
Default rate (%)	A loan in default is defined to be any loan on which scheduled payments of principal are 90 or more days past due. The default rate is the ratio expressed as a percentage in which the numerator is the principal amount of loans in default (net of any payments of principal received on such loans) and the denominator is the sum of the principal amount of all loans outstanding as of the date for which the report was prepared.
Infrastructure Objective: Roads and Bridges Activity	
Number of days per year that bridges are not passable (days)	Estimated number of days per year that bridges are not passable.
Kilometers of roads rehabilitated (kms)	Total number of kilometers of road rehabilitated.
Port Activity:	
Tons of general cargo handled per hour (tons/hour)	Effective measure of tons of general cargo handled per working hour.
Containers handled per hour (containers/hour)	Effective measure of containers handled per working hour.
Tons per year (tons)	Total tons handled by the Port of Praia per year.
Containers per year (containers)	Total number of containers handled by the Port of Praia per year.
Berth occupancy for container ships (days)	Standard definition used by ENAPOR as of the Entry into Force for berth occupancy for container ships.
Private Sector Development Objective: Partnership to Mobilize Investment Activity	
Volume of public investment in priority sectors above current trends (escudos).	Volume of public investment in priority sectors (tourism, fisheries, financial services, transport and communication) above that predicted by extrapolating a linear 1999–2004 trendline.
Financial Sector Reform Activity:	
Volume of deposits in micro-finance institutions as percentage of total deposits (%).	Volume of deposits in micro-finance institutions supported by MCC as percentage of total deposits in the formal banking system.
Percentage of government security stock held outside of financial institutions and government agencies (%).	Total value of T-bills held outside of financial institutions and government agencies as a percentage of total value of T-bills outstanding.

WATERSHED MANAGEMENT AND AGRICULTURAL SUPPORT OBJECTIVE: INCREASE AGRICULTURAL PRODUCTIVITY IN THE INTERVENTION AREAS

	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
Project Activity Outcome Indicators: ⁸ Water Management Activity:						
Sustainable watershed management .....	.....	.....	.....	.....	.....	.....
Volume of available water (m ³)	126,000	130,650	258,730	427,820	681,530	875,355
Area treated with soil conservation and water capturing infrastructure (hectares).	258	301	357	430	497	497
Aquifer level	⁹ TBD	> Baseline ...	> Baseline ...	> Baseline ...	> Baseline ...	> Baseline
Project Activity Outcome Indicators: Agribusiness Development Activity						
Increase productive capacity						
Adoption rate of drip irrigation	10%	12%	17%	25%	29%	30%

WATERSHED MANAGEMENT AND AGRICULTURAL SUPPORT OBJECTIVE: INCREASE AGRICULTURAL PRODUCTIVITY IN THE INTERVENTION AREAS—Continued

	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
Area irrigated with drip irrigation (cumulative hectares)	9	9	26	56	94	121
Increase marketing of agricultural products						
Number of agribusinesses	2	2	4	9	10	11
Sales revenue of agribusinesses	¹⁰ TBD	TBD	TBD	TBD	TBD	TBD
Project Activity Outcome Indicators: Credit Activity						
Increase financial capacity of participants						
Volume of new loans disbursed	0	0	113,040	169,560	184,560	153,040
Default rate	n/a	n/a	¹¹ TBD	TBD	TBD	TBD

⁸ All of the following baselines and targets are aggregates or averages across the three intervention areas: Paul on Santo Antao, Faja on Sao Nicolau, and Mosteiros on Fogo.

⁹ Technical assistance has been included in the Compact to increase Cape Verde's capacity to monitor the level of the aquifers. The baseline will then be determined after Compact signing and prior to any MCC Disbursement or Re-Disbursement of this Project, unless the Parties otherwise agree in writing.

¹⁰ This information is not currently being collected in Cape Verde. A baseline survey is planned for after Compact signing and prior to any MCC Disbursement or Re-Disbursement of this Project, unless the Parties otherwise agree in writing. Targets will be set after the baseline survey.

¹¹ These targets will be determined after proposals including expected default rates have been submitted by micro-finance providers.

INFRASTRUCTURE OBJECTIVE: INCREASE INTEGRATION OF INTERNAL MARKETS AND REDUCE TRANSPORT COSTS

	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
Project Activity Outcome Indicators:						
Roads and Bridges Activity						
Improve rural transport network						
Number of days per year that bridges are not passable	8	8	8	8	0	0
Kms. of roads rehabilitated (cumulative)	0	0	27	60	63	63
Project Activity Outcome Indicators: ¹²						
Port Activity						
Increase efficiency of the Port of Praia						
Tons of general cargo handled per hour	20	20	22	25	30	35
Containers handled per hour	8.66	8.66	8.66	9	10	11
Tons per year	482,000	590,911	622,911	652,767	681,428	710,543
Containers per year	16,379	20,256	21,564	22,589	24,115	25,385
Berth occupancy for container ships	1.41 days	1.41	1.41	1.3	1.15	1.01

¹² Baseline data is from 2004 and Year 1 is January 1 to December 31, 2006 for all Port-related indicators.

PRIVATE SECTOR DEVELOPMENT OBJECTIVE: DEVELOP PRIVATE SECTOR

	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
Project Activity Outcome Indicators: Partnership to Mobilize Investment Activity						
Improve Environment for Business Development in Priority Sectors						
Volume of public investment in priority sectors above current trends	0	TBD	TBD	TBD	TBD	¹³ TBD
Project Activity Outcome Indicators: Financial Sector Reform Activity						
Increase financial intermediation						
Volume of deposits in micro-finance institutions as percentage of total deposits	0%	0%	0.5%	1%	2%	3%
Increase competition in the government securities market						
Percentage of government security stock held outside of financial institutions and government agencies	0%	0%	2%	4%	6%	8%

¹³ This target will be estimated after the investment opportunities have been identified.

(c) *Data Collection and Reporting.* The M&E Plan shall establish guidelines for data collection and a reporting framework, including a schedule of Program reporting and responsible parties. The Management Unit shall conduct regular assessments of program performance to inform MCA-Cape Verde, Project Managers and the MCC of progress under the Program and to alert these parties to any problems. These assessments will report the actual results compared to the Targets on the Indicators referenced in the Monitoring Component, explain deviations between these actual results and Targets, and in general, serve as a management tool for implementation of the Program. With respect to any data or reports received by MCA-Cape Verde, MCA-Cape Verde shall promptly deliver such reports to MCC along with any other related documents, as specified in this *Annex III* or as may be requested from time to time by MCC.

(d) *Data Quality Reviews.* From time to time, as determined in the M&E Plan or as otherwise requested by MCC, the quality of the data gathered through the M&E Plan shall be reviewed to ensure that data reported are as valid, reliable, and timely as resources will allow. The objective of any data quality review will be to verify the quality and the consistency of performance data, across different implementation units and reporting institutions. Such data quality reviews also will serve to identify where those levels of quality are not possible, given the realities of data collection. The data quality reviewer shall enter into an Auditor / Reviewer Agreement with MCA-Cape Verde in accordance with *Annex I*.

3. Evaluation Component

The Program shall be evaluated on the extent to which the interventions contribute to the Compact Goal. The Evaluation Component shall contain a methodology, process and timeline for analyzing data in order to assess planned, ongoing, or completed Project Activities to determine their efficiency, effectiveness, impact and sustainability. This component should use state-of-the-art methods for addressing selection bias and should make provisions for collecting data from both treatment and control groups, where practicable. The Evaluation Component shall contain two types of reports: Final Evaluations and Ad Hoc Evaluations, and shall be finalized before any MCC Disbursement or Re-Disbursement for specific Program activities or Project Activities.

(a) *Final Evaluation.* MCA-Cape Verde, with the prior written approval of MCC, may engage an independent

evaluator to conduct an evaluation at the expiration or termination of the Compact Term ("Final Evaluation") or at MCC's election. MCC may engage such independent evaluator. The Final Evaluation must at a minimum (i) Evaluate the efficiency and effectiveness of the Program Activities; (ii) estimate, quantitatively and in a statistically valid way, the causal relationship between the Compact Goal (to the extent possible), the Objectives and Project Activity Outcomes; (iii) determine if and analyze the reasons why the Compact Goal, Objectives and Project Activity Outcomes were or were not achieved; (iv) identify positive and negative unintended results of the Program; (v) provide lessons learned that may be applied to similar projects; (vi) assess the likelihood that results will be sustained over time; and (vii) any other guidance and direction that will be provided in the M&E Plan. To the extent engaged by MCA-Cape Verde, such independent evaluator shall enter into an Auditor / Reviewer Agreement with MCA-Cape Verde in accordance with *Annex I*.

(b) *Ad Hoc Evaluations.* Either MCC or MCA-Cape Verde may request ad hoc or interim evaluations or special studies of Projects, Project Activities, or the Program as a whole prior to the expiration of the Compact Term. If MCA-Cape Verde engages an evaluator, the evaluator will be an externally contracted independent source selected by MCA-Cape Verde, subject to the prior written approval of MCC, following a tender in accordance with the Procurement Guidelines, and otherwise in accordance with any relevant Implementation Letter or Supplemental Agreement. The cost of an independent evaluation or special study may be paid from MCC Funding. If MCA-Cape Verde requires an ad hoc independent evaluation or special study at the request of the Government for any reason, including for the purpose of contesting an MCC determination with respect to a Project or Project Activity or to seek funding from other donors, no MCC Funding or MCA-Cape Verde resources may be applied to such evaluation or special study without MCC's prior written approval.

4. Other Components of the M&E Plan

In addition to the Monitoring and Evaluation Components, the M&E Plan shall include the following components for the Program, Projects and Project Activities, including, where appropriate, roles and responsibilities of the relevant parties and Providers:

(a) *Costs.* A detailed cost estimate for all components of the M&E Plan.

(b) *Assumptions and Risks.* Any assumptions and risks external to the Program that underlie the accomplishment of the Objectives and Project Activity Outcomes; provided, however, such assumptions and risks shall not excuse performance of the Parties, unless otherwise expressly agreed to in writing by the Parties.

5. Implementation of the M&E Plan

(a) *Approval and Implementation.* The approval and implementation of the M&E Plan, as amended from time to time, shall be in accordance with the Program Annex, this M&E Annex, the Governance Agreement, and any other relevant Supplemental Agreement.

(b) *Stakeholders' Committee.* The completed portions of the M&E Plan will be presented to the Stakeholders' Committee at the Stakeholders' Committee's initial meetings, and any amendments or modifications thereto or any additional components of the M&E Plan will be presented to the Stakeholders' Committee at appropriate subsequent meetings of the Stakeholders' Committee. The Stakeholders' Committee will have opportunity to present its suggestions to the M&E Plan, which the Steering Committee will take into consideration, as a factor, in its review of any amendments to the M&E Plan during the Compact Term. The Stakeholders' Committee shall deliver an acknowledgement following its review of the M&E Plan and any amendments thereto.

(c) *MCC Disbursement and Re-Disbursement for a Project Activity.* Unless the Parties otherwise agree in writing, prior to, and as a condition precedent to, the initial MCC Disbursement or Re-Disbursement with respect to certain Project Activities, the baseline data or report, as applicable and as specified in the Disbursement Agreement, with respect to such Project or Project Activity must be completed in form and substance satisfactory to MCC. As a condition to each MCC Disbursement or Re-Disbursement there shall be satisfactory progress on the M&E Plan for the relevant Project or Project Activity, and substantial compliance with the M&E Plan, including any reporting requirements.

(d) *Modifications.* Notwithstanding anything to the contrary in the Compact, including the requirements of this M&E Annex, MCC and the Government (or a mutually acceptable Government Affiliate or Permitted Designee) may modify or amend the M&E Plan or any component thereof, including those elements described herein, without amending the Compact; provided, any

such modification or amendment of the M&E Plan has been approved by MCC

in writing and is otherwise consistent with the requirements of this Compact

and any relevant Supplemental Agreement between the Parties.

[FR Doc. 05-14195 Filed 7-22-05; 8:45 am]

BILLING CODE 9210-01-P