Development Credit Agreement

(Road Sector Support Project)

between

REPUBLIC OF CAPE VERDE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 31, 2005
CREDIT NUMBER 4064 CV

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 31, 2005, between REPUBLIC OF CAPE VERDE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated March 8, 2005, from the Borrower: (a) describing a program of actions, objectives and policies designed to improve the Borrower’s Road Sector (the Program); (b) stating that the Program is essential to support the sustained social and economic development of the Borrower; (c) declaring its commitment to the execution of the Program; and (d) requesting the Bank’s assistance in the execution of the Program;

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

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. Treatment of Taxes

Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of
the proceeds of its credits. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association.”

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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

(a) “Abbreviated Resettlement Action Plan” and the acronym “ARAP” mean the abbreviated resettlement action plan prepared by MIT (as hereinafter defined), satisfactory to the Association, in connection with the carrying out of Parts B.4 and B.5 of the Project, which sets out the principles and procedures governing land acquisition, resettlement, compensation and rehabilitation of Affected Persons (as hereinafter defined), as well as administrative, reporting and monitoring arrangements to ensure compliance with said plan, as such plan may be revised from time to time with the agreement of the Association;

(b) “Affected Persons” means persons who, on account of an involuntary taking of land under the Project, had or would have their: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently; and "Affected Person" means any of the Affected Persons;

(c) “Annual Action Plan” means any of the plans referred to in paragraph 3 (a) and/or (c) of Schedule 4 to this Agreement;

(d) “Banco de Cabo Verde” means the Borrower’s central bank, as defined in decree-law number 42-93, dated July 4, 1993;

(e) “Eligible Categories” means Categories (1) through (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) “Eligible Expenditures” means the expenditures for goods, works and consultant’s services referred to in Section 2.02 of this Agreement;
(g) “Environmental Management Plan” and the acronym “EMP” mean the plan of actions, satisfactory to the Association, prepared by MIT (as hereinafter defined), which sets out the objectives, policies, monitoring procedures, time schedules and other environmental provisions to mitigate adverse environmental effects in the carrying out of the Project;

(h) “Escudo de Cabo Verde” and the symbol “E$” mean the lawful currency of the Borrower;

(i) “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(j) “IE” means Instituto de Estradas, the Borrower’s Road Agency; or any successor thereto;

(k) “IGOPP” means Inspeção Geral das Obras Publicas, the Borrower’s General Inspectorate of Public and Private Works, or any successor thereto;

(l) “LEC” means Laboratorio de Engenharia Civil de Cabo Verde, the Borrower’s Civil Engineering Laboratory, or any successor thereto;

(m) “MIT” means Ministério das Infraestruturas e Transportes, the Borrower’s Ministry of Infrastructure and Transport, or any successor thereto;

(n) “Operational Manual” means the manual referred to in paragraph 2 (a) of Schedule 4 to this Agreement;

(o) “PCO” means the office referred to in paragraph 4 (a) of Schedule 4 to this Agreement;

(p) “Procurement Plan” means the Borrower’s procurement plan, dated March 8, 2005, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(q) “Project Preparation Advance” means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on March 2, 2004 and on behalf of the Borrower on March 18, 2004;

(r) “Report Based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.5 of Schedule 1 to this Agreement;
“Road Maintenance Fund” and the acronym “RMF” mean the Borrower’s autonomous fund to finance Road Maintenance (as hereinafter defined), as provided in Section 3.03 of this Agreement;

“Road Maintenance” means periodic civil works to be undertaken by MIT to preserve the Borrower’s road network;

“Special Account” means the account referred to in Part B of Schedule 1 to this Agreement; and

“User Fee” means a levy paid by road users in the Borrower’s territory, to finance Road Maintenance.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to nine million nine hundred thousand Special Drawing Rights (SDR 9,900,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Parts A; B.1; B.2; and B.3 of the Project and to be financed out of the proceeds of the Credit.

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

Section 2.03. The Closing Date shall be August 31, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing November 15, 2015, and ending May 15 2045. Each installment to and including the installment payable on May 15, 2025 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b)
have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MIT with due diligence and efficiency and in conformity with appropriate administrative, engineering, environmental, financial, managerial, resettlement, social, technical, and urban practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association’s approval.
Section 3.03. The Borrower shall: (a) by no later than December 31, 2005:
(i) establish the Road Maintenance Fund, with a structure and functions acceptable to the
Association; and (ii) finance the first year of operations of the RMF, through the
collection of User Fees, with a minimum revenue stream of three hundred million
Escudos de Cabo Verde (E$300,000,000); (b) thereafter gradually adjust the annual
financing of the RMF, through the collection of User Fees, to meet maintenance needs of
the Borrower’s road network; and (c) by June 30 of each year, during Project
implementation, provide to the Association audited financial statements of the funds
collected for the operation of the RMF.

Section 3.04. Without limitation upon the provisions of Section 3.01 of this
Agreement, the Borrower shall include in each annual budget proposed to its legislature,
and make available each year of Project implementation, promptly as needed, in Escudos
de Cabo Verde, equivalent of Dollars, the required amounts as counterpart funds for the
Project.

Section 3.05. The Borrower shall:

(a) take all necessary actions to minimize to the extent possible any
involuntary loss by persons of shelter, productive assets or access to productive assets, or
of income or means of livelihood, temporarily or permanently as a result of Parts B.4 and
B.5 of the Project;

(b) undertake the acquisition of all necessary land, structures and other
assets required for Parts B.4 and B.5 of the Project, and provide resettlement and
rehabilitation assistance in accordance with the principles and institutional
procedures established in the ARAP;

(c) with regard to Parts B.4 and B.5 of the Project, carry out the ARAP in a
manner satisfactory to the Association, designed to improve or at least maintain the living
standards, income earning capacity and production levels of all Affected Persons;

(d) implement the Project in compliance with the environmental mitigation,
monitoring, institutional strengthening and other environmental measures set forth in the
EMP and ensure that the bidding documents for works under the Project will include the
requirement that the contractors shall comply with such measures;

(e) prior to initiating the works under Parts B.4 and B.5 of the Project,
provide evidence, satisfactory to the Association, that the land and rights in respect of
land required for such construction are physically and legally available therefor; and

(f) furnish to the Association any revisions proposed to be introduced into
the ARAP and/or EMP in order to achieve its objectives and, thereafter, introduce such
revisions into such plans as shall have been agreed with the Association.
Section 3.06. The Borrower shall, by no later than September 30, 2006, establish a public sector strategy, in form, structure and content acceptable to the Association, including, *inter-alia*: (a) air transportation; (b) maritime transportation; (c) port transport and institutions; and (d) public-private participation options therof.

Section 3.07. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

**ARTICLE IV**

**Financial Covenants**

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

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial
statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-Based Disbursements) or on basis of statements of expenditure, the Borrower shall:

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

(ii) enable the Association’s representatives to examine such records; and

(iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower’s progress reporting obligations set out in paragraph 1 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association, a financial monitoring report (FMR), in form and substance satisfactory to the Association, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

ARTICLE V

Remedies of the Association

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

ARTICLE VI

Effective Date; Termination

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

(a) the Operational Manual has been issued by the Borrower and approved by the Association;

(b) the independent auditors referred to in Section 4.01 (b) (i) of this Agreement have been contracted by the Borrower as provided in said Section; and

(c) the financial management system for the Project has been established as provided in Section 4.01 (a) of this Agreement.

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

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance and Planning
C. P. 30
Praia
Republic of Cape Verde

Cable address: FINANCAS
Facsimile: (238) 261-3897

CABO VERDE

For the Association:

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

Cable address: INDEVAS
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: (202) 477-6391
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF CAPE VERDE

By /s/ José Brito

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mahmood A. Ayub

Authorized Representative
SCHEDULE 1
Withdrawal of the Proceeds of the Credit

A. General

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>6,500,000</td>
<td>80%</td>
</tr>
<tr>
<td>for Parts B.1; B.2; and B.3 of the Project</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Goods</td>
<td>500,000</td>
<td>100% of foreign expenditures</td>
</tr>
<tr>
<td>for Parts A; B.1; B.2; and B.3 of the Project</td>
<td></td>
<td>90% of local expenditures</td>
</tr>
<tr>
<td>(3) Consultants’ Services for Parts A; B.1; B.2; and B.3 of the Project (including audits)</td>
<td>1,350,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Training</td>
<td>450,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Operating Costs</td>
<td>100,000</td>
<td>100%</td>
</tr>
<tr>
<td>(6) Refunding of Project Preparation Advance</td>
<td>1,000,000</td>
<td>Amount due pursuant to Section 2.02 (b) of this Agreement</td>
</tr>
</tbody>
</table>

TOTAL 9,900,000
2. For the purposes of this Schedule:

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

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods, works or services supplied from the territory of the Borrower;

(c) the term “Training” means reasonable non-consultant expenditures, based on an annual budget previously approved by the Association, and incurred by the Borrower to finance training activities including: (i) transportation costs and per-diem of trainers and trainees; (ii) rental of training facilities and equipment; (iii) acquisition of training equipment and material; and (iv) preparation and facilitation of workshops under the Project, all financed with the proceeds of the Credit.

(d) “Operating Costs” means reasonable recurrent project expenditures, based on an annual budget previously approved by the Association, that would not have been incurred by the Borrower absent the Project, excluding salaries of officials of the Borrower’s civil service, all financed with the proceeds of the Credit and needed for the supervision of the Project.

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

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures: (a) under contracts for goods; (b) under contracts for works; (c) under contracts for the employment of consulting firms; (d) under contracts for the employment of individual consultants; (e) for Training; and (f) for Operating Costs; that are not subject to prior review by the Association pursuant to the Provisions of Schedule 3 to this Agreement.

5. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a separate special deposit account in Banco de Cabo Verde, on terms and conditions satisfactory to the Association.
2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

   (a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

   (b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

   (a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

   (b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

   (c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.
6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.
Annex A

to

SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of $1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

   (b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.
Annex B
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are
Report-based Disbursements

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.
SCHEDULE 2

Description of the Project

The objective of the Project is to enhance the Borrower’s road sector management.

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

Part A: Institutional Support

1. Provision of technical assistance to IE to: (a) enhance its capacity for professional planning and management of the road sector; and (b) enable the establishment of a pilot road maintenance and management contract system, that once established will be financed entirely with Borrower’s counterpart funds, through the Road Maintenance Fund.

2. Provision of technical assistance and training to RMF to strengthen its financial management capacity.

3. Provision of technical assistance, equipment and facilities to LEC to enhance its testing, training, and research capacities.

4. Provision of technical assistance and training to IGOPP to strengthen its capacity to regulate civil works in the Borrower’s territory.

5. Provision of technical assistance and training to MIT to: (a) reinforce its capacity for planning, management and supervision of civil works; and (b) establish a data base system to improve its public information system.

6. Provision of support for overall Project management, coordination, monitoring, evaluation, supervision and implementation, including, *inter alia*:

   (a) the strengthening of the capacity of the PCO to comply with its responsibilities referred to in paragraph 4 of Schedule 4 to this Agreement;

   (b) the carrying out of audits under Section 4.01 of this Agreement; and

   (c) the carrying out of Project studies, including, *inter alia*, performance reviews and impact evaluations.
Part B: Road Infrastructure

1. Upgrading of eleven (11) kilometers of the Alcatraz-Figueira Road in Maio Island to cobblestone standard.

2. Upgrading of twenty-seven (27) kilometers of the Ribiera Brava-Tarrafal Road in Sao Nicolau Island to asphalt paved standard.

3. Upgrading of three (3) kilometers of the Salamansa-Norte de Bahia Road in Sao Vicente Island to cobblestone standard.

4. Construction of a bridge on the Vila das Pombas Road, which will be financed entirely with Borrower’s counterpart funds.

5. Construction of a one (1) kilometer cobblestone road to connect the Vila das Pombas Road with the city of Eito, which will be financed entirely with Borrower’s counterpart funds.

6. Carrying out of a resettlement program, which will be financed entirely with Borrower’s funds, designed to improve, or at least maintain, the living standards and productive levels of Affected Persons in connection with the carrying out of Parts B.4 and B.5 above.

* * *

The Project is expected to be completed by February 28, 2010.
SCHEDULE 3
Procurement

Section I. General

A. All goods, works and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. Limited International Bidding. Goods which the Association agrees can only be purchased from a limited number of suppliers may be procured under contracts awarded on the basis of Limited International Bidding.

2. National Competitive Bidding. Goods estimated to cost less than $250,000 equivalent per contract and works estimated to cost less than $500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

3. Shopping. Goods estimated to cost less than $50,000 equivalent per contract and works estimated to cost less than $50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.
4. **Direct Contracting.** Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

**Section III. Particular Methods of Procurement of Consultants’ Services**

A. **Quality- and Cost-based Selection.** Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $100,000 equivalent per contract may comprise entirely national consultants.

B. **Other Procedures**

1. **Quality-based Selection.** Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. **Least-Cost Selection.** Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-Cost Selection in accordance with the provisions of paragraph 3.1 and 3.6 of the Consultant Guidelines.

3. **Selection Based on Consultants’ Qualifications.** Services estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

4. **Single Source Selection.** Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

5. **Individual Consultants.** Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

**Section IV. Review by the Association of Procurement Decisions**

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods, estimated to cost the equivalent of $250,000 or more, procured on the
basis of International Competitive Bidding, Limited International Bidding or National Competitive Bidding, (b) each contract for works and services (other than consultants’ services) estimated to cost the equivalent of $500,000 or more, procured on the basis of International Competitive Bidding, Limited International Bidding or National Competitive Bidding, (c) each contract for goods and works, procured on the basis of Direct Contracting; (d) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $200,000 or more; and (e) each contract for consultants’ services provided by a firm procured on the basis of Single-Source Selection. All other contracts shall be subject to Post Review by the Association.
SCHEDULE 4

Implementation Program

1. The Borrower shall:

   (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

   (b) carry out an in-depth review jointly with the Association, on or about May 31, 2006, to review the effectiveness of institutional arrangements for road planning and management under the Project;

   (c) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about August 31, 2007, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

   (d) review with the Association, by November 30, 2007, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association’s views on the matter; and

   (e) carry out an in-depth review (the Mid-Term Review) jointly with the Association, two (2) years after the Effective Date or such later date as the Association shall agree, on the progress achieved in the implementation of the Project.

2. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall carry out the Project in accordance with a manual (the Operational Manual), acceptable to the Association, said manual to include, inter alia:

   (i) detailed arrangements for the overall carrying out of the Project;

   (ii) an institutional implementation plan of MIT for the management of the Project (including, inter alia, allocation of responsibilities among staff, yearly planning of activities and budget, and time allocation for those activities);
(iii) the procurement, financial management, resettlement, and environmental guidelines to be followed during Project implementation by the Borrower;

(iv) the criteria and procedures for: (A) the indicators to be used in the monitoring and evaluation of the Project; and (B) training and technical assistance, environmental and resettlement assessments and corresponding mitigation measures;

(v) the guidelines for the implementation of the ARAP and the EMP in connection with the carrying out of the Project;

(vi) the guidelines for the preparation of the Annual Action Plans; and

(vii) a construction manual to guide works under Part B of the Project (which manual shall include, inter alia, the EMP, provisions for erosion control, solid waste management, protection of cultural property, occupational health guidelines, first aid instructions and restriction on the use of child labor).

(b) Except as the Borrower and the Association may otherwise agree in writing, the Borrower shall not abrogate, amend, suspend, waive or otherwise fail to enforce the Operational Manual or any provision thereof.

(c) In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

3. The Borrower shall: (a) not later than January 31 of each year during Project implementation, starting in year 2006, furnish to the Association for approval, an annual action plan (the Annual Action Plan), each said plan to include, inter alia: (i) the Project activities to be carried out by MIT during the twelve months immediately following the presentation of each said plan; (ii) the procurement plan, disbursement schedule and chart of accounts for each said twelve month period; and (iii) the amount of counterpart funds needed and to be provided by the Borrower to carry out the Project during said calendar year; (b) thereafter implement each said Annual Action Plan, approved by the Association, in accordance with its terms; and (c) carry out the Annual Action Plan for the year 2006 approved by the Association prior to the date of this Agreement.

4. (a) The Borrower shall establish, operate and maintain in MIT, at all times during Project implementation, a Project coordination office (the PCO) with a structure, functions and responsibilities acceptable to the Association, including, inter alia, the responsibility of the PCO to assist the Borrower in the coordination, monitoring and supervision of the Project.
(b) The Borrower shall ensure that the PCO is, at all times during Project implementation, headed by a Project coordinator and staffed with an accountant, and other professional and administrative staff, all hired through competitive processes, in numbers and with qualifications and experience acceptable to the Association.

(c) The Borrower shall not introduce changes in the number of positions of the PCO or in the professional skills required for occupying such positions, unless said changes have been previously agreed with the Association.
SCHEDULE 5

Project Monitoring Indicators

Without limitation upon the provisions of paragraph 1 of Schedule 4 to this Agreement, the Borrower shall monitor and evaluate, on an ongoing basis, the carrying out of the Project with the following Project Monitoring Indicators:

1. **OUTCOME INDICATORS**

   (a) The asset value of the Borrower’s road network is increased and sustained.

   (b) Overall, indicators of socio-economic benefits due to improved mobility are achieved along the road segments rehabilitated by the Project.

   (c) For economically justified roads, through: (i) reduction in vehicle operating costs, as reflected in ex-post project economic analysis; and (ii) transport blockage to 2 commercial centers is resolved through bridge construction.

   (d) For socially justified roads, through: (i) an increase in the percentage of adult population in affected communities who made at least 5 trips during the previous month (from 38.7% to 50%); (ii) a decrease in the percentage of the population in affected communities that takes more than 30 minutes to reach the nearest market (from 44.8% to 40%); and (iii) a reduction in the percentage differential between the composite cost/km/kg on the Project’s socially justified roads and the Project’s economically justified roads (from 57% to 28%).

2. **RESULTS INDICATORS FOR EACH COMPONENT**

   (a) **Component One:**

      (i) **RMF:**

      A Second Generation RMF is created and functions in accordance with the Borrower’s March 8, 2005 letter to the Association.

      (ii) **IE:**

      IE implements annual road network maintenance plans within the planned execution period and within budget.
(iii) General Directorate of Infrastructure and Basic Sanitation:

The General Directorate of Infrastructure and Basic Sanitation implements all contracts under its responsibility within 15% the planned execution period and within budget.

(iv) LEC:

LEC achieves financial self-sufficiency for its operational costs related to testing.

(v) IGOPP:

IGOPP implements an agreed annual work plan.

(vi) Studies and Planning Unit:

Quarterly and annual reports are produced by the various MIT services for use in ministerial planning and management based on a data base and the associated management information system.

(vii) PCO:

(A) The PCO reports annually on the road sector, with a focus on progress towards Project outcome and results indicators.

(B) The PCO manages Program activities in conformance with legal and fiduciary requirements, as stated in this Agreement.

(b) Component Two:

(i) Maio Island:

Eleven (11) kilometers of the Alcatraz-Figueira Road.

(ii) Sao Nicolau Island:

Twenty-seven (27) kilometers of the Ribiera- Brava-Tarrafal Road.

(iii) Sao Vicente Island:

Three (3) kilometers of the Salamansa-Norte de Bahia Road.