

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.<sup>1</sup>
- 3. Estimated Contributions of the Parties.** The Multi-Year Financial Plan Summary identifies the estimated 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 (ii) 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

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<sup>1</sup> 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.

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.

**EXHIBIT A: MULTI-YEAR FINANCIAL PLAN SUMMARY<sup>1</sup>**

Project	Year 1	Year 2	Year 3	Year 4	Year 5	Total
<b>1. Watershed Management and Agricultural Support<sup>2</sup></b>						
(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
<b>Sub-Total</b>	<b>2,839,715</b>	<b>3,684,089</b>	<b>2,640,576</b>	<b>1,226,528</b>	<b>457,722</b>	<b>10,848,630</b>
<b>2. Infrastructure<sup>3</sup></b>						
(a) Port Activity <sup>4</sup>	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
<b>Sub-Total</b>	<b>12,067,100</b>	<b>15,721,541</b>	<b>27,436,346</b>	<b>16,406,594</b>	<b>7,128,628</b>	<b>78,760,208</b>
<b>3. Private Sector Development<sup>5</sup></b>						
(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 <sup>6</sup>	571,500	865,000	573,500	190,000	0	2,200,000
<b>Sub-Total</b>	<b>1,571,500</b>	<b>1,865,000</b>	<b>1,573,500</b>	<b>1,190,000</b>	<b>1,000,000</b>	<b>7,200,000</b>
<b>4. Monitoring and Evaluation</b>	939,036	375,000	1,575,000	425,000	1,575,000	4,889,036
<b>Sub-Total</b>	<b>939,036</b>	<b>375,000</b>	<b>1,575,000</b>	<b>425,000</b>	<b>1,575,000</b>	<b>4,889,036</b>
<b>5. Program Administration and Control<sup>7</sup></b>						
(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
<b>Sub-Total</b>	<b>1,858,389</b>	<b>2,228,118</b>	<b>1,433,766</b>	<b>1,472,971</b>	<b>1,387,370</b>	<b>8,380,614</b>
<b>TOTAL ESTIMATED MCC CONTRIBUTION</b>	<b>19,275,740</b>	<b>23,873,747</b>	<b>34,659,188</b>	<b>20,721,093</b>	<b>11,548,721</b>	<b>110,078,488</b>

## EXHIBIT A: MULTI-YEAR FINANCIAL PLAN SUMMARY

<sup>1</sup> Amounts shown are U.S. Dollars

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> 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.

<sup>5</sup> 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.

<sup>6</sup> 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").

<sup>7</sup> 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.

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			
Compact Goal Indicator	Definition of Benefit Stream	Year 5	Year 10
Increase in annual income (US\$ millions) <sup>1</sup>		\$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
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

(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

<sup>1</sup> The increase in annual income is approximately 1.2% of annual GDP in Year 5 and 2.2% in Year 10, assuming a real GDP growth rate of 4%.

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
<b>Watershed Management and Agricultural Support Objective</b>	
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.
<b>Infrastructure Objective</b>	
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 - João 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.
<b>Private Sector Development Objective</b>	
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
<b>Objective Indicators:</b> (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

**Infrastructure Objective:**

**Increase Integration of Internal Markets and Reduce Transport Costs**

	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Objective Indicators:</b> (Metric of Project success observable by end of Compact Term)						
<b>Port Activity:</b>						
Volume of goods shipped between Praia and other islands (tons)	137,995	182,311	192,311	202,063	211,485	220,741
<b>Roads and Bridges Activity:<sup>4</sup></b>						
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 <sup>5</sup> (million dollars)	0	0	0	0	1.6	1.9

**Private Sector Development Objective:**

**Develop Private Sector**

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

<sup>2</sup> 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.

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

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

<sup>5</sup> This indicator is the benefit stream for the economic rate of return calculations.

<sup>6</sup> This target will be estimated after the investment opportunities have been identified.

<sup>7</sup> 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
<b>Watershed Management and Agricultural Support Objective</b>	
<b>Water Management Activity</b>	
Volume of available water (m <sup>3</sup> )	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 <sup>3</sup> )	Level of the aquifers in each intervention area.
<b>Agribusiness Development Activity</b>	
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).
<b>Credit Activity</b>	
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.
<b>Infrastructure Objective</b>	
<b>Roads and Bridges Activity</b>	
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.

### Project Activity Outcome Indicator Definitions

Project Activity Outcome Indicators	Definitions
<b>Watershed Management and Agricultural Support Objective:</b>	
<b>Port Activity</b>	
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
<b>Private Sector Development Objective:</b>	
<b>Partnership to Mobilize Investment Activity</b>	
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.
<b>Financial Sector Reform Activity</b>	
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
<b>Project Activity Outcome Indicators:<sup>8</sup></b>						
<b>Water Management Activity:</b>						
Sustainable watershed management						
Volume of available water (m <sup>3</sup> )	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	TBD <sup>9</sup>	> Baseline				
<b>Project Activity Outcome Indicators:</b>						
<b>Agribusiness Development Activity:</b>						
Increase productive capacity						
Adoption rate of drip irrigation	10%	12%	17%	25%	29%	30%
Area irrigated with drip irrigation (cumulative hectares)	9	9	26	56	94	121
Increase marketing of agricultural products						

<sup>8</sup> 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.

<sup>9</sup> 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.

**Watershed Management and Agricultural Support Objective:  
Increase Agricultural Productivity in the Intervention Areas**

	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
Number of agribusinesses	2	2	4	9	10	11
Sales revenue of agribusinesses	TBD <sup>10</sup>	TBD	TBD	TBD	TBD	TBD
<b>Project Activity Outcome Indicators:</b>						
<b>Credit Activity:</b>						
<b>Increase financial capacity of participants</b>						
Volume of new loans disbursed	0	0	113,040	169,560	184,560	153,040
Default rate	n/a	n/a	TBD <sup>11</sup>	TBD	TBD	TBD

**Infrastructure Objective:  
Increase Integration of Internal Markets and Reduce Transport Costs**

	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Project Activity Outcome Indicators:</b>						
<b>Roads and Bridges Activity:</b>						
<b>Improve rural transport network</b>						
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
<b>Project Activity Outcome Indicators:<sup>12</sup></b>						
<b>Port Activity:</b>						
<b>Increase efficiency of the Port of Praia</b>						
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

<sup>10</sup> 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.

<sup>11</sup> These targets will be determined after proposals including expected default rates have been submitted by micro-finance providers.

<sup>12</sup> 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
<b>Project Activity Outcome Indicators:</b>						
Partnership to Mobilize Investment Activity:						
<b>Improve Environment for Business Development in Priority Sectors</b>						
Volume of public investment in priority sectors above current trends	0	TBD	TBD	TBD	TBD	TBD <sup>13</sup>
<b>Project Activity Outcome Indicators:</b>						
Financial Sector Reform Activity:						
<b>Increase financial intermediation</b>						
Volume of deposits in micro-finance institutions as percentage of total deposits	0%	0%	0.5%	1%	2%	3%
<b>Increase competition in the government securities market</b>						
Percentage of government security stock held outside of financial institutions and government agencies	0%	0%	2%	4%	6%	8%

(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.

<sup>13</sup> This target will be estimated after the investment opportunities have been identified.

### 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.