



**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board - Sixty-Seventh Session**  
Rome, 8-9 September 1999

**REPORT AND RECOMMENDATION OF THE PRESIDENT**

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

**REPUBLIC OF CAPE VERDE**

FOR THE

**RURAL POVERTY ALLEVIATION PROGRAMME**





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## CURRENCY EQUIVALENTS

Currency Unit	=	Cape Verdean Escudo (CVE)
USD 1.00	=	CVE105
CVE 1.00	=	USD 0.0095

## WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m <sup>2</sup> )	=	10.76 square feet (ft <sup>2</sup> )
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

## ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AWPB	Annual workplan and budget
CMP	<i>Comissão Municipal de Parceiros</i> (Municipal Partners Commission)
CNA	<i>Comissão Nacional de Arbitragem</i> (National Arbitration Commission)
CRPs	<i>Comissões Regionais de Parceiros</i> (Regional Commissions of Partners)
FAIMO	<i>Frente de Alta Intensidades de Mão de Obra</i> (Labour-Intensive Public Works Programmes)
FLM	Flexible Lending Mechanism
MOAFE	Ministry of Agriculture, Food and Environment
NGOs	Non-governmental organizations
OMCV	<i>Organização das Mulheres do Cabo Verde</i> (Cape Verdean Women's Organization)
PCU	Programme Coordination Unit
PLL	<i>Programa Local de Luta contra a Pobreza</i> (Local poverty alleviation programme)
PNLP	<i>Programa Nacional de Luta contra a Pobreza</i> (National Poverty Alleviation Programme)
PRODAP	Community-Based Agriculture and Livestock Development Project
TA	Technical assistance
UNDP	United Nations Development Programme

## GOVERNMENT OF THE REPUBLIC OF CAPE VERDE

### Fiscal Year

1 January - 31 December





**REPUBLIC OF CAPE VERDE**  
**THE RURAL POVERTY ALLEVIATION PROGRAMME**  
**LOAN SUMMARY**

<b>INITIATING INSTITUTION:</b>	IFAD
<b>BORROWER:</b>	Republic of Cape Verde
<b>LEAD PROGRAMME AGENCY:</b>	Office of the Vice Prime Minister
<b>TOTAL PROGRAMME COST:</b>	USD 18.34 million
<b>AMOUNT OF IFAD LOAN:</b>	SDR 6.95 million (equivalent to approximately USD 9.25 million)
<b>TERMS OF IFAD LOAN:</b>	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
<b>COFINANCIERS:</b>	None
<b>CONTRIBUTION OF THE BORROWER:</b>	USD 6.56 million
<b>CONTRIBUTION OF THE BENEFICIARIES:</b>	USD 2.53 million
<b>APPRAISING INSTITUTION:</b>	IFAD
<b>COOPERATING INSTITUTION:</b>	United Nations Office for Project Services (UNOPS)



## PROGRAMME BRIEF

**Who are the beneficiaries?** Although the proposed programme is national in scope, it will be initially limited to the islands of Santo Antão, Fogo, Brava, São Nicolau and two municipalities of the islands of Santiago, Tarrafal and São Miguel where more than two thirds of the country's rural poor are located. The target group comprises about 11 000 households who live below the poverty threshold.

**Why are they poor?** The rural population of Cape Verde, which accounts for some 200 000 persons, lives on a resource basis that is totally inadequate to meet their needs. A combination of rocky terrain, extremely harsh climatic conditions, an inequalitarian landholding system, limited fisheries resources, and few economic opportunities that do not depend on the exploitation of natural resources, makes for a very high incidence of poverty (approximately 70%). Over the last 30 years, these people have survived on remittances from family members working abroad and on wages received from the Government for undertaking labour-intensive public works programmes (FAIMO).

**What will the programme do for them?** The proposed programme is intended to fund about 650 microprojects aimed at some 11 000 households, representing about 50% of the poor people in the programme area. The microprojects will be implemented directly by the communities (formal beneficiaries' associations, which have previous experience of this nature) or with the assistance of local non-governmental organizations (NGOs). The types of microprojects to be supported by the programme will depend on the participatory arrangements and remedial action strategies be elaborated by the programme beneficiaries themselves, and on the extent of the demand from local common interest groups and communities. The microprojects will include local infrastructure works, water supply, technical education, support to groups engaged in income-generating activities, natural resource conservation activities, etc.

**How will the beneficiaries participate in the programme?** The goal of the programme is to develop sustainable institutions of poor rural people in the programme area, mobilize the entrepreneurial and managerial skills of local group leaders, and develop the social capital of local communities. The programme will build on the Government's decentralization policy that supports the establishment of four private regional commissions of partners (CRPs). Membership of the CRPs will be made up of local communities and common interest groups, NGOs operating in the area, and representatives of municipalities and decentralized government services that join on a voluntary basis. The CRPs will be responsible for implementing local poverty-alleviation programmes formulated and planned by the beneficiaries themselves, based on a participatory process for identifying local poverty problems and opportunities, including scope for self-help, that is expected to lead to a common vision about the future of the area and to agreement on priorities and ways and means of putting the vision into practice. Financial resources will be provided to each CRP participating in the programme. Decisions on allocations of resources to fund individual microprojects will be made by the general assemblies of the CRPs, in which local communities and common interest groups will hold the majority of votes.





**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD  
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE  
REPUBLIC OF CAPE VERDE  
FOR THE  
RURAL POVERTY ALLEVIATION PROGRAMME**

I submit the following Report and Recommendation on a proposed loan to the Republic of Cape Verde of SDR 6.95 million (equivalent to approximately USD 9.25 million) on highly concessional terms to help finance the Rural Poverty Alleviation Programme. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It is proposed that this IFAD-initiated programme, which was designed under the Flexible Lending Mechanism (FLM), be supervised by the United Nations Office for Project Services (UNOPS). The main focus and innovative feature of the programme are its empowerment of grass-roots associations and groups by designing a mechanism that will allow the beneficiaries to formulate and implement their own priority demands.

**PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY<sup>1</sup>**

**A. The Economy and the Agricultural Sector**

1. **General background.** The Republic of Cape Verde is an archipelago of ten small islands (nine of which are inhabited) of volcanic origin located off the west coast of Africa. The population (about 400 000 people) is concentrated in the islands of Santiago, Santo Antão, São Vicente, Fogo and São Nicolau. The majority of the inhabitants on Santiago and Santo Antão live in towns, while the greater part of those on Fogo and São Nicolau are in the rural areas. Most of the islands are made up of high mountains with peaks of over 2 000 m and of rocky terrain. The climate is dry, with very erratic, albeit inadequate, rainfalls between the months of July and November and there are long periods without rain. However, the better exposed mountain slopes benefit from higher atmospheric humidity that generates a variety of ecological zones and makes some kind of agriculture possible. Fresh water supplies are limited, and desalinated sea water is provided to the major towns.
2. **Economic setting.** The annual per capita income is currently estimated at about USD 1 000. The economy has been growing at 4% per annum since 1993, the main push originating in the construction industry and in the trading of imported goods thanks to substantial transfers of funds from official sources (development and budgetary support assistance) and emigrants' remittances. The structure of the gross domestic product (GDP) is characterized by the overwhelming importance of the services sector (78%), with industry accounting for 14% and agriculture, forestry and fisheries for only 7%.
3. **Public debt management.** Despite recent progress in revenue collection, the gross budget deficit is still about one third of GDP, and inflation stood at 8% in 1997 despite the Government's efforts to curb it. This falls to 8% after accounting for budget support assistance from donors. The country's external debt amounted to USD 210 million at the end of 1996, mostly on concessional terms. The exchange rate of the Cape Verdean escudo depreciated from USD 1 = CVE 83 in 1996 to about USD 1 = CVE 105 in mid-1999.

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<sup>1</sup> See Appendix I for additional information.



4. **The rural economy.** About 50% of the population lives in the rural areas. The land tenure system is skewed in favour of (mostly absentee) landlords, the majority of whom own small fragmented holdings. About 40% of all rainfed arable land is owned by farmers who cultivate the land, 20% is worked on the basis of crop-sharing arrangements, and about 30% is rented. The total arable land is approximately 43 000 ha, two thirds of which is on steep-to-very steep slopes and only 3% consists of valley bottoms. Under rainfed conditions, maize and beans can be grown but the chances of being able to produce grains are very limited. Livestock is limited to goat rearing and some sheep and cattle. Irrigated land on terraces and valley bottoms amounts to about 1 500 ha, the average holding of irrigated land being about 500 m<sup>2</sup> per household, and high-value horticultural crops or sugarcane are grown in those areas. On average, about one fifth of the requirements can be met with locally-produced cereals. Farmers make cash purchases of most of their food requirements, and have been able to survive thanks to the wages they receive for working on FAIMO aimed at soil and water conservation, afforestation and road construction.

5. The potential for improving agricultural production in Cape Verde is extremely limited. Very little can be done on rainfed areas but some diversification of forest plantations and species might improve fodder production and livestock productivity. Animal production (based on purchased feed) may have some potential, but market constraints would quickly limit this opportunity except in the peri-urban areas. The irrigation potential has been almost entirely exploited. Groundwater irrigation efficiency could be improved and there is scope for converting a number of existing gravity schemes to drip-irrigation, as successfully introduced in several areas. Artisanal fisheries have limited potential due to difficult access to the sea from most islands, the high cost of fishing equipment and refrigeration, and the very small size of local markets.

6. **Programme-related sectoral services and institutions.** The proposed programme is part of a larger government programme, the National Poverty Alleviation Programme (PNLP), which addresses rural and urban poverty across the country with support from the World Bank and other donors (United Nations Development Programme (UNDP), African Development Bank (AfDB), etc.). Since the constitutional amendment of 1990, the Government has pursued a policy of delegating functions and transferring resources to democratically-elected municipal governments. Some municipalities have set up technical units with foreign assistance (Germany, Luxembourg and The Netherlands). Accordingly, the institutional setting of the programme includes central and municipal arrangements. The Ministry of Agriculture, Food and Environment (MOAFE) has decentralized its organizations, and adequately staffed and equipped MOAFE delegations are active in each municipality. Technical assistance (TA) and other services are available in support of artisanal fisheries. In addition, a number of NGOs are active in the programme areas and some have acquired sound experience in supporting and financing local communities to design and implement small-scale projects.

## **B. Lessons Learned from Previous IFAD Experience**

7. To date, IFAD has financed three projects in Cape Verde for a total of about USD 15 million, of which two projects – the Assomada Integrated Agriculture Development Project and the Artisanal Fisheries Development Project – have been completed and one – the Community-Based Agricultural and Livestock Development Project (PRODAP) – is ongoing. IFAD has also provided a grant of USD 70 000 to the Cape Verdean Women’s Organization (OMCV) under the IFAD/NGO Extended Cooperation Programme to support women’s group activities in six artisanal fisheries communities on the island of Santiago.

8. The findings of IFAD’s evaluation of the first two projects and the initial phase of PRODAP are that there has been a positive impact on fisheries production and adequate technical response to smallholders’ needs for erosion control and water conservation. The reviews also highlighted the



weakness of government institutions in terms of project management, difficulties in project supervision on the part of AfDB, and the small size of the islands' economies which limits the development of local markets. The review of PRODAP suggested that efforts to achieve the physical targets had jeopardized the objectives of the recommended participatory approach and led to abandonment of the beneficiaries' survival strategies and of research-development activities. Furthermore, limiting project financing to agriculture and environment was too restrictive in terms of rural households' survival strategies that seek to exploit all possible opportunities and sources of revenue.

9. A review of IFAD's experience in Cape Verde concluded that the design of any new IFAD project should place major emphasis on developing human resources and initiatives and on institutional strengthening at the grass-roots level. To that end, project design should focus on the methodology, mechanisms and instruments for developing the capacity of grass-roots organizations rather than on the contents (specific activities) of the interventions envisaged. It was also recommended that project organization and management should emphasize the decentralization of management with a view to reducing costs and supporting decentralized rural institutions through the empowerment of local communities.

### **C. IFAD's Strategy for Collaboration with Cape Verde**

10. **Cape Verde's policy for poverty eradication.** The Government's poverty-alleviation strategy, the PNLN, is inspired by the conviction that poverty alleviation must be obtained on a durable and sustainable basis; be coordinated and implemented within the framework of the Government's decentralization policies; and effectively involve beneficiary participation.

11. The PNLN envisages (i) integration of the poor in the economy through support to income-generating activities, training for better employment, infrastructure improvement and reorientation of the FAIMO; (ii) improved access of the poor to social services through education, health, nutrition, family planning, improved drinking water supply, and better hygiene, living conditions and housing; (iii) social mobilization through the participation of poor communities in the design and implementation process, and better information and communications; and (iv) capacity-building at the central and municipal administration level and of civil-society organizations.

12. The Vice Prime Minister is responsible for implementing PNLN, assisted by a programme coordination unit (PCU). A National Arbitration Commission (CNA) has been set up with representatives of central government, municipalities and civil-society organizations to coordinate PNLN policies. In each municipality, a Municipal Partners Commission (CMP), together with representatives of the municipal council and of decentralized line ministry units and NGOs reviews project proposals submitted by the communities, NGOs and the municipality for funding under the PNLN. Two special instruments, the framework agreement and the performance contract, have been introduced by the Government to promote the participation of private organizations in national development programmes by regulating contractual arrangements and financial transfer mechanisms.

13. **The poverty eradication activities of other major donors.** Besides IFAD, other major donors active in Cape Verde, such as the European Union (EU), UNDP and the World Bank, have provided support to PNLN. To date, UNDP has financed both the preparation and the initial staffing and equipping of PNLN. In May 1998, the World Bank negotiated a USD 16.1 million credit from the International Development Association (IDA) to support the USD 18.1 million Social Sector Development Project (SSDP) within the framework of PNLN. In addition to official donors, several philanthropic NGOs active in the country are channelling considerable amounts of private donations and providing other services.



14. **IFAD's strategy for Cape Verde.** IFAD's strategy for Cape Verde entails the designing of a programme with progressively national coverage and supporting a diversified range of activities that include agriculture, fisheries, artisanal activities and community-based social and economic infrastructure. The strategy also places emphasis on beneficiary participation in formulating and targeting programme activities through a flexible approach, developing community organizations' capacities to effectively participate in decision-making at the local level and promoting proactive collaboration with local NGOs. In terms of institutional development, the strategy focuses on strengthening institutions at the central, municipal and community levels, and on effectively harmonizing IFAD's programmes with those of other donors in the national context

15. **Programme rationale.** In line with the above-mentioned strategy, the programme rationale is based on the idea that the best way to alleviate rural poverty is to empower poor rural people to decide for themselves how best to approach the task. In that connection, it would be desirable for the Government to establish a general policy and incentives framework aimed at mobilizing local initiatives, determining investment criteria for the use of public funds, and allowing CRPs, poor rural people's groups, civil-society organizations and representatives of local administrations to manage public resource allocations for fighting poverty at the local level. The programme is expected to set up mechanisms to ensure that decisions on poverty alleviation interventions fully reflect the perceptions of the beneficiaries with regard to four main poverty factors: very low income; poor living conditions; limited access to social services; and social marginalization. Those mechanisms are expected to increase the social capital of poor rural people, going beyond their representation in the decision-making process; empower them to take such decisions; and establish for them a network of social relations outside their local environment.

16. The programme will facilitate the development of sustainable civil-society institutions among the country's rural poor. It will also promote the emergence of local group leaders by providing them with the means to exercise their leadership and entrepreneurship, learn management skills, and develop a sense of responsibility with regard to the use of collective and public funds.

17. The organizational structure of the programme, which follows the Government's decentralization policy, has been designed to combine the technical skills of decentralized line ministry units, municipalities and the private sector with initiatives by NGOs active in the area and a growing number of common interest groups and local communities.

## **PART II - THE PROGRAMME**

### **A. Programme Area and Target Group**

18. The programme area encompasses the islands of Santo Antão, São Nicolau, Fogo and Brava and two municipalities on Santiago, Tarrafal and São Miguel. On Santiago, the programme area has been limited to the two poorest of the six municipalities given the fact that pilot PNLP activities are planned to cover the other four with support from other donors. The rural population in the programme area is estimated at about 100 000 (22 000 households). Of these, 70% live below the poverty threshold and since as many as half could be classified as very poor, it is expected that about 11 000 households will benefit directly from the programme.



## B. Objectives and Scope

19. The objective of the programme is to alleviate rural poverty by increasing the social capital of poor people living in the rural areas. That will imply mobilizing the entrepreneurial potential of local communities and their leaders and of their partners, both in civil society and in the public administration. It will also empower local communities to take decisions on the use of resources, thereby establishing a logical and functional relationship between the specific goals and objectives of the programme and meeting a necessary condition for the fight against poverty<sup>2</sup>. The strategy is to target the constituency of decision-makers in such institutions.

20. The specific aims of the programme are to:

- improve the living conditions of the rural poor, measured in terms of better access to basic social services (water, education, professional training, housing and markets), greater availability of production inputs, increased production/productivity in agriculture and fisheries, and the development/diversification of artisanal activities, in response to emerging market opportunities;
- establish four CRPs in the programme area for the purpose of developing a specific strategy for alleviating local poverty conditions, formulating three-year indicative investment programmes, and formulating, approving and implementing annual workplans and budgets (AWPBs);
- establish effective and fruitful cooperation between CRPs and the public administration at the central and local levels, i.e. technical municipal offices and decentralized line ministry units.

21. The programme approach is based on assisting community-level associations to better formulate and defend their specific interests; on local groups mobilizing an adequate share of the costs as proof of their commitment to the initiatives they request support for; involving NGOs and local governments as equal but minority partners in the CRPs; non-interference with decisions on allocations of public funds to specific investments; close monitoring of performance and conformity with investment criteria, including procurement and financial control procedures; and contracting activities to independent suppliers at all levels of programme organization and management. The thrust of the programme will be to assist common interest groups to become decision-makers in the community-level institutions and to give priority to women heads of household; families of old people and children under working age or unemployed; households that include many children and parents without steady work or other sources of income; unemployed youth; landless people; artisanal fisheries communities; and FAIMO workers.

## C. Components

22. The programme, which comprises four components, will be implemented in three phases in accordance with the procedure of the FLM. The first phase, of about three years, will be devoted to establishing the institutional setting, training persons from the central and municipal governments, participating NGOs and community members at the CRP level, and implementing a number of demonstration activities (microprojects). The investment programmes formulated by the CRPs will be implemented during the second and third phases (of three years each).

23. **Local poverty alleviation programmes (PLLPs).** The programme will support the initiatives of local groups, communities and other CRP partners that request funding for microprojects. Local communities will bear part of the microproject costs (in cash and or in kind), equivalent to 20% of the total direct cost of each microproject. The programme will provide funds on a grant basis, regardless

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<sup>2</sup> See Appendix III.



of whether the purpose of the microproject is to build social infrastructure or to develop income-generating activities, in accordance with specific targeting criteria. The maximum cost of individual microprojects eligible for funding will be the equivalent of USD 25 000. The programme's contribution per household benefiting from a microproject will be limited to USD 1 500 equivalent but this ceiling may be exceeded in the event funding is requested by sponsors of income-generating schemes that have an important indirect benefit on poor households, if approved by the CRP general assemblies. However, in such cases, beneficiaries would be required to contribute 50%. About 13% of the fund will be used by the CRPs to finance service contracts related to microproject design and implementation monitoring. The bulk (about 87%) of the fund will be used to cover microproject administration costs or to provide services such as training, promotion, or technology transfer. About 650 microprojects will be implemented by the four CRPs during the second and third phases (six years) of the programme, or about 110 microprojects per year. The average implementation period of each miniproject will be approximately six months.

24. The composition of the fund by type of microproject will depend on the strategy adopted by each CRP under the three-year PLLP. Each CRP will establish its own list of microprojects for approval at the central level. These microprojects will involve technologies that are well established in Cape Verde although in the case of water tanks, for example, the transfer of specialized know-how and the use of skilled labour from another island(s) might be necessary. Soil and water conservation, self-help house improvement, boat-landing infrastructure and micro-irrigation, including drip irrigation, are well known in the country and relevant technical advice is available from NGOs or staff of line ministries.

25. **Demonstration activities.** Twenty-two microprojects are to be undertaken in the four areas where CRPs will be established during the initial phase. The objective of the demonstration activities is to publicize the programme's rural promotion methodology aimed at mobilizing local communities' interests and initiatives; promote dialogue among communities with a view to raising awareness about common objectives, constraints and opportunities and the need on to harmonize initiatives and concentrate on remedial action; and, finally, to mobilize groups of rural poor to form associations that will support future initiatives. The demonstration activities are expected to lead to the formation of community and group associations that will establish CRPs.

26. **Animation and training.** The programme will fund the cost of animation activities to be undertaken mainly during the first phase. This will include salaries and other recurrent costs at central Government level and in the four CRP areas; the cost of start-up workshops; training for officers of the PCU and members of the CRPs during the second and third phases; and short-term technical backstopping connected with the training of national staff, preparation of operational and financial procedure manuals, and other support activities.

27. **Programme management.** The programme will fund the investment and recurrent costs of central management and of the technical units backing up the four CRPs.

## D. Costs and Financing

28. The cost of the programme by component is as follows:

**TABLE 1: SUMMARY OF PROGRAMME COSTS<sup>a</sup>**  
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
Local poverty alleviation programmes (PLLPs)	8 580	920	9 500	10	64
Demonstration activities	1 023	180	1 202	15	8
Animation and training	453	1 111	1 564	71	11
Programme management	2 210	402	2 613	15	18
<b>Total base costs</b>	<b>12 267</b>	<b>2 613</b>	<b>14 880</b>	<b>18</b>	<b>100</b>
Physical contingencies	359	158	517	31	3
Price contingencies	2 832	107	2 939	4	20
<b>Total programme costs</b>	<b>15 457</b>	<b>2 878</b>	<b>18 335</b>	<b>16</b>	<b>123</b>

<sup>a</sup> Discrepancies in totals are due to rounding up of figures.

29. The programme will be financed by an IFAD loan of USD 9.25 million loan, representing 50% of total costs. The Government will contribute about USD 6.56 million, or 36% of total programme costs, including duties and taxes, and the beneficiaries will contribute approximately USD 2.53 million (14%) to cofinance the microprojects. The cost of the first phase is estimated at USD 3.39 million, of which IFAD will finance USD 2.57 million. For the second and third phases, the programme costs are estimated at USD 7.29 million and USD 7.66 million, respectively, with IFAD financing USD 3.32 million and USD 3.36 million, respectively.

**TABLE 2: FINANCING PLAN<sup>a</sup>**  
(USD '000)

	Government		IFAD		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%			
Local poverty alleviation programmes	5 729	49.0	3 737	31.8	2 292	19.0	11 758	64.0	977	9 635	1 146
Demonstration activities	395	29.0	758	54.6	235	17.0	1 388	8.0	200	1 113	75
Animation and training	82	5.0	1 716	95.4	-	-	1 798	10.0	1 248	467	82
Programme management	358	11.0	3 033	89.4	-	-	3 391	18.0	453	2 581	358
<b>Total Disbursement</b>	<b>6 564</b>	<b>36.0</b>	<b>9 245</b>	<b>50.4</b>	<b>2 526</b>	<b>14.0</b>	<b>18 335</b>	<b>100.0</b>	<b>2 878</b>	<b>13 796</b>	<b>1 661</b>

<sup>a</sup> Discrepancies in totals are due to rounding up of figures.

## E. Procurement, Disbursement, Accounts and Audit

30. **Procurement.** Vehicles and office equipment will be procured under international competitive bidding procedures. Other items will be handled under local shopping procedures, and include operating costs and contracts for microproject implementation (up to a maximum of USD 20 000 per project, or 80% of cost), the bulk of which is represented by labour costs. Consultancy services (microproject design, monitoring services, accounting, auditing) will be procured by direct contracting. TA and external training costs will be procured under the consultancy services procedure.



31. **Disbursement.** The withdrawal of funds from the loan account for the payment of vehicles and equipment, TA and auditing will be fully documented. Expenditures for operational costs, local training, incremental salaries and microprojects will be made against statements of expenditure (SOEs). Related supporting documentation will be maintained by the PCU and by each CRP for periodic review by IFAD and or cooperating institution supervision missions and for examination during audits of programme accounts. A Special Account, with an authorized allocation of USD 700 000, will be opened and maintained in the Central Bank or a commercial bank acceptable to IFAD. Upon loan effectiveness, IFAD will make an initial deposit of USD 500 000 into the account and the balance of USD 200 000 will be deposited once the second phase of the programme has been approved. The Government will open a parallel Programme Account into which its share of programme cost will be deposited. This amount is estimated at USD 270 000 per year for the first phase, and, for the second and third phases, at USD 960 000 per year. The opening of the Programme Account and the initial deposit of counterpart funds are conditions for disbursement of IFAD loan funds. Upon approval of the second phase, the programme manager will transfer funds from the Special Account and from the Programme Account to each of the four CRPs in auxiliary Special Accounts to be opened in a local commercial bank acceptable to IFAD. These auxiliary accounts will be replenished on a regular basis on presentation of SOEs or other documentation as required.

32. **Accounts and audit.** Existing public account practices in Cape Verde are in line with generally accepted accounting principles. During the first phase, guidelines will be prepared for the use of programme funds on the part of the PCU and the CRPs, and for transferring funds to the CRPs. These guidelines will cover cash flow management, reporting and account reconciliation. The CRPs will be required to produce monthly bank statements to be annexed to requests for replenishment of their auxiliary Special Accounts, and to submit to quarterly inspections by the PCU. Every six months, a financial backstopping mission will be undertaken by a local accountant acceptable to IFAD. All programme accounts, including CRP accounts, will be audited on a yearly basis by independent auditors acceptable to IFAD.

33. **Reporting.** Financial reporting by CRPs will be undertaken on a quarterly basis and include the monthly bank statements. The PCU (programme desk) will consolidate the CRP reports and produce quarterly reports on the programme's overall financial position as well as an annual report.

## F. Organization and Management

34. **Executing agencies.** The programme is intended to form an integral part of the PNLPP supported by the Government and other donors (World Bank, UNDP). As such, will be coordinated by the PCU established in the Vice Prime Minister's office and directed by the CNA. The programme foresees two levels of executing agencies: at the central level, a programme desk will be set up within the PCU to assist in the administration of funds and the implementation of other activities foreseen under the programme; at the local level, four CRPs will be established as associations under private law, one in each of the four programme areas. Membership of the CRPs will comprise local common interest groups and communities of poor people, locally active NGOs, and representatives of municipalities and decentralized government services. Decisions on CRP policies and strategies and on microprojects to be financed with programme funds will be taken by the CRP general assemblies. Such assemblies will be legally valid only if the majority of voting-right holders present at the meeting are representatives of local groups of poor rural people who are members of the CRPs<sup>3</sup>.

35. **Relationships between the Central Government, the municipalities and the CRPs.** Each CRP will elaborate its own three-year PLLP and the AWPB to implement the PLLP. The Government (through the PCU) will undertake to make available a predetermined amount of resources to each CRP in order to fund the CRP operating costs and the programme's financial contribution to the cost of microprojects implemented under the PLLP. Initially, funds will be allocated to the CRPs based on

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<sup>3</sup> See Appendix IV.





the numbers of their members but adjustments may be made during the course of programme implementation, account being taken of performance. Such medium-term financial commitment will enable the CRPs to plan adequately and to develop the local groups' sense of responsibility and capacity for rational decision-making. The commitment of funds for a three-year period and the release of such funds on an annual basis will be effected through financial instruments introduced by the Government in the implementation of its priority programmes, i.e. framework agreements and performance contracts, respectively.

36. The CRPs will operate in more than one municipality. The municipal authorities are also heavily involved in the PNLP, supported by other donors, and will be kept informed of CRP initiatives through established municipal channels (CMP) and through representatives of municipalities that join the CRPs.

37. **Subcontracting for goods and services by the PCU and the CRPs.** The outsourcing of training, accounting, auditing and evaluation studies to service vendors, particularly at the local level, will be a major programme implementation policy. The CRPs will implement microprojects by contracting locally-active NGOs, communities, formal farmers' associations, local microenterprises and informal common interest groups and, when necessary, contract local private professionals, local NGOs and public administration teams to design and supervise microproject implementation. In some cases, accounting and financial reporting tasks may be contracted to the local private sector or to municipal units that have spare capacity.

38. **Operational responsibilities.** Planning, budgeting, microproject funding, contracting for microproject design and implementation, and the monitoring of contractors' performance will be the responsibility of the CRPs. The PCU will be responsible for establishing eligibility criteria and drawing up procurement, accounting and reporting procedures for the use of programme funds; facilitating the establishment and smooth operation of the CRPs; training and animation; procuring major investment items; disbursing programme funds; for rigorous *ex post* control of compliance with investment criteria, procurement and accounting procedures, and CRP expenditures; and for evaluating programme impact.

39. **Conditions to be met for entering phases 1, 2 and 3 of the programme.** Operational and financial guidelines will be prepared by the PCU as a condition of loan effectiveness. Subsequently, several conditions will need to be met before the Government is authorized to draw on IFAD funds to finance the second and third phases of the programme.

40. **Triggers for entering Phase 2.** These triggers, to be verified by a joint review mission composed of representatives of IFAD, the Government and the beneficiaries at the end of the first phase, will include: (i) establishment of effective institutional and operational mechanisms at both the central and decentralized levels with adequate constituency and decision-making powers; (ii) implementation of appropriate funding mechanisms at both levels and preparation and operationalization of relevant manuals; (iii) suitable levels of performance (e.g. 67% of demonstration activities implemented); and (iv) effective implementation of the training programme<sup>4</sup>.

41. **Triggers for entering Phase 3.** These include: (i) conclusion of contractual arrangements at the central and decentralized levels and compliance with programme principles; (ii) effective operation of the CRPs, including local contractual arrangements, delivery of services to communities, implementation of community microprojects, and adequate reporting; (iii) full participation of the rural communities in elaborating PLLPs and AWPBs, and consistency of CRP composition with programme targeting; and (iv) successful implementation of financial controls over the CRPs. More

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<sup>4</sup> A detailed list of triggers is shown in Appendix V.

detailed conditions may be agreed between the Government and IFAD during review missions to be fielded at the end of phases 1 and 2.

### **G. Economic Justification**

42. The benefits of the programme will derive from the income-generating, social infrastructure and, above all, community development activities. The programme will benefit the target group by improving the present very low incomes and poor living conditions, and providing access to social services. Given the uncertainty regarding the demand for microprojects, an overall economic rate of return has not been calculated. However, as demonstration activities, all income-generating microprojects (irrigation, fisheries, input supply, etc.) proposed for the first phase of the programme show acceptable financial returns (12-65%). The impact on beneficiaries' incomes will, nevertheless, be limited because of the extremely limited resource base. (It is only by means of irrigation that a poor household can be lifted above the poverty threshold on a sustainable basis, but the scope for irrigation development is limited by resource and land tenure constraints.) Some economic benefits will also derive from investments in livestock, particularly animal production based on partially purchased feed, and on improvements in fish marketing. Women will be the primary beneficiaries of CRP interventions in irrigation, livestock and fish marketing. Other sources of improved income will come from professional training and the promotion of young professional clubs aimed at developing artisanal capacities and exploiting new and emerging market opportunities. Women's groups will have a good chance of benefiting from these opportunities through support to their initiatives in artisanal production. Finally, wages paid to labourers engaged in the construction of the microprojects will provide an important source of livelihood for poor households participating in the programme.

### **H. Risks**

43. The main risks related to achieving the goals of the programme include: lack of interest on the part of the local communities; conflict within the CRPs with regard to investment priorities; interference in CRP decisions by influential persons; resistance by central or local governments with regard to effective decentralization (e.g. PCU and municipalities interference in the CRPs' free planning process); and CRP investment priorities not being in line with those of PNLP. Risk-mitigation measures include: intensive action to improve dialogue with the communities and other partners; annual CRP performance evaluation to provide timely information to supervision missions and higher-level government authorities; and the moderating role and mixed composition of the CNA. Moreover, specific efforts (including training) will be made to improve dialogue with the Government and the other partners on decentralization issues.

44. Other risks include failure to achieve significant production increases due to natural resource constraints and non-emergence of new market opportunities; slow or fraudulent use of resources by some CRPs; and non-conformity with the programme's investment criteria. The risk-mitigation measures include amendments to the framework agreements; transfer of unutilized resources to other CRPs; preparation of quarterly financial reports by CRPs; regular inspections and six-monthly audit of CRP accounts; freezing of the auxiliary Special Accounts; intensive training of CRP executives and partners; and frequent supervision missions.

45. The Government may not comply with the principle of *ex post* controls on the use of public funds by CRPs and other donors' different approaches may interfere with the programme. This will require a very clear statement of assurance by the Borrower accompanied by close programme supervision.



### **I. Environmental Impact**

46. Cape Verde has a long tradition of environmental reconstruction and conservation. Microprojects that may have an impact on the environment will be prepared with the assistance of MOAFE and the Ministry of Fisheries, Transportation and Tourism.

### **J. Innovative Features**

47. The main innovative feature of the programme is that it contains a mechanism by which associations of rural poor may join as equal partners both in implementing the Government's poverty-alleviation policy in accordance with their own strategic choices and in selecting projects to implement that policy. The design of the programme, which responds to IFAD's policy to foster poor people's participation in the development process, concentrates on institutional and procedural aspects rather than on the specific content of its poverty alleviation interventions. The programme will be implemented in three distinct phases, along the lines of the FLM, and is expected to contribute to enhancing the Government's decentralization policy by transferring responsibilities and resources from the central to the local government level.

## **PART III - LEGAL INSTRUMENTS AND AUTHORITY**

48. A loan agreement between the Republic of Cape Verde and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

49. The Republic of Cape Verde is empowered under its laws to borrow from IFAD.

50. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

## **PART IV - RECOMMENDATION**

51. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Cape Verde in various currencies in an amount equivalent to six million nine hundred and fifty thousand Special Drawing Rights (SDR 6 950 000) to mature on and prior to 1 September 2039 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such other terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan  
President



## SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan Negotiations concluded on 21 July 1999)

1. The Government of the Republic of Cape Verde (hereinafter “the Government”) shall make available to the principal agent of the programme, during the execution period of the latter, counterpart funds from its own resources in an aggregate amount of USD 6 570 000, which represent all fees, taxes, and its portion of the financing.
2. To this end, the Government shall — within a reasonable period and in any event within the 30 days following the date of effectiveness — make an initial deposit of counterpart funds in Cape Verdean escudos equivalent to USD 70 000 to the programme account, to cover the first quarter of the first year of the programme’s first phase, which has a duration of three years. During the first phase, the Government will replenish the funds regularly in order to maintain the account at USD 70 000, by means of quarterly deposits to be made, at the latest, on 31 March, 30 June, 30 September and 31 December of each year.
3. The counterpart funds for the second and third phases are estimated at USD 960 000 each year and represent the Government’s contribution to cover fees, taxes, and its portion of the financing of the PLLPs. An initial deposit, in the equivalent in Cape Verdean escudos of USD 300 000, shall be made within the 30 days after IFAD indicates its non-objection to the annual workplans and budgets (AWPBs). The Government will replenish the funds regularly in order to meet programme requirements, by means of quarterly deposits to be made, at the latest, on 31 March, 30 June, 30 September and 31 December of each year.
4. For the requirements of the second phase, each CRP shall prepare its own three-year PLLP defining the eligibility criteria for microprojects requests and constituting its poverty alleviation strategy. Under a framework agreement, the Government shall undertake to transfer to the CRPs the necessary funds for covering the operating costs of the PLLPs and its part of the cost of the microprojects that are to be financed under the PLLPs.
5. The programme shall be implemented in three distinct phases or cycles in line with the principles of the FLM. Start-up of a subsequent phase and access to the related resources shall be subject to the satisfactory fulfilment of specific conditions that will serve as a trigger mechanism for start-up of the following cycle. These conditions are enumerated in paragraphs 6 and 7 below. Upon completion of the first and second phases, the Government shall meet with beneficiary representatives and IFAD to examine if the conditions for start-up of the subsequent phase have been met and shall recommend to IFAD one of the following measures, as appropriate: start-up of the subsequent phase, deferral of the subsequent phase start-up, or loan cancellation. The conclusions of this analysis may, if necessary, lead to new disbursement modalities or other prerequisites for start-up of the following cycle. The final decision on start-up of the second phase lies with IFAD.
6. **Start-up of the second phase.** The following prerequisites (or trigger mechanisms) shall be evaluated upon completion of the first phase of the programme:
  - (a) Conditions relating to programme management:
    - (i) The CNA has been organized, made up of representatives of the beneficiaries, the mayors’ association, NGO associations, and the Central Government.



- (ii) The programme desk has been fully staffed and its operating procedures have been established in accordance with the provisions of the loan agreement.
  - (iii) Requests for disbursements of loan proceeds have been submitted to IFAD on a timely basis.
  - (iv) The Government has deposited the counterpart funds in the programme account in accordance with the established schedule.
  - (v) Fund use is being monitored on an *ex post* basis.
  - (vi) The second-phase procedures manuals for the programme desk and CRPs have been prepared on: the programme desk's operating procedures; the procedures applicable to the programme; to the financial instruments for the transfer of loan proceeds from the Government; to the CRPs (framework agreement [*convenção-quadro*] and performance contract [*contrato-programa*]); and to procedures for accounting, procurement, and financial and activity reporting.
- (b) Conditions relating to execution of field activities:
- (i) At least 75% of the demonstration activities have been carried out.
  - (ii) The training programme is in place.

7. **Start-up of the third phase.** The following prerequisites (or trigger mechanisms) shall be evaluated upon completion of the second phase of the programme:

- (a) The four CRPs are operating normally, the PLLPs have been prepared, the relevant framework agreements and performance contracts have been signed.
- (b) Negotiations on the performance contracts are proceeding smoothly without interference from non-programme sources that might undermine observance of the rules established by the programme.
- (c) Financial control of the CRPs has been successfully implemented, quarterly reports are being submitted on time, and bank reconciliation statements, annual audits, account verifications, and accounting training for the CRPs are provided on a semi-annual basis.
- (d) The CRPs have concluded satisfactory agreements with local service-providers to monitor the execution of microprojects, monitoring reports have been prepared, and the objectives set forth in the AWPBs have, in general, been attained.
- (e) The executive committees of the CRPs have submitted annual reports that are satisfactory to the general meeting and to the programme desk.
- (f) The PCU's annual evaluation reports of the CRPs are prepared regularly; CRP and non-CRP communities take full part in the preparation of the three-year programmes and AWPBs; there is consistency in the composition of CRP mutual-interest groups and the target population, the role of the representative in the CRPs; NGO participation and the quality of partnerships have been evaluated; note has been taken of the end beneficiaries' perception of CRP performance.



8. The PCU coordinator has been appointed by the Government to coordinate all programme activities for a two-year period. Renewal of the coordinator's contract or its rescission by the Government shall require prior approval from IFAD.
9. A programme desk has been set up at the PCU to assist the coordinator in managing funds and the direct execution of other programme activities at the central level.
10. The CRPs shall be organized as associations under private law. Inasmuch as the objective of the CRPs is to develop organizational capacity among local mutual-interest groups of poor rural communities to fight poverty, the Government shall grant them the status of "association of recognized public interest". CRPs shall have the following bodies:
  - (a) a general assembly, composed of the full membership, which shall elect a president, a secretary, and a treasurer; decisions shall only be valid if the majority of the members present belong to grass-roots groups;
  - (b) an executive committee made up of the president, the secretary, and three to five board members elected by the general assembly; and
  - (c) a supervisory board (*conselho fiscal*) made up of one to three members elected by the general assembly.
11. Each CRP shall prepare its own PLLP for a three-year period along with the respective AWPB for their implementation. The Government, by way of the PCU, shall make available each year to each CRP a predetermined amount drawn on its part of the financing and on the loan proceeds to finance:
  - (a) the CRPs' operating costs, and
  - (b) the programme's contribution to the costs of microprojects executed on the basis of the three-year PLLPs. The PLLPs are to contain an indicative amount for the funds required by type of microproject, rather than an exhaustive listing.
12. Microprojects financed by the CRPs must meet: (a) the investment criteria set by the programme, and (b) the strategy criteria defined by the CRPs. The CRPs are also to set priority criteria for selecting which microprojects (out of all the requests received) are to be included in the annual budget within the ceiling of resources allocated by the programme. The definition of these specific criteria shall constitute the CRPs' poverty-alleviation strategy, which should stem from a participatory approach and be in line with the Government's strategy. Once approved by the general assembly, the PLLPs shall be forwarded to the respective CMPs for an opinion on the portion that concerns them and subsequently submitted to the PCU for approval. Failure of a CMP to approve the portion of a PLLP that lies within its area of competence shall not affect the rest of the PLLP.
13. The PCU shall ascertain the PLLPs' conformity with the policy strategy and objectives of the PNL, verify the terms of the CMP's opinion, and ensure that the amount of the investment and recurring costs indicated in the PLLPs is in keeping with the loan proceeds allocated. A framework agreement is to be prepared by the programme desk and submitted for clearance by the CNA. This agreement is to be signed by an authorized representative of the Government. Pursuant to the loan agreement, the Government undertakes to transfer to the CRPs the funds needed to cover the operating costs of the PLLPs and its portion of the cost of microprojects to be financed under the PLLPs. The CRPs agree to abide by the programme's rules relating to investment criteria and policy as well as procedures for procurement, accounting and financial reporting. An annual disbursement plan is to be negotiated as part of the framework agreement. The Government shall include the



necessary funding for the framework agreement in the Pluriannual Public Investment Programme (PIIP) under the PNL. Any amendment to the framework agreement entailing a change of approximately 20 per cent of the original amount or affecting the categories of investments established in the PLLP must be submitted to the CNA for approval.

14. The CRPs have the capacity to finance individual microprojects up to USD 25 000 and USD 1 500 maximum per family, with a 20% contribution from the beneficiaries. Any change to these predetermined criteria must be approved in advance by IFAD. The loan proceeds for implementing the PLLPs shall be transferred to the CRPs by the programme desk on the basis of an annual request that is to be submitted by each CRP and based on the AWPBs prepared by them. The request is to specify the CRP's operating costs and the total allocation of loan proceeds by type of microproject that the CRP wishes to implement, the number of beneficiaries broken down by microproject type, and an indicative list of expenditures. The AWPBs are not to contain a list of microprojects but rather annual commitment forecasts by microproject type. The programme desk will make sure that the total budget is within the ceiling of resources negotiated under the framework agreement and that the allocation by microproject type is in accordance with the programme's strategy. The request will be formalized by a performance contract prepared by the programme desk, which is to be cleared by the PCU coordinator, approved by the CNA, and signed by the CRP's president and an authorized representative of the Government. Under the loan agreement, CRPs undertake to execute the AWPBs as approved by the general assembly, and the Government agrees to disburse funds according to a monthly plan agreed by the parties. The performance contract is to be included in the Government's annual budget under the heading of the PNL and a sub-heading for the programme. The Government shall include the funds necessary for financing the performance contract in the annual budget under the PNL.

15. After approval by the general assembly, the list of microprojects that are to be financed under the AWPBs and are to be carried out in the municipalities included in the CRPs' zone is to be forwarded to the respective CMPs for their information.

16. The CRPs shall enter into contracts with local NGOs, communities, farmers' associations, local microenterprises, and informal mutual-interest groups for the purpose of carrying out the microprojects identified in the AWPBs and financed under the performance contracts, technical assistance, and accounting services.

17. The Government shall insure programme personnel against disease and accident risks in accordance with standard commercial practices.

18. The programme is to ensure equal access for men and women to the positions that shall be created.

19. The Government agrees to grant the CRPs the status of association in the public interest, provided that they meet the conditions stipulated in the Decree-Law of 14 March 1998.

20. The Government agrees to set up the CNA and appoint its members during the first year of the programme. The CNA is to be made up of representatives of beneficiaries, the Association of Mayors of Cape Verde, NGO associations, and the Central Government, and its composition is to be acceptable to IFAD.

21. The following conditions are specified as additional conditions for the disbursement of the loan proceeds:

- (a) For phase I: opening of the programme account, appointment of persons having signature authority, and deposit of the counterpart funds.





- (b) For phase II: satisfactory fulfilment of the conditions for start-up of Phase II.
  - (c) For Phase III: satisfactory fulfilment of the conditions for start-up of Phase III.
22. The following conditions are specified as additional conditions for the effectiveness of the loan:
- (a) Preparation of the procedures manuals for the first phase relating to: (i) operating procedures of the programme desk, and (ii) accounting, procurement, and financial and activity reporting procedures of the programme desk.; and
  - (b) A favourable legal opinion from a legal counsel or such other legal authority as may be acceptable to IFAD concerning the content and form has been submitted by the Government to IFAD.



## COUNTRY DATA

## CAPE VERDE

<b>Land area (km<sup>2</sup> thousand) 1996 1/</b>	<b>4</b>	<b>GNP per capita (USD) 1997 2/</b>	<b>1 090</b>
<b>Total population (million) 1997 3/</b>	<b>0.40</b>	<b>Average annual real rate of growth of GNP per capita, 1990-97 2/</b>	<b>1.0</b>
<b>Population density (people per km<sup>2</sup>) 1996 3/</b>	<b>97</b>	<b>Average annual rate of inflation, 1990-97 2/</b>	<b>5.3</b>
<b>Local currency</b>	<b>Cape Verde Escudo (CVE)</b>	<b>Exchange rate: USD 1 =</b>	<b>CVE 105</b>
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population (average annual rate of growth), 1990-97 2/	2.3	GDP (USD million), 1997 1/	425
Crude birth rate (per thousand people), 1997 1/	32	Average annual rate of growth of GDP 1/, 1976-86	8.0
Crude death rate (per thousand people), 1997 1/	7	1987-97	3.5
Infant mortality rate (per thousand live births), 1997 1/	56	Sectoral distribution of GDP, 1997 1/	
Life expectancy at birth (years), 1997 3/	68	% agriculture	9
Number of rural poor (million) 3/	n.a.	% industry	21
Poor as % of total rural population 3/	n.a.	% manufacturing	1
Total labour force (million) 1997 1/	0.2	% services	70
Female labour force as % of total, 1997 1/	39	Consumption, 1997 1/	
<b>Education</b>		General government consumption (as % of GDP)	20
Primary school gross enrolment (% of relevant age group), 1997 1/	n.a.	Private consumption (as % of GDP)	84
Adult literacy rate (% of total population), 1995 4/	72	Gross domestic savings (as % of GDP)	-4
<b>Nutrition</b>		<b>Balance of Payments (USD million)</b>	
Daily calorie supply per capita, 1995 4/	3 003	Merchandise exports, 1997 1/	20
Index of daily calorie supply per capita (industrial countries=100), 1995 4/	95	Merchandise imports, 1997 1/	274
Malnutrition prevalence, height for age (% of children under 5), 1997 1/	n.a.	Balance of merchandise trade	- 254
Malnutrition prevalence, weight for age (% of children under 5), 1997 1/	n.a.	Current account balances (USD million)	
<b>Health</b>		before official transfers, 1997 1/	- 156
Health expenditure, total (as % of GDP), 1997 1/	n.a.	after official transfers, 1997 1/	- 30
Physicians (per thousand people), 1997 1/	0.2	Foreign direct investment, 1997 1/	12
Percentage population without access to safe water, 1990-96 4/	49	<b>Government Finance</b>	
Percentage population without access to health services, 1990-95 4/	n.a.	Overall budget surplus/deficit (including grants) (as % of GDP), 1997 1/	n.a.
Percentage population without access to sanitation, 1990-96 4/	76	Total expenditure (% of GDP), 1997 1/	n.a.
<b>Agriculture and Food</b>		Total external debt (USD million), 1997 1/	220
Food imports as percentage of total merchandise imports, 1997 1/	n.a.	Present value of debt (as % of GNP), 1997 1/	33
Fertilizer consumption (hundreds of grams per ha of arable land), 1996 1/	0	Total debt service (% of exports of goods and services), 1997 1/	5.5
Food production index, (1989-91=100) 1997 1/	96.1	Nominal lending rate of banks, 1997 1/	12.1
<b>Land Use</b>		Nominal deposit rate of banks, 1997 1/	5.0
Arable land as % of land area, 1996 1/	9.7		
Forest and woodland area (km <sup>2</sup> thousand), 1995 4/	n.a.		
Forest and woodland area as % of total land area, 1995 4/	n.a.		
Irrigated land as % of cropland, 1996 1/	7.3		

n.a. not available.

Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *The World Development Indicators CD-ROM*, 19992/ World Bank, *Atlas*, 19993/ World Bank, *World Development Report*, 19994/ UNDP, *Human Development Report*, 1998

## PREVIOUS IFAD LOANS TO CAPE VERDE

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/ Grant Amount ('000)	Disbursement (as % of approved amount)
Assomada Integrated Agricultural Development Project	AfDB	AfDB	HC	11 Dec 78	31 Mar 80	31 Dec 85	L - I - 7 - CPV	USD	3 820	52.4%
Artisanal Fisheries Development Project	IFAD	AfDB	HC	02 Dec 87	19 Sep 88	31 Dec 95	L - I - 211 - CV	SDR	4 350	90.5%
Community-based Agricultural and Livestock Development Project	IFAD	AfDB	-	04 Apr. 91	13 Feb. 91	30 June 97	G - S - 24 - CV	USD	200	88.5%
Community-based Agricultural and Livestock Development Project	IFAD	AfDB	HC	01 Oct 90	14 May 91	31 Dec 99	L - S - 25 - CV	SDR	3 450	59.60%



## LOGICAL FRAMEWORK

Narrative Summary	Key Performance Indicators	Means of Verification	Critical Assumptions
<p><b>Objective</b></p> <p>To improve the living conditions of the rural poor</p>	<ol style="list-style-type: none"> <li>1. Better access to basic social services.</li> <li>2. Improved education and professional training.</li> <li>3. Improved housing.</li> <li>4. Diversification of economic activities.</li> <li>5. Improved availability of production inputs.</li> <li>6. Improved productivity and production.</li> </ol>	<p>Annual progress report on programme: information in the CRP progress reports, reports on performance of monitoring agents contracted by the CRP (GTI, GDR, private professionals) and annual evaluation case studies are consolidated.</p>	<p><b>Risks</b></p> <ol style="list-style-type: none"> <li>1. Failure of Government to comply with programme's decentralization policy despite formal agreement.</li> <li>2. Inadequate human resources recruited for the programme desk.</li> <li>3. Lack of interest on part of communities.</li> <li>4. Communities do not want to contribute their share of costs.</li> <li>5. CRP internal conflict.</li> <li>6. General assembly cannot agree on priorities.</li> <li>7. CRP priorities not in line with PNL.</li> <li>8. Influential people dominate the general assembly.</li> <li>9. Interference with CRP free planning decision.</li> </ol> <p><b>Mitigation measures</b></p> <ol style="list-style-type: none"> <li>1. Political level and IFAD intervene to enforce loan agreement.</li> <li>2. IFAD to approve selection of PCU coordinator and programme staff.</li> <li>3. Improve CRP partners' dialogue through animation and training.</li> <li>4. CNA rejects three-year programmes, amends or suspends the framework agreement until problems are resolved.</li> </ol>
<p><b>Purpose</b></p> <p>To effectively mobilize the entrepreneurial potential of local community leaders, their partners in civil society and in the local administration for the fight against poverty.</p>	<ol style="list-style-type: none"> <li>1. Number of community associations that are active members of the CRP.</li> <li>2. Numbers of NGOs that are active members of the CRP.</li> <li>3. Community leaders participating in CRP decision-making process.</li> <li>4. Effective use of investment funds allocated.</li> <li>5. Ultimate beneficiaries are satisfied with CRP performance and with their role in the association.</li> </ol>	<p>Programme evaluation reports. On an annual basis, independent consultants evaluate:</p> <ol style="list-style-type: none"> <li>1. the role of community leaders in the decision-making process of CRP's;</li> <li>2. a reasonable size purposive sample of microprojects financed by the CRP, including ultimate beneficiary assessment for each project;</li> <li>3. CRP progress reports and records of general assembly meetings.</li> </ol>	<p><b>Risk</b></p> <p>Because of poor economic resource base, CRP activities do not improve incomes of poor (no sustainable demand for inputs, little chance of diversification).</p>
<p>To establish decentralized institutions of local communities and their development partners (the CRPs) capable of designing and implementing local programmes to fight poverty based on their own visions and priorities</p>	<p>4 CRPs established: one each on the islands of San Antao, San Nicolau and Fogo-Brava, and in the municipalities of Tarrafal and San Miguel on the island of Santiago.</p>	<ol style="list-style-type: none"> <li>1. Legal status of CRPs published in official journal of Government.</li> <li>2. Declaration of public interest associations issued by Government.</li> </ol>	



Narrative Summary	Key Performance Indicators	Means of Verification	Critical Assumptions
<b>Purpose</b>	The four CRP function effectively: 1. They elaborate three-year programmes and finance projects based on people's own priorities 2. Communities participated in the elaboration of the three-year programmes and support the selected priorities 3. CRPs implement the microprojects according to the rules of programme	1. Framework agreement and first year's performance contract approved to begin phase 2 of each CRP 2. PCU annual evaluations include beneficiary assessment 3. Financial reports, audits and performance monitoring reports	<b>Possible defaults of CRPs</b> 1. Non-conformity with programme's established investment criteria 2. Fraudulent use of funds 3. Slow use of resources 4. Communities do not play their role in the CRP decision-making process <b>Means of quick detection</b> Quarterly financial reports, <i>ad hoc</i> financial inspections, semi-annual audit, monthly bank statements, quarterly monitoring reports, annual evaluation reports of CRPs.
To establish a flexible mechanism for transferring financial resources to the CRPs, compatible with acceptable Government financial practices	1. three-year framework agreement with CRP ensures that finance is available on a medium-term basis to support CRP programmes; 2. Annual performance contracts are signed without <i>ex ante</i> clearance of specific microprojects (these are not included in performance contracts) 3. Funds under performance contracts are released in time by the PCU (programme desk) to the CRPs 4. The principle of controlling <i>ex post</i> the use of public funds released to the CRPs under the performance contracts is accepted and works smoothly 5. <i>Ex post</i> control is effectively done	1. Government release of budget funds to PCU (programme desk) is in line with agreed schedule 2. Three-year programmes of the CRP reviewed by PCU (programme desk), framework agreement approved by CNA 3. Performance contracts negotiated and issued promptly to CRPs; 4. Quarterly financial reports of CRP produced accurately and on time; 5. Semi-annual audits of CRP accounts performed timely; 6. Quarterly reports of performance monitoring services (GTI/GDR/private professionals)	<b>Remedial action</b> 1. Adequate preventive action through training of all CRP members on the rules of the game and on the importance of their rigorous application 2. PCU stops all disbursement 3. General assembly of CRP intervenes 4. PCU discusses with CRP cases of non-conforming investments, stops disbursement on these; 5. PCU proposes amendments to the framework agreement for approval by the CNA 6. If necessary, legal action against CRP 7. President an executive committee member
To develop effective cooperation between the CRPs and the public administration (municipalities and decentralized services of central Government)	1. Public administration units respond promptly to CRPs and to local communities' requests 2. Public administration units do not interfere with decisions of CRPs, except in matters regarding respect of laws and regulations; 3. Number of microprojects implemented in partnership with NGOs, municipalities and decentralized government services and quality of the partnership	Annual reports of the CRP. Annual programme evaluation reports	<b>Risks</b> 1. Non-compliance of public administration units with indicator 1 2. Lack or ineffective partnerships <b>Remedial action</b> Political level intervenes CNLP intervenes CRP contracts private sector programme desk intensifies partnership animation



Narrative Summary	Key Performance Indicators	Means of Verification	Critical Assumptions
<p><b>Output</b></p> <p>Products of the programme Desk (operation support unit within the PCU)</p>	<ol style="list-style-type: none"> <li>1. About 20 demonstration activities implemented in the CRP areas during the first 2-3 years of the programme;</li> <li>2. Demonstration and animation activities of the programme desk succeed in establishing in each area a group of partners willing to join in a CRP;</li> <li>3. 4 CRPs are legally established;</li> <li>4. CRP procedures elaborated and enforced;</li> <li>5. Community leaders and groups trained;</li> <li>6. Training abroad in leader approach and experience:               <ol style="list-style-type: none"> <li>(a) 10 days seminar, 7 majors, PCU coordinator;</li> <li>(b) 3-week course: 4 programme desk animators; 8 community leaders; 4 municipality/agency staff;</li> <li>(c) administration and finance: 1 programme desk staff;</li> </ol> </li> <li>7. 4 CRP framework agreements and annual performance contracts negotiated;</li> <li>8. Funds released to CRP in accordance to above;</li> <li>9. Follow-up assistance and <i>ex post</i> control of CRP activities and finance;</li> <li>10. Regular financial reports and audit of own and CRP accounts</li> <li>11. Timely progress reports;</li> <li>12. Timely transmittal of loan withdrawal documents to IFAD-cooperating institution;</li> <li>13. Regular interchange of information among CRPs organized;</li> <li>14. Information about similar experiences abroad disseminated</li> </ol>	<ol style="list-style-type: none"> <li>1. Annual reports of the programme desk;</li> <li>2. Annual programme evaluation reports of the PCU;</li> <li>3. IFAD and cooperating institution supervision mission reports;</li> <li>4. First phase joint IFAD-Government programme review verifies that sufficient progress is made to start Phase 2 or reorient the programme;</li> <li>5. Second phase joint IFAD-Government programme review verifies that sufficient progress is made to start phase 3 or redesign the last three years of the programme.</li> </ol>	<p><b>Risks</b></p> <ol style="list-style-type: none"> <li>1. Inadequate management of the PCU (no delegation to the programme desk, interference with PLP approach, diversion of staff time to other programmes, etc.);</li> <li>2. Ill-functioning of central administration and financial services of the PCU;</li> <li>3. Inadequate functioning of the three ex post control circuits: on use of funds (financial); on monitoring performance of microprojects implementation; on impact evaluation;</li> <li>4. Interference or incompatibility of other donors' approaches with established programme procedures;</li> <li>5. Delays in collecting and transmission of loan withdrawal applications;</li> <li>6. Government contribution delayed or drastically reduced;</li> </ol> <p><b>Remedial action</b></p> <ol style="list-style-type: none"> <li>1. Supervision missions reports problems to Rome and to political level in Praia;</li> <li>2. Clarify different approach and role of other donors in the PNLIP;</li> <li>3. Suspend or cancel the loan.</li> </ol>
<p>Products of the CRPs</p>	<ol style="list-style-type: none"> <li>1. Three-year programmes;</li> <li>2. APWB (microproject selection)</li> <li>3. Contracts with communities or NGOs to implement the microprojects</li> <li>4. Contracts for financial and microproject implementation monitoring services;</li> <li>5. Accounts and financial reports;</li> <li>6. Annual reports on activities to the general assemblies and to the PCU.</li> </ol>	<ol style="list-style-type: none"> <li>1. Annual reports of the CRPs;</li> <li>2. Accounts of meetings of the general assemblies and the CRPs;</li> <li>3. Quarterly and annual performance monitoring reports (GTI/GDR or private professionals recruited by the CRP);</li> <li>4. Annual CRP evaluation reports of the PCU (programme desk).</li> </ol>	<p><b>Main Risks</b></p> <ol style="list-style-type: none"> <li>1. CRP elaborates three-year programmes, or AWPB beyond allocated financial ceiling;</li> <li>2. CRP does not respect investment criteria of the programme;</li> <li>3. CRP accepts other functions and funding beyond management capacity.</li> </ol> <p><b>Remedial actions:</b> See part 1 of logframe; possible defaults of the CRPs.</p>



Narrative Summary	Key Performance Indicators	Means of Verification	Critical Assumptions
<p><b>Output</b></p> <p>Products of the groups and communities of poor people financed by the CRPs</p>	<ol style="list-style-type: none"> <li>1. Informal groups develop into formal associations;</li> <li>2. Accumulation of common funds by savings on own contract prices;</li> <li>3. Participation in the CRPs;</li> <li>4. Ideas for the three-year programmes and the AWPB;</li> <li>5. Implementation of contracts to develop own microprojects;</li> <li>6. Contract accounts and invoicing.</li> </ol>		<p><b>Risks:</b></p> <ol style="list-style-type: none"> <li>1. Few formal associations developed;</li> <li>2. No common funds accumulated;</li> <li>3. Communities do not come up with ideas for the CRP</li> </ol> <p><b>Remedial action:</b> Find out why and intensify animation</p>
<p><b>Inputs</b></p> <p>Component 2 (demonstration activities) Component 3 (animation and training) Part of Component 4 (support to programme desk)</p>	<ol style="list-style-type: none"> <li>1. 1 head of the PCU programme desk (<i>inter alia</i> is responsible for the <i>ex post</i> control circuits, preparation of all reports, handles the Special Account jointly with PCU Coordinator);</li> <li>2. A senior animation specialist;</li> <li>3. Four animations specialists (one for each CRP area) to serve under the programme desk during Phase 1;</li> <li>4. 1 junior accountant, programme desk;</li> <li>5. 1 Administration and Finance Officer, programme desk;</li> <li>6. 1 driver;</li> <li>7. 5 vehicles (4 to be turned over to the CRP when established) and replacement;</li> <li>8. Minimum office equipment for programme desk in Praia, and for CRPs when established;</li> <li>9. Operating expenses of the programme desk at central level and in the CRP areas during Phase 1;</li> <li>10. Short-term consultancies funds (to prepare manual of procedures and computer programmes for financial control and MIS)/</li> <li>11. Funds for training abroad local personnel and community leaders (on experience of EU leader programme);</li> <li>12. Funds to finance the annual evaluation of the CRPs by independent consultants;</li> <li>13. Funds to finance the external semi-annual audit of the CRP and annual audit of the programme;</li> <li>14. Funds to finance about 20 demonstration activities in the CRP areas during phase 1;</li> <li>15. Funds to finance start-up workshop and annual CRP Workshops</li> </ol>	<ol style="list-style-type: none"> <li>1. Annual programme reports of the programme desk;</li> <li>2. Six monthly financial reports of the programme desk;</li> <li>3. Audited annual accounts of the programme;</li> <li>4. Bank statements on the use of the Special Account and of the parallel Government contribution account;</li> <li>5. Loan withdrawal documents presented to IFAD for replenishment of the Special Account.</li> </ol>	





Narrative Summary	Key Performance Indicators	Means of Verification	Critical Assumptions
<p><b>Input</b></p> <p>Part of Component 4 (support to CRP management) Component 1 Funds to finance the activities of the CRPs</p>	<ol style="list-style-type: none"> <li>1. The animation specialist in charge of the TU of the CRP;</li> <li>2. Funds to pay for an accountant or to contract accounting and financial reporting services with GTI/GDR or private professionals;</li> <li>3. Office equipment and one vehicle for each CRP;</li> <li>4. Other operating costs of the CRP, including the TU, communication and training material, etc.;</li> <li>5. Funds to finance community projects approved under the APWB of the CRPs;</li> <li>6. 10% of approved project cost allocated to prepare brief feasibility reports, help CRP to make contracts for implementation of microprojects and monitor performance under those contracts.</li> </ol>	<ol style="list-style-type: none"> <li>1. Annual reports of the CRPs;</li> <li>2. Quarterly financial reports of the CRPs (include bank statement on the RFA);</li> <li>3. Semi-annual audited accounts of the CRPs;</li> <li>4. Audited stock position of the CRP.</li> </ol>	

Specific Objectives	Indicators	Means of Verification
<p>Design, test and confirm the administration procedures of the programme: preparation and approval by IFAD of the PCU (programme desk) and CRP manual of procedures (operations, procurement, and finance)</p> <p>Test the response of local groups and communities to the CRP idea and to programme desk animation and demonstration initiatives</p> <p>Test the reactions of municipal authorities and CMPs to CRP activities and procedures</p> <p>Test to which extent local groups of poor people members of the CRPs manage to exercise their decision-making authority within the CRPs</p> <p>Design and test the programme methodology for the formulation of the PLLPs</p>	<p>Procedure manuals of programme desk and of CRPs prepared and approved by Government and IFAD</p> <p>CNA is established with adequate non-governmental representation and procedures acceptable to IFAD</p> <p>Programme desk is established, adequately staffed and equipped</p> <p>Programme desk animators in place in the four CRP intervention areas</p> <p>CMPs established in the municipalities where the CRPs are expected to be active</p> <p>Letter of intent signed by Government regarding the contents and procedures of application of the framework agreement and of the performance contract</p> <p>All basic training programmes implemented (in Cape Verde and abroad)</p> <p>At least two thirds of demonstration projects completed</p> <p>At least two CRPs established and functioning</p> <p>The general assemblies have approved the negative list (projects and activities not eligible for programme financing)</p> <p>First two PLLPs prepared and first framework agreement and performance contracts negotiated and signed</p>	<p>IFAD supervision mission reports</p> <p>PCU (programme desk) reports</p> <p><b>Phase 1 programme review</b></p>
<p>All planned CRPs function properly</p> <p>The local groups and communities members of the CRPs are genuine group of poor rural people</p> <p>Local groups leaders play an increasing role in the CRP decision-making process</p> <p>Operation and procedures function smoothly</p> <p>Member NGOs contribute increasing shares to the total resources of the CRPs</p>	<p>The three-year planning process is undertaken successfully by all CRPs</p> <p>The AWPB is discussed and approved by the CRP general assemblies without serious conflicts among members</p> <p>The CMPs do not delay or create obstacles to the efficiency of the CRP operations</p> <p>CRPs' performance contracts negotiated quickly by the PCU</p> <p>Government counterpart funds are regularly made available in the Counterpart Fund account</p> <p><i>Ex post</i> control of CRP budgets is regularly undertaken</p> <p>Microprojects are subcontracted and implemented smoothly by all CRPs</p> <p>Agreed procurement and accounting procedures are correctly followed</p>	<p><b>Phase 2 joint IFAD-Government programme review</b></p> <p>IFAD supervision mission reports</p> <p>PCU (programme desk) reports</p> <p>Six-monthly CRP audit reports</p> <p>Annual programme audit reports</p>



## ORGANIZATION AND MANAGEMENT

1. Hereunder are described (i) organization and management arrangements at both the central (PCU) and decentralized (CRP) levels; (ii) contractual arrangements between both levels (framework agreements and performance contracts); and (iii) triggers for entering phases 2 and 3.

### Organizational and Management Arrangements at both the PCU and CRP Levels

2. **The programme desk.** As an integral part of the PCU, the programme desk will comprise a small support unit with staff recruited for the specific purpose of assisting the PCU coordinator in implementing the IFAD-financed programme. Under the general supervision of the PCU coordinator, the desk will:

- (a) jointly with the PCU coordinator, manage the IFAD Special Account and the parallel Government contribution account;
- (b) except for those related to the implementation of the microprojects at the CRP level, arrange all purchases of goods and services under the programme in accordance with procurement procedures agreed by IFAD and the Government, such purchases to be formally sanctioned by the PCU coordinator;
- (c) ensure timely collection of all loan withdrawal applications (the coordinator is responsible for transmitting such documentation to the Ministry of Finance and for ensuring timely replenishment of the programme Special Account and Government contribution account);
- (d) promote the CRP idea among local communities in the programme areas; train community and local group members and leaders; assist in the establishment of CRPs as legal entities; prepare guidelines on procedures to be adopted by the CRPs (including procurement and accounting manuals); promote exchanges of experience and information among the CRPs;
- (e) with regard to the allocation of programme funding to each CRP (as stipulated in the loan agreement), review proposals for three-year CRP programmes to ensure conformity with financial allocations and with the objectives and policies of the programme; prepare framework agreement documents for each CRP for clearance by the PCU coordinator (who will forward the agreements to CNA for approval and ensure that they are included in the Government's three-year rolling plan); and review yearly CRP performance contracts and submit them for the clearance of the PCU coordinator (who will arrange for signature by delegated Government representatives);
- (f) undertake regular and rigorous *ex post* reviews of individual microprojects financed by the CRPs to ensure conformity with the programme's general investment criteria; review compliance with procurement procedures; monitor CRP performance and advise the CRPs on matters related to PLLP implementation problems;
- (g) provide regular assistance in accounting and financial reporting through ad hoc inspections of CRP accounts, and arrange for six-monthly auditing of CRP accounts by private auditors;
- (h) advise the PCU coordinator on any breach of contractual arrangements on the part of CRPs. The coordinator will be authorized to withhold disbursement of funds to any CRP not complying with the programme's investment criteria or operating procedures, or in cases of misappropriation of funds and of other irregularities. Disbursements will be

resumed once corrective action has taken satisfactory to the PCU. Conflicts may be referred to the CNA for arbitration;

- (i) advise the PCU coordinator of any breach of procedure or interference with, or obstacles to, the proper autonomous operations of the CRPs that may result from acts and behaviour of the CMP, UMC, government or municipality officers, delegated agencies and institutes, or other persons. The PCU will be expected to take remedial action and, if necessary, refer the matter at the appropriate political level and/or to the CNA;
- (j) report quarterly to the PCU coordinator on CRP performance. In consultation with each CRP, prepare reports (progress report, first six-monthly audit, and bank statement on the first nine months of the CRP revolving fund account) to provide the basis for negotiating the following year's performance contract;
- (k) report once-yearly to the PCU coordinator on the financial performance of the entire programme and of each CRP. Copies of such reports should be submitted to IFAD;
- (l) through contracts with private specialists, undertake annual impact evaluations of CRP activities, in accordance with methodologies agreed by IFAD; and
- (m) keep a data bank on the microprojects implemented by the CRPs; consolidate the information derived from the yearly evaluations and reports on the performance of the CRPs; and prepare annual progress reports on the overall programme. Copies of such reports should be submitted to IFAD.

3. The CRPs will be established as associations under private law. The objective of the CRPs is to develop the capacity of local common interest groups of poor rural people and communities to organize themselves to fight against poverty. To that end, the Government will declare the CRPs as public interest associations (Article 14 of Law 28/III/87). The CRPs will be recognized as "NGOs of the first level" for the purpose of the administrative procedures of the PNL.

4. CRP membership will include representatives of: legally-established groups and associations of rural people; NGOs operating in the areas covered the CRPs; municipalities included in the areas covered by the CRPs, and decentralized units of MOAFE, the Ministry of Education, the Institute for the Promotion of Artisanal Fisheries, etc.

5. Representatives of groups of people who do not fall within the rural poor category will not be members of the CRP (for example, associations of landowners).

6. **CRP structure and functions.** The CRPs will drawing their own rules and regulations in accordance with Article 6 of Law 28/III/87 and subsequent practices accepted by the Ministry of Justice, with the exception of the limitations spelled out in points (a) (b), and (e) below. The CRPs will comply with other requirements to obtain recognition as public interest associations, and, in particular, with the conditions, set out in the decree of 11 March 1998 that enables private associations to obtain funds for the implementation of programmes and projects under the National Public Investment Programme, of which PNL is a part:

- (a) the CRPs will hold general assemblies attended by all members, but members representing decentralized government units will not be allowed to vote. A general assembly meeting will be valid only if the majority of members with voting power are representatives of common interest groups and poor communities;
- (b) the general assembly will elect a president, a secretary, a treasurer and other executive members not exceeding six in all. The elected members will form the CRP executive committee, with the exception of the treasurer. Representatives of decentralized government services and of government institutes will not be members of the executive



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- committee but may be co-opted as advisers if so decided. Representatives of the municipalities cannot act as CRP presidents but may be members of the executive committee if elected by the general assembly;
- (c) the general assembly will elect a three-member control council. Members of the executive committee and the treasurer cannot be elected to the control council, the role of which is to oversee the activities of the executive committee to ensure that procedures are applied in accordance with the rules and external commitments of the CRP. The control council assists the president of the CRP to ensure that the microprojects funded meet the programme's investment criteria;
  - (d) the general assembly approves the three-year CRP programme, the AWPB, the financial reports of the treasurer, and the president's annual progress reports. These documents, and the minutes of the general assembly meetings, will be available to all CRP members. Copies of resolutions approved by the general assemblies will be transmitted to the CMP and to the PCU (programme desk). The PCU will also receive copies of the minutes of meetings;
  - (e) the CRPs will establish technical units comprising one professional accountant and one or two extensionists. The senior extensionist will be responsible for the daily operations of the technical unit and will report to the president of the CRP. The CRPs will be encouraged to contract for financial and other administration services with the *Gabinete Tecnico Intermunicipal* (Intermunicipal Technical Office (GTI)) or *Gabinete de Desenvolvimento Regional* (Regional Development Office (GDR)) where they exist, or with private professionals approved by the PCU;
  - (f) CRP financial procedures must be acceptable to the PCU (programme desk), which will prepare procurement, accounting and other guidelines/manuals for adoption by the CRP;
  - (g) the executive committees will prepare the three-year CRP programmes (PLLPs) with the assistance of the technical unit following a participatory method involving direct contacts, discussions and negotiations with all interested rural communities that are members of the CRP or are represented by an NGOs active in the area, a municipality or a decentralized service; the three-year PLLPs will approved during the general assembly meetings;
  - (h) the executive committee will inform all potential partners and beneficiary groups of the CRP approach, inviting proposals for possible funding. Care will be taken to specify eligible types of projects and the criteria that would be applied in selecting proposals;
  - (i) the executive committee will prepare the AWPBs with the assistance of the technical unit, municipal and decentralized government services and institutes, NGOs and private professionals, as required. The AWPBs will include estimates of the annual operating and investment costs of the CRPs and microprojects which it is proposed to support during the year. If necessary, the AWPBs will indicate that the selection responds to the criteria approved by the general assemblies for the three-year programme, explaining the reasons why annual allocations by types of projects may not correspond closely to the indicative distribution approved;
  - (j) the AWPB is discussed and approved by the general assembly, and provides the basis for the request to the PCU (through the PLPR desk) upon which the annual performance contracts are negotiated. Such request, however, does not include project details included in the AWPB; amendments to the AWPB, within the ceiling of expenditure of the performance contract, can be approved on the basis of operational circumstances, drop-out of approved projects, and new proposals received in the course of the year. Such amendments will be justified to the general assembly and to PCU during regular



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- inspections by the staff of the programme desk, but no prior approval of the amendments by the PCU is required;
- (k) the president of the CRP negotiates the three-year framework agreement and the annual performance contracts with the PCU and signs them on behalf of the CRP;
  - (l) the amount allocated to individual CRPs under the three-year framework agreement may be modified at the request of the PCU on the basis of CRP performance in implementing AWPBs; such modifications must be approved by the CNA;
  - (m) the manager prepares and negotiates contracts with NGOs, associations, microenterprises and informal groups for the execution of the microprojects under the AWPB; the president of the CRP signs the contracts;
  - (n) the technical unit (TU) cooperates with the decentralized services of central Government and with the municipalities in providing services to local groups and communities. The TU keeps close contacts with the municipal coordinating unit;
  - (o) the president of the CRP issues all payments vouchers to the CRP accountant. The CRP accounts are kept by the TU accountant who reports to the treasurer. However, administration and accounting services may be contracted out to the GTI/GDR or to private enterprises. The president and the treasurer of the CRP co sign all cheques with the accountant, independently of the CRP accounting arrangements;
  - (p) the TU accountant (or the agent keeping the CRP accounts under contract) prepares quarterly financial reports to be available for inspection by the PCU (programme desk). Such reports include monthly bank statements. The CRP accounts are audited by external auditors nominated by the PCU (programme desk) on a six-monthly basis;
  - (q) the president of the CRP, assisted by the TU, will arrange for regular monitoring of subcontractors' performance in the physical and financial implementation of the microprojects financed by the CRP. The performance monitoring function can be contracted to the GTI/GDR or other qualified professional service providers, whenever convenient, as decided by the manager. Quarterly performance monitoring reports will be produced, a copy of which will be forwarded to the PCU (programme desk). The adequacy of the contract performance monitoring arrangement will be reviewed regularly;
  - (r) the manager and the TU will cooperate with specialists nominated by the PCU (programme desk) with regard to annual impact evaluations of the programme;
  - (s) the CRPs keep the CMPs fully informed of their activities by: (i) participating in the work of the CMPs and (ii) requesting validation of the of the three-year PLLPs; (iii) transmitting, for information purposes, the list of microprojects approved under the annual AWPB by the general assembly for implementation in the respective municipal territory; and (iv) making available copies of their annual activity progress reports.

7. Framework agreements and performance contracts will regulate the contractual relationships between the Government and individual CRPs for implementation of the programme.

### **Contractual arrangements between the central and decentralized levels**

8. Within the framework of the framework agreement and for the purpose of achieving the general objectives of the programme:

- (a) the Government undertakes to make available financial resources to the CRPs with the objective of enabling them to implement their three-year PPLPs;



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- (b) the CRP undertakes to implement an indicative three-year PLLP under the framework agreement;
- (c) the PLLP document specifies the objectives of the CRP, identifies and justifies the typology of interventions envisaged for the three-year period, elaborates an indicative distribution of financial resources by types of interventions, and includes a proposed “negative list” which states which type of projects the CRP will not fund with programme resources;
- (d) the PLLP document includes a statement that all microprojects supported by the CRP will comply with the investment criteria and the procurement, accounting and financial reporting procedures of the programme;
- (e) the PLLP document also includes an estimate of the recurrent costs that will be incurred by the CRP to implement the PLLP and manage programme funds according to established procedures;
- (f) the total amount of the PLLP must be within an amount predetermined by programme management, and the CRP members’ expected contribution must be shown. The PLLP is approved by the general assembly of the CRP, validated by the interested CMPs, and presented to PCU to negotiate the agreement;
- (g) the Government undertakes to transfer the financial resources over a three-year period in specified annual instalments. Such resources will fund: (i) the operating costs of the CRP as indicated in the loan agreement; and (ii) activities (microprojects) undertaken by the CRPs to implement their three-year PLLPs;
- (h) CNA, on the advice of the PCU, approves the framework agreement and any amendment that might become necessary during the three-year programme;
- (i) the distribution of the resources allocated under the PLLP by types of interventions (microprojects) is subject to change in accordance with decisions taken by the general assembly of the CRP; such changes are not subject to approval if the amounts involved do not exceed 20% of the total programme allocation to the CRP for microproject funding. However, changes involving larger amounts, or the introduction of a new type of project (line of intervention) not included in the original framework agreement, require the approval of the CNA;
- (j) the total programme amount initially made available to each CRP for project financing is determined in accordance with the criterion applied in the appraisal report, namely: the number of rural people resident at the time of the last census in the area of intervention of the CRP;
- (k) the amount will be made available over a three-year period in accordance with an initial schedule of annual disbursements jointly predetermined by the PCU and the CRPs, and agreed by IFAD;
- (l) the amount and annual phasing of disbursements will be subject to adjustments depending on the performance of the CRP provided such adjustments involve amounts exceeding 20% of the initial amounts. Proposal for adjustments are made by the PCU (programme desk), discussed with the CRP, and subject to approval by the CNA (amendments to the framework agreement);
- (m) annual disbursements of funds will be based on separate performance contracts negotiated each year between the PCU and the CRP;
- (n) the CRPs specifically undertake to follow procurement, accounting and financial reporting procedures established by the PCU (programme desk) and to submit their



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accounts to regular inspection and six-monthly audits arranged by the PCU; and to make quarterly reports on their financial position, with monthly bank statements;

- (o) the CRP will undertake to follow procedures agreed by the PCU (programme desk) with respect to monitoring programme implementation;
- (p) the CRP will undertake to produce progress reports as required by the PCU (programme desk), and to promptly make available copies of such reports to the PCU and to the relevant CMPs.

9. Under the performance contract and within the framework of the framework agreement approved by the CNA:

- (a) the Government undertakes to make available to the CRP the amount allocated for the year under the framework agreement, such amounts to be disbursed through the PCU (programme desk);
- (b) the CRP will indicate:
  - the estimated operating costs of the CRP for the year, including all staff and other recurrent administration and field work costs, and any service contract envisaged;
  - the cost of equipment and/or other capital expenses to be incurred during the year for the adequate functioning of the CRP's administrative and field work;
  - the amount to be spent on each type of intervention (microprojects) planned for the year;
  - the type and total number of beneficiaries of the programme implemented under the performance contract;
  - a qualitative indication of the benefits expected by the beneficiaries;
  - the estimated annual budget for which the programme is requested to release funds under the performance contract;
  - the expected quarterly phasing of the expenditure during the year.
- (c) The CRP undertakes to keep adequate accounts, in accordance with the procedures established by the PCU (programme desk). The CRP may use its own accounting staff or contract out such services to the GTI/GDR or private professionals as approved by the PCU (programme desk). The CRP accounts will be audited semi-annually by private accountants appointed by the PCU, which will also provide technical guidance and on-the-job training to the CRP accountants in complying with the required procedures. The CRP accounts may be inspected by the PCU (programme desk) at any time decided by the PCU; quarterly reports showing monthly bank statements will be submitted by the CRP to the PCU; the transfer of funds will be channeled through an account opened with a commercial bank selected by the CRP (the auxiliary Special Revolving Fund Account). This account will be replenished by the PCU on the basis of eligible documentation, in accordance with procedures established under the programme.



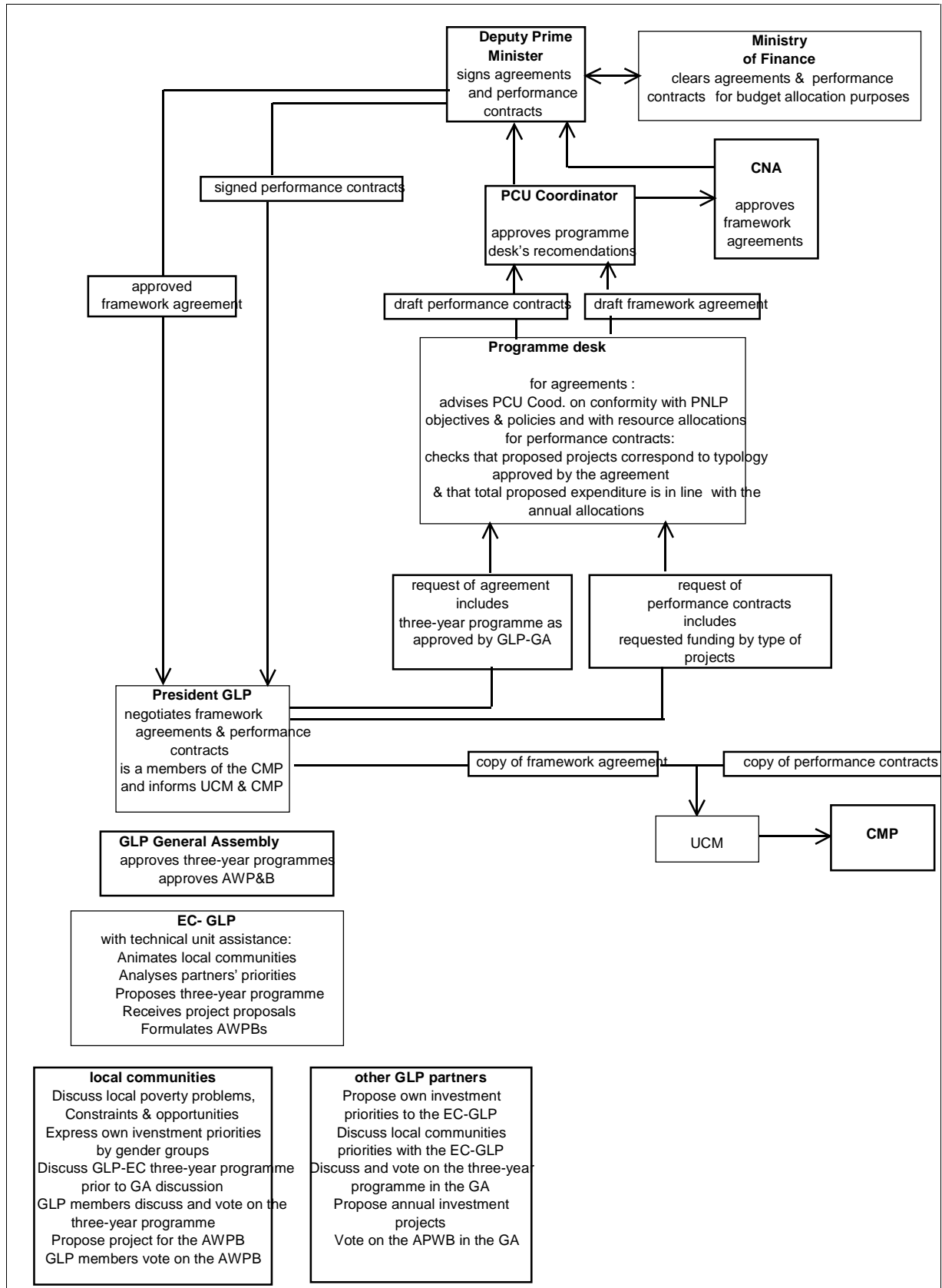


### CONDITIONS FOR ENTERING PHASES 2 AND 3

1. As a condition of loan effectiveness, operational and financial manuals will be prepared for the PCU. Several conditions will need to be met before the Government is authorized to draw on IFAD funds to finance the second and third phases of the programme.
2. Conditions for entering Phase 2 will be verified by a joint IFAD, Government and beneficiary review mission to take place during year 2 of the programme. These triggers will include:
  - the CNA is in place and its membership includes representatives of civil-society organizations (NGOs), municipalities and the Government;
  - the programme desk in the PCU is fully staffed and its operating procedures have been established in accordance with the conditions of the loan agreement (decentralization of operational decision-making to the head of the programme desk, under the general supervision of the PCU coordinator);
  - loan withdrawal documents are forwarded promptly to IFAD or the cooperating institution;
  - the parallel Programme Account is established and Government funds are released on schedule;
  - operational and financial manuals have been prepared at the PCU and CRP levels;
  - at least 67% of the demonstration activities have been implemented; and
  - the training programme has been implemented both in the field and abroad.
3. The following conditions for entering phase 3 of the programme may be envisaged:
  - all four CRPs are functioning smoothly, have elaborated their PLLPs and have been granted their framework agreements and related performance contracts;
  - financial control of the CRPs has been successfully implemented;
  - the CRPs have made satisfactory contractual arrangements with local service vendors for monitoring the implementation of the microprojects funded under the PLLP;
  - CRP executive committees produce annual reports for their general assemblies and the PCU, to the satisfaction of the receivers;
  - annual evaluation reports on the CRPs are produced by the PCU and show that rural communities fully participate in the elaboration of the three-year PLLP and in approving AWPBs; the composition of the common interest groups members of the CRPs is consistent with IFAD's target group, and their leaders play an effective role in the CRPs; the locally-active NGOs and representatives of the public administration participate in the CRPs; and
  - more detailed conditions may be agreed between the Government and IFAD during review mission fielded at the end of phases 1 and 2.



PROCEDURES FOR THE THREE-YEAR CRP PROGRAMME





### ARRANGEMENTS FOR THE FLOW OF FUNDS

