



# Millennium Challenge Corporation

Reducing Poverty Through Growth

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June 13, 2005

## CONGRESSIONAL NOTIFICATION

Pursuant to the requirements of Section 515 of Pub. L. 108-199, we wish to notify Congress of the Millennium Challenge Corporation's ("MCC") intent to enter into a Millennium Challenge Compact with the Government of the Republic of Cape Verde ("GOCV"), through which MCC will grant up to one hundred ten million seventy-eight thousand and four hundred eighty-eight U.S. Dollars (USD \$110,078,488) of FY 2004 Millennium Challenge Account ("MCA") funds. Although the full amount of these funds will be obligated at the time the agreement enters into force, funds will be disbursed in tranches over the course of the Compact's term upon satisfaction or waiver of relevant conditions precedent. This five-year Compact will implement a program, proposed by the Republic of Cape Verde, which will advance Cape Verde's progress towards achieving lasting poverty reduction through economic growth. The Program is designed to:

- Increase agricultural productivity in the intervention zones;
- Increase integration of internal markets and reduce transportation costs; and
- Develop the private sector through improving the private sector investment climate and reforming the financial sector.

Pursuant to Section 610(a) of the Millennium Challenge Act of 2003 (Section 610(a) Pub. L. 108-199, Division D) (the "Act"), the appropriate Congressional committees were notified of MCC's intent to commence negotiations with the GOCV on October 12, 2004. These negotiations have resulted in a mutually agreeable program described herein, which will be formalized in a Compact on substantially the terms and substantially the form of the text of the Compact that is being forwarded with this notification. A summary of key elements of the Compact is set forth in the accompanying "Executive Summary." MCC will provide the final agreed text of the Compact, along with a detailed summary of the text, to the appropriate Congressional committees no later than 10 days after the execution of the Compact, as provided in Section 610(b) of the Act.

**Millennium Challenge Compact between  
the United States of America,  
Acting through the Millennium Challenge Corporation, and  
the Government of the Republic of Cape Verde**

**Executive Summary**

The program to be financed under the Compact seeks to advance economic growth and poverty reduction in Cape Verde through three project areas proposed by the Government of Cape Verde (“GOCV”). Approximately \$10.8 million of MCA funds will be directed toward a watershed management and agricultural support project on three islands to increase agricultural productivity by (i) improving water management, (ii) improving agribusiness development services, and (iii) increasing access to credit and capacity of financial institutions. \$78.8 million will support an infrastructure development project to increase integration of internal markets and reduce transportation costs by improving road infrastructure on two islands and upgrading the Port of Praia. In addition, \$7.2 million of MCA funds will be applied toward a private sector development project to improve the investment climate and reform the financial sector. The duration of the Compact is five years, during which time MCC will authorize, assuming satisfactory performance and satisfaction or waiver of other requirements, periodic disbursements of funds to an interest-bearing account in Cape Verde (some of these funds will be transferred periodically to another interest bearing account for conversion into local currency). A fiscal agent (which initially will be the Ministry of Finance and Planning) will certify re-disbursements from such accounts for project activities in accordance with agreed conditions. The program will also seek to enhance transparency by implementing an e-procurement system and supporting reforms to unify procurement legislation. It will build institutional capacity by supporting the augmentation of an existing government financial management system to improve program management and reporting.

The fiscal accountability mechanisms, governance structure, and audit and review requirements (including monitoring and evaluation) set forth in the Compact and to be further detailed in ancillary agreements and documents, will ensure that appropriate oversight and accountability measures are built into the implementation of the program. In accordance with its Congressional mandate, MCC will only disburse funds consistent with the limitations Congress has placed on the use and treatment of MCA assistance. These limitations are expressly set forth in the body of the Compact. MCC has also retained, through the Compact, approval rights over key agreements and implementation actions, e.g., selection of key service providers (such as the fiscal agent and auditor), certain payments, certain procurements, key personnel decisions for MCA-Cape Verde, detailed financial plans, and the monitoring and evaluation plan. Finally, prior to the Compact entering into force, the GOCV must, among other things, execute a Disbursement Agreement, a Procurement Agreement, and term sheets in connection with certain ancillary agreements.

An accountable/management entity -- MCA-Cape Verde -- will be established to manage and oversee the implementation of the program. A Governance Agreement will set out the governance of MCA-Cape Verde, including the roles and responsibilities of the management and Steering Committee. The Steering Committee will be comprised of nine voting members consisting of government representatives (5 members) and representatives of the private sector and non-governmental organizations (four members). A stakeholders committee representing a cross-section of the beneficiaries will provide feedback, advice and input to the MCA-Cape Verde management and Steering Committee. The Disbursement Agreement will set out the conditions precedent and other requirements for disbursements from MCC and re-disbursements to any person or entity. The Procurement Agreement will set forth procurement guidelines for all procurements of goods, services and works funded with MCC funding, which will require open, fair and competitive procedures for transparent solicitation, award and administration of contracts to qualified and capable contractors.

## **Where To Find Key Provisions**

### **Compact:**

- Article I: Objectives; Term
- Article II: Funding and Disbursement Provisions; Government Contributions
- Article III: Implementation (including procurement, audit, reporting); Government Responsibilities and Assurances
- Article IV: Deliveries and Conditions Precedent to Entry in Force; Conditions Precedent to MCC Disbursement and Re-Disbursement
- Article V: Final Clauses, including Termination and Suspension
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- Annex I: Descriptions of the implementation framework and three program elements: (1) Watershed management and Agricultural Support Project; (2) Infrastructure Project; and (3) Private Sector Development Project
- Annex II: Summary of Multi-Year Financial Plan
- Annex III: Description of the Monitoring and Evaluation Plan