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Report No: PAD2327

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL CREDIT

IN THE AMOUNT OF SDR 19.7 MILLION
(US\$27 MILLION EQUIVALENT)

TO THE

REPUBLIC OF CABO VERDE

FOR THE

TRANSPORT SECTOR REFORM PROJECT

May 23, 2017

Transport and ICT Global Practice
Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2017)

Currency Unit = Cape Verde Escudos (CVE)
CVE 101.29 = US\$1
US\$1 = SDR 0.729

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
ASA	Airports and Air Safety (<i>Aeroportos e Segurança Aérea</i>)
DECM	Department of Engineering and Maritime Science, University of Cabo Verde (<i>Departamento de Engenharia e Ciências do Mar</i>)
DGTT	General Directorate for Tourism and Transport (<i>Direção Geral do Turismo e Transportes</i>)
ENAPOR	National Company of Port Administration (<i>Empresa Nacional de Administração dos Portos</i>)
ERR	Economic Rate of Return
FAMR	Road Maintenance Fund (<i>Fundo Autónomo de Manutenção Rodoviária</i>)
GoCV	Government of Cabo Verde
IDA	International Development Association
IE	Road Agency (<i>Instituto de Estradas</i>)
IMP	Port and Maritime Agency (<i>Instituto Marítimo e Portuario</i>)
ISO	International Organization for Standardization
MAI	Ministry of Internal Administration (<i>Ministério da Administração Interna</i>)
MEE	Ministry of Economy and Employment (<i>Ministério da Economia e Emprego</i>)
MIOTH	Ministry of Infrastructure, Spatial Planning and Housing (<i>Ministério das Infra-Estruturas, do Ordenamento do Território e Habitação</i>)
M&E	Monitoring and Evaluation
MOF	Ministry of Finance (<i>Ministério das Finanças</i>)
NPV	Net Present Value
PBMC	Performance-Based Maintenance Contract
PCU	Project Coordination Unit
PDO	Project Development Objective
PPP	Public-Private Partnership
SOE	State-Owned Enterprise
TACV	Cabo Verde National Airline (<i>Transportes Aéreos de Cabo Verde</i>)
VOC	Vehicle Operating Costs

Regional Vice President:	Makhtar Diop
Country Director:	Louise Cord
Senior Global Practice Director:	Jose Luis Irigoyen
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REPUBLIC OF CABO VERDE
ADDITIONAL FINANCING TO THE TRANSPORT SECTOR REFORM PROJECT

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ADDITIONAL FINANCING DATA SHEET

Cabo Verde

Additional Financing to the Transport Sector Reform Project (P161248)

AFRICA

TRANSPORT AND ICT

Basic Information – Parent							
Parent Project ID:	P126516	Original EA Category:	B - Partial Assessment				
Current Closing Date:	30-Jun-2019						
Basic Information – Additional Financing (AF)							
Project ID:	P161248	Additional Financing Type (from AUS):	Scale Up				
Regional Vice President:	Makhtar Diop	Proposed EA Category:	B – Partial Assessment				
Country Director:	Louise J. Cord	Expected Effectiveness Date:	14-Sep-2017				
Senior Global Practice Director:	Jose Luis Irigoyen	Expected Closing Date:	31-Dec-2020				
Practice Manager/Manager:	Nicolas Peltier-Thiberge	Report No:	PAD2327				
Team Leader(s):	Tojoarofenitra Ramanankirahina						
Borrower							
Organization Name	Contact	Title	Telephone	Email			
Ministry of Finance	Carla Cruz	Director of Planning	2382607611	carla.cruz@mf.gov.cv			
Project Financing Data - Parent (Cabo Verde - Transport Sector Reform Project-P126516) (in US\$, millions)							
Key Dates							
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date
P126516	IDA-52660	Effective	24-Jun-2013	19-Jul-2013	17-Sep-2013	30-Jun-2019	30-Jun-2019

Disbursements									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Un-disbursed	% Disbursed
P126516	IDA-52660	Effective	XDR	12.70	12.70	0.00	11.56	1.14	91.00
Project Financing Data - Additional Financing First Additional Financing to the Cabo Verde Transport Sector Reform Project (P161248) (in US\$, millions)									
<input type="checkbox"/>	Loan	<input type="checkbox"/>	Grant	<input type="checkbox"/>	IDA Grant				
<input checked="" type="checkbox"/>	Credit	<input type="checkbox"/>	Guarantee	<input type="checkbox"/>	Other				
Total Project Cost:		27.00		Total Bank Financing:		27.00			
Financing Gap:		0.00							
Financing Source – Additional Financing (AF)								Amount	
International Development Association (IDA)								27.00	
Total								27.00	
Policy Waivers									
Does the project depart from the CAS in content or in other significant respects?							No		
Explanation									
Does the project require any policy waiver(s)?							No		
Explanation									
Team Composition									
Bank Staff									
Name	Role	Title	Specialization	Unit					
Tojoarofenitra Ramanankirahina	Team Leader (ADM Responsible)	Senior Transport Engineer		GTI08					
Shruti Vijayakumar	Team Leader	Transport Analyst	Air Transport	GTI08					
Cheick Traore	Procurement Specialist (ADM Responsible)	Senior Procurement Specialist		GGO07					
Mamadou Mansour Mbaye	Procurement Specialist	Consultant	Procurement	GGOGI					
Fatou Fall Samba	Financial Management Specialist	Sr Financial Management Specialist	Financial Management	GGO26					

Anta Tall Diallo	Team Member	Program Assistant		AFCF1	
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Jose C. Janeiro	Team Member	Senior Finance Officer	Disbursement	WFALA	
Kjetil Hansen	Team Member	Senior Public Sector Specialist	Governance	GGO13	
Melissa C. Landes	Safeguards Specialist	Natural Resources Mgmt. Spec.	Environmental Safeguards	GEN07	
Ndeye Anna Ba	Team Member	Senior Program Assistant		GTI01	
Sofia De Abreu Ferreira	Counsel	Senior Counsel	Legal	LEGEN	
Extended Team					
Name		Title	Location		
Laurent Mehdi Brito		Procurement Consultant			
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Cabo Verde		Cabo Verde			
Institutional Data					
Parent (Cabo Verde - Transport Sector Reform Project-P126516)					
Practice Area (Lead)					
Transport & ICT					
Contributing Practice Areas					
Additional Financing First Additional Financing to the Cabo Verde Transport Sector Reform Project (P161248)					
Practice Area (Lead)					
Transport & ICT					
Contributing Practice Areas					
Governance					

I. Introduction

1. This Project Paper seeks the approval of the Executive Directors to provide an additional International Development Association (IDA) Credit in the amount of SDR 19,700,000 (US\$27 million equivalent) to the Republic of Cabo Verde Transport Sector Reform Project ('TSRP' or 'original Project') (P126516, IDA-52660).
2. The proposed additional financing (AF) will help finance the costs associated with the scaling up of the original Project by supporting the implementation of additional activities, which are aligned with the original Project Development Objective (PDO). The original PDO is to support the recipient's efforts to improve the efficiency and management of its national road assets and lay the groundwork for transport sector state-owned enterprise reform. The proposal also includes a restructuring of the parent Project which will involve, among others, an extension of the project closing date and the revision of the Results Framework.
3. The proposed AF is consistent with the Country Partnership Strategy (CPS) FY15–17 for Cabo Verde (Report No 92248-CV). In particular, it supports the improving competitiveness and private sector development programmatic pillar.
4. The AF will seek to enhance the achievements of the parent Project by (a) undertaking additional road rehabilitation and Performance-Based Maintenance Contracts (PBMCS); (b) scaling up the provision for emergency road repairs; and (c) continuing the reform of state-owned enterprises (SOEs) in the transport sector.
5. The implementation of the proposed AF is expected to be completed within three years, which means that the closing date for the proposed AF will be December 31, 2020. The closing date of the parent Project will be extended from June 30, 2019 to December 31, 2020 to align with the AF, to permit flexibility in the use of project funds, and to allow the full implementation of the remaining activities.

II. Background and Rationale for Additional Financing

A. Parent Project Features and Performance

6. The parent Project is funded by an IDA Credit in the amount of SDR 12.7 million (US\$19 million equivalent). The Government of Cabo Verde (GoCV) provided US\$12 million in counterpart funding, solely for maintenance of the roads (Component 1) through PBMCS. The parent Project was approved on June 24, 2013, and became effective on September 17, 2013.
7. The parent Project has four components: Component 1: Road Asset Preservation (US\$22 million; IDA financing of US\$10 million); Component 2: Institutional Strengthening and Project Management (US\$2.08 million); Component 3: Road Safety (US\$1.0 million); and Component 4: Inter-Island Transport Strategy (US\$3.92 million). IDA financing also included US\$2.0 million for contingencies.
8. Progress toward the achievement of the PDO and overall implementation progress of the parent Project are rated Moderately Satisfactory (MS) mainly because of the delay in putting in place the axle load control policies (Component 2), as well as the lack of tangible progress in

defining an appropriate loss reduction strategy for the Cabo Verde National Airline (*Transportes Aéreos de Cabo Verde*, TACV) (Component 4). The current disbursement rate of the Project is around 90 percent.

9. Under Component 1 (Road Asset Preservation), the financed PBMCs have been entirely implemented. The IDA Credit financed the rehabilitation works (primarily spot-improvements on roads), while the maintenance costs were funded by the GoCV's Road Maintenance Fund (*Fundo Autónomo de Manutenção Rodoviária*, FAMR). Under the parent Project, 474 km of roads have been rehabilitated and maintained under a PBMC, exceeding the Project's objective of 322 km. In addition to the PBMCs financed by the project, the GoCV has financed 301.2 km through the FAMR, resulting in a total of 775.3 km of roads now maintained under PBMCs, out of a total road network of 1,650 km. The committed amount of US\$12 million for PBMCs was not fully used under the parent Project and the remaining US\$5 million will be used for PBMCs under the proposed AF. Eleven small-scale emergency works on the road network in six different islands have also been realized under the parent Project.

10. Under Component 2 (Institutional Strengthening and Project Management), the development of a road management system has been completed. Training has been financed to build capacity for the administration of the road sector. Ten weighbridges (four fixed and six mobile) have been provided under the Project, but they are not yet being used and the application of axle road control is not yet effective. An action plan has been defined to start enforcing axle load control from the beginning of the second semester of 2017. Technical assistance is also ongoing to support the Civil Engineering Laboratory to become certified under the International Organization for Standardization (ISO) standards.

11. Under Component 3 (Road Safety), the provision of radars has been completed and speed controls have been effectively implemented and enforced. The implementation of the road safety plan is ongoing after initial delays. A first draft of the revised road safety regulation is now available and is being reviewed by the different authorities involved.

12. Under Component 4 (Inter-Island Transport Strategy), no technical assistance has been provided directly to the Airports and Air Safety (*Aeropostos e Segurança Aérea*, ASA) Authority or TACV (the state-owned national airline company) due to the lack of interest of the authorities. However, three studies in the air transport sector have been finalized: (a) a feasibility study of an aviation maintenance center; (b) a study on the impact of air service agreements; and (c) a study on the public service obligation in the domestic air transport sector. In the maritime transport sector, several studies have been completed, benefiting the General Directorate for Tourism and Transport (*Direção Geral do Turismo e Transportes*, DGTT); National Company of Port Administration (*Empresa Nacional de Administração dos Portos*, ENAPOR); and Port and Maritime Agency (IMP). These maritime transport studies have helped inform the GoCV during the ongoing concession process of the country's ports. Specialized equipment such as simulators have been provided to the Department of Engineering and Maritime Science and to the University of Cabo Verde (*Departamento de Engenharia e Ciências do Mar*, DECM). In addition, the curricula of the training provided by the DECM are being improved under ongoing technical assistance.

13. The majority of the outcome indicators have been partially or fully met, as follows: (a) 62 percent of roads are in good and fair condition as a share of total classified roads compared to a target of 80 percent; (b) 74 percent of the national road network is maintained through PBMCs compared to a target of 80 percent;¹ (c) the number of direct project beneficiaries is estimated to be 93,803 compared to a target of 67,000; (d) the legal framework for ports concession has been drafted; and (e) performance agreements have been signed between the SOE Unit within the Treasury and the transport sector SOEs (ENAPOR, ASA, and TACV). However, these last two indicators are not directly linked to project activities and will therefore be dropped from the revised Results Framework.

14. There are no outstanding fiduciary or safeguards issues under the parent Project and all financial audits were completed on time and are unqualified. All legal covenants have been complied with. Overall procurement responsibility is handled by the Project Coordination Unit (PCU) Coordinator who has extensive procurement experience and the necessary qualifications.

B. Rationale for Additional Financing

15. The proposed AF is designed to finance the scaling up of key activities to enhance the development effectiveness of the original Project. The proposed AF also considers that climate variability and change are increasingly posing a threat to Cabo Verde's transport infrastructure and socioeconomic development. There has been an increase in the occurrence and frequency of extreme weather events such as storms and severe flooding over the past two decades. Preexisting physical and socioeconomic characteristics and stressors increase the country's vulnerability to extreme events, which are anticipated to become more frequent and intense due to climate change. The works in the proposed AF address the impacts already being felt by climate change and enhance the resilience of the transport network to future climate change.

16. The proposed AF will finance the rehabilitation and the climate adaptation of about 50 km of additional roads. This will complement the rehabilitation financed by the parent Project and will allow for the scaled-up use of PBMCs. The proposed AF will contribute to improving the quality and the resilience of the road network by upgrading unpaved earth roads to cobblestone roads, whereas the previous intervention focused mainly on spot-improvements on cobblestone roads.

17. One road in Santo Antao (Campo Redondo - Tarrafal Monte Trigo) has already been identified (see Economic and Financial Analysis, Appraisal Summary); the other roads will be identified during implementation.

18. The AF will also fund emergency road works and small-scale rehabilitation that are not covered under PBMCs. The parent Project allocated US\$1 million for emergency works but US\$2.5 million was used (from contingencies) given the extent of repairs required. Cabo Verde is regularly hit by torrential rains between July and October, which often damage bridges and roads.

19. There is a need to increase the budget of the road maintenance fund (FAMR) to cope with the increased demand of emergency works as well as routine and periodic maintenance. Currently, the FAMR is being used to finance rehabilitation works, which is depleting available resources for

¹ The improvement of efficiency and management of the road assets is measured through the use of long-term (four years) performance-based contracts for road maintenance.

supporting road maintenance. It is proposed that through the AF, a study will be undertaken to define a solution to ensure the financial sustainability of road maintenance. The outcome of this study will also serve as the basis for policy dialogue in the road sector.

20. To support the preservation and investment of transport infrastructure, several technical assistance activities are also proposed under the AF, for example, a study to assess the vulnerability of the road network, to reduce climate risks and increase resilience. A proposed logistics diagnostic study will help define Cabo Verde's priorities across different transport modes and help identify future interventions in the sector.

21. The proposed AF will support the execution of the GoCV's 2011–2020 National Road Safety Plan through the development and implementation of an accident database and monitoring and evaluation (M&E) system.

22. There are opportunities to further advance the transport SOE reform agenda of the GoCV. The proposed AF will support the analytical and strategic basis to improve efficiency in the aviation and maritime subsectors and lay the groundwork for private sector participation. The future of TACV remains a critical issue to be addressed as its current financial situation is unsustainable and losses continue to accumulate. After many failed attempts to revitalize this airline, the new Government in Cabo Verde is considering restructuring. Highly qualified experts have been recently hired under the original Project to support these restructuring tasks. The AF will continue financing this support depending on the outcomes and the recommendations of this first intervention. The GoCV is also considering privatizing other transport SOEs and will use the proposed AF to undertake the necessary assessments and studies.

23. The alternative to the AF would be preparing a new project. The proposed AF is considered to be the most appropriate instrument to quickly and cost-effectively scale up key project activities by capitalizing on the current effective implementation arrangements at the technical level (PCU, Road Agency, technical agencies, and directorates).

III. Proposed Changes

Summary of Proposed Changes

- Project activities will be scaled up by undertaking the following additional activities: (a) rural roads improvement using PBMCs – these rural roads will be limited to either dirt roads or cobblestone roads; the location can be on all islands, but is subject to economic justification; (b) small scale emergency works; and (c) technical assistance activities to support the reform of transport SOEs, including a limited number of training and capacity building activities.
- The Project closing date will be extended to December 31, 2020 to allow the full implementation of the activities.
- The Results Framework will be adjusted to better reflect the current and proposed project activities.
- Procurement arrangements will be adjusted so that road works are procured by the Road Agency (*Instituto de Estradas*, IE).

<ul style="list-style-type: none"> Implementation arrangements will involve forming a steering committee to reflect the change in the institutional landscape in Cabo Verde. 	
Change in Implementing Agency	Yes [] No [X]
Change in Project's Development Objectives	Yes [] No [X]
Change in Results Framework	Yes [X] No []
Change in Safeguard Policies Triggered	Yes [] No [X]
Change of EA category	Yes [] No [X]
Other Changes to Safeguards	Yes [] No [X]
Change in Legal Covenants	Yes [] No [X]
Change in Loan Closing Date(s)	Yes [X] No []
Cancellations Proposed	Yes [] No [X]
Change in Disbursement Arrangements	Yes [] No [X]
Reallocation between Disbursement Categories	Yes [] No [X]
Change in Disbursement Estimates	Yes [X] No []
Change to Components and Cost	Yes [X] No []
Change in Institutional Arrangements	Yes [X] No []
Change in Financial Management	Yes [] No [X]
Change in Procurement	Yes [X] No []
Change in Implementation Schedule	Yes [X] No []
Other Change(s)	Yes [] No [X]
Development Objective/Results	
Project's Development Objectives	
<p>Original PDO</p> <p>The objective of the project is to support the Recipient's efforts to improve efficiency and management of its national road assets and lay the groundwork for transport sector State Owned Enterprise reform.</p>	

Change in Results Framework

Explanation:

PDO indicators :

- 'Female beneficiaries', 'legal framework for ports concession drafted' and the 'performance agreements signed' indicators have been dropped because they were not directly attributable to project activities.
- 'Direct project beneficiaries' has been revised to take into account the additional road works
- 'Number of realistic plans or strategies defined, adopted, and implemented to reform the transport sector including SOEs' has been added to reflect the key expected outcomes linked to the second part of the PDO which is to lay the groundwork for transport sector SOE reform.

Intermediate results indicators:

- 'Road rehabilitated, rural', a core indicator, has been added to reflect the road rehabilitation works to be financed by the AF. The original Project focused primarily on spot-improvements rather than upgrade from dirt to cobblestone roads.
- The target for 'Roads Rehabilitated and/or Maintained under project financed PBMCs' has been adjusted to only include roads financed by the World Bank. The latest progress data point has also been updated accordingly.
- 'Reduction in the number and duration of road closures per year' has been dropped since its values cannot be estimated in advance or used to measure progress. Road closures depend first on climatic phenomena. However, the Road Agency will record every year the number and duration of road closures.
- 'ASA: airport departure tax per international passenger is adjusted' has been dropped because no activity is linked to this result indicator.
- 'Number of jobs created through the cobblestone road rehabilitation' and 'number of female jobs created through the cobblestone road rehabilitation (person-days)' have been added to reflect the direct job creation to the local population for the cobblestone road works.
- 'Amount of labor and material costs paid for the cobblestone road rehabilitation' has been added to reflect the wages paid to the local population for the cobblestone road works.
- 'A realistic loss reduction strategy has been defined, adopted, and implemented for TACV' has been added as an indicator to reflect one of the key expected outcomes of SOE reform in the AF. The definition, adoption, and implementation of this loss reduction plan is critical for the fiscal sustainability of Cabo Verde.
- 'Grievances responded and/or resolved within one month under the performance-based road contracts' has been added as a corporate requirement for citizen engagement.

Compliance

Covenants - Additional Financing (Additional Financing to the Cabo Verde Transport Sector Reform Project - P161248)

Source of Funds	Finance Agreement Reference	Description of Covenants	Date Due	Recurrent	Frequency	Action
IDA	Section I.A.4. of Schedule 2	No later than one (1) month after the Effective Date, the Recipient shall establish, and thereafter maintain, throughout the implementation of the Project, a Project Steering Committee, which shall be led by the MOF and shall include representatives from the MEE, MAI and MIOTH, with terms of reference, composition and resources satisfactory to the Association, as further defined in the PIM.	14-Oct-2017	<input type="checkbox"/>		New
IDA	Section V.2. of Schedule 2 of FA	No later than twelve (12) months after the Effective Date, the Recipient shall approve, and shall cause FAMR to adopt and thereafter implement, the	14-Sep-2018	<input type="checkbox"/>		New

		recommendations of the study to increase the efficacy and efficiency of FAMR, which shall be undertaken under Part D(1) of the Project.				
IDA	Section I.C.1. of Schedule 2	The Recipient shall update, not later than forty-five (45) days after the Effective Date, the Project Implementation Manual, in a manner satisfactory to the Association.	30-Oct-2017	<input type="checkbox"/>		New
IDA	Section V.1. of Schedule 2 of FA	The Recipient shall, no later than six (6) months after the Effective Date, implement an axle load control, in a manner satisfactory to the Association.	14-Mar-2018	<input type="checkbox"/>		New
Conditions						
Source of Fund			Name		Type	
Description of Condition						
None						

Risk										
Risk Category						Rating (H, S, M, L)				
1. Political and Governance						Moderate				
2. Macroeconomic						Moderate				
3. Sector Strategies and Policies						Substantial				
4. Technical Design of Project or Program						Moderate				
5. Institutional Capacity for Implementation and Sustainability						Substantial				
6. Fiduciary						Moderate				
7. Environment and Social						Low				
8. Stakeholders						Substantial				
9. Other						Moderate				
OVERALL						Substantial				
Finance										
Loan Closing Date - Additional Financing (Additional Financing to the Cabo Verde Transport Sector Reform Project - P161248)										
Source of Funds						Proposed Additional Financing Loan Closing Date				
IDA Credit from CRW						31-Dec-2020				
Loan Closing Date(s) - Parent (Cabo Verde - Transport Sector Reform Project - P126516)										
Explanation:										
The closing date will be extended from June 30, 2019, to December 31, 2020, to take into account the additional activities to be implemented.										
Ln/Cr/TF	Status	Original Closing Date	Current Closing Date	Proposed Closing Date	Previous Closing Date(s)					
IDA-52660	Effective	30-Jun-2019	30-Jun-2019	31-Dec-2020						
Change in Disbursement Estimates										
Explanation:										
Disbursement estimates will change because of the AF and the closing date extension.										
Expected Disbursements (in USD Million) (including all Sources of Financing)										
Fiscal Year	2018	2019	2020	2021						
Annual	3.70	11.00	11.00	3.00						
Cumulative	21.00	32.00	43.00	46.00						

Allocations - Additional Financing (Additional Financing to the Cabo Verde Transport Sector Reform Project - P161248)				
Source of Fund	Currency	Category of Expenditure	Allocation	Disbursement % (Type Total)
			Proposed	Proposed
IDA	USD	Goods, works, Training, Workshops and Study Tours, non-consulting services, consultants' services and Operating Costs	27,000,000.00	100.00
		Total:	27,000,000.00	
Components				
Change to Components and Cost				
<p>Explanation:</p> <p>The expected changes resulting from the AF are listed below:</p> <ul style="list-style-type: none"> • Component 1 will receive about US\$17 million of which about US\$14 million will be for PBMCs for rural road rehabilitation and US\$3 million for small-scale emergency road repairs that are not covered by the PBMC. • Component 2 will receive about US\$1 million for capacity building and will include training for the entities directly involved in the project, as well as operating costs for the PCU. Technical assistance and studies will fall under Component 4. • Component 3 will receive about US\$1 million for the development of an accident database and M&E system, as well as the improvement of the highway code. • Component 4 will receive about US\$3 million for technical assistance and studies related to transport SOE reforms, air and maritime sector reforms, climate-related mitigation and resilience actions in the road sector, trade and logistics performance, and increased efficiency and efficacy of FAMR. Training and capacity building activities now fall under Component 2. • US\$5 million will be allocated for contingencies. 				
Current Component Name	Proposed Component Name	Current Cost (US\$, millions)	Proposed Cost (US\$, millions)	Action
Component 1 : Road Asset Preservation	Component 1: Road Asset Preservation	22.00	39.00	Revised
Component 2 : Institutional Strengthening and Project Management	Component 2: Institutional Strengthening and Project Management	2.08	3.08	Revised

Component 3: Road Safety	Component 3: Road Safety	1.00	2.00	Revised
Component 4 : Inter-island Transport Strategy	Component 4: Inter-island Transport Strategy	3.92	6.92	Revised
contingencies	Contingencies	2.00	7.00	Revised
	Total:	31.00	58.00	

Other Change(s)

Implementing Agency Name	Type	Action
Ministry of Finance	Implementing Agency	No Change

Change in Institutional Arrangements

Explanation:

The former Ministry of Infrastructure and Maritime Economy (*Ministério das Infra-estruturas e Economia Marítima*, MIEM), which was in charge of all transport subsectors (road, air, and maritime) during the approval of the original Project, has been renamed Ministry of Infrastructure, Spatial Planning, and Housing (*Ministério das Infra-Estruturas, do Ordenamento do Território e Habitação*, MIOTH) and is now only in charge of the road subsector; the air and maritime subsectors have been mapped to the Ministry of Economy and Employment (*Ministério da Economia e Emprego*, MEE); and road safety has been mapped to the Ministry of Internal Administration (*Ministério da Administração Interna*, MAI). In addition, a Public-Private Partnership (PPP) Unit has been formed within the Ministry of Finance (*Ministério das Finanças*, MOF) to lead the privatization of SOEs, including TACV. A small steering committee will be formed to reflect these changes in the institutional landscape in Cabo Verde.

The steering committee, led by a representative from the MOF, will be created to (a) provide overall strategic guidance to the project; and (b) approve the project annual work plans and budgets as well as the project reports. The committee will include representatives from the MEE, the MAI, and the MIOTH.

The PCU will remain in place under the MIOTH and will continue to be in charge of fiduciary and procurement functions. The PCU will also continue to (a) ensure timely implementation of the project in accordance with the updated Project Implementation Manual; (b) prepare annual work plans and budgets and procurement plans; (c) oversee project activities under its direct responsibility and those under the responsibility of other agencies involved in implementation; (d) manage project finances; (e) maintain consolidated project accounts; (f) ensure adherence to the safeguard documents; (g) develop and maintain a system to monitor the project indicators; and (h) ensure coordination among agencies involved in implementation.

Change in Procurement
<p>Explanation:</p> <p>Procurement of road works will be transferred from the PCU to the IE under the supervision of the PCU. This change is to reflect the IE’s responsibilities in handling the procurement of road works in Cabo Verde. All other procurement activities will remain under the purview of the PCU. On March 20, 2017, the AF was granted an exemption from the application of the new World Bank Procurement Regulations. The Procurement and Consultant Guidelines used in the original Project will continue to apply.</p>
Change in Implementation Schedule
<p>Explanation:</p> <p>The implementation schedule will be extended by 18 months until the new proposed closing date of December 31, 2020.</p>
Appraisal Summary
Economic and Financial Analysis
<p>Explanation:</p> <p>A cost-benefit analysis has been undertaken for the identified road, a 12 km road section on the island of Santo Antao (Campo Redondo - Tarrafal Monte Trigo). The upgrading of this dirt road, currently in poor to fair condition, into a cobblestone road is estimated at US\$3 million. The calculated economic rate of return (ERR) is 15 percent. The economic discount rate used is 3 percent, which is an estimate for the cost of capital in a country where the credit is basically external and, in large part, concessional for public investment. With this discount rate, the net present value (NPV) is US\$8 million. Time savings represent 73 percent of the benefits and vehicle operating cost (VOC) represents 13 percent. A sensitivity analysis was performed by increasing the investment by 20 percent and decreasing the value of time by 20 percent. Under these assumptions, the project viability remains, with an ERR of 11 percent and an NPV of US\$5.6 million.</p> <p>The other roads to be rehabilitated by the AF will be identified or prioritized during implementation using cost-benefit analysis, cost-effectiveness (cost per population served) or multi-criteria methods (connectivity to the principal road network, access to basic services, level of degradations, agricultural and production potential, demographic importance, and so on). By using this approach, the proposed AF is reinforcing the use of economic analysis in road investment decision making.</p> <p>It is assumed that the other roads to be rehabilitated by the AF will have similar cost-benefit results as the road already identified.</p> <p>Finally, the technical choice to use granitic or basaltic cobblestones for the road rehabilitation will increase the economic benefits of the AF to the local population. It will provide jobs and wages for the local cobblestone producers and the local cobblestone labor force. Cabo Verde is well-known for its local cobblestone roads, production, and workforce. It is estimated that for every kilometer upgraded from dirt road to cobblestone road, about 500 person-days of cobblestone</p>

workers will be used in the roadworks, and about 400,000 cobblestones will be bought from the producers. One cobblestone worker is paid about CVE 180 per m² of cobblestone road and one person can cover 10 m² per day (that is, wages are about CVE 1,800 or US\$18 per day, per person). One cobblestone is bought at about CVE 7 (US\$0.07) from the producers.

Public financing is sought because the rural roads targeted by the project are public goods and do not have sufficient traffic to be attractive enough for PPP investment. In addition, the reforms supported by the Project are the responsibility of the Government and should not be privately funded to avoid any conflict of interests.

The involvement of the World Bank Group brings the following value-added: (i) global knowledge based on lessons learnt from the significant number of road performance-based contracts and transport sector reforms supported throughout the world; and (ii) convening power to involve development partners in the transport reforms supported.

Technical Analysis

Explanation:

Component 1: Road Asset Preservation

The proposed AF will reinforce the resilience of the road network by upgrading dirt roads into cobblestone roads and by improving the drainage system (culverts, retaining wall, small bridges). Most of the rural roads in Cabo Verde are either dirt roads or granitic/basaltic cobblestone roads. The use of granitic/basaltic cobblestones has been demonstrated to be the most cost-effective way to improve the quality and the resilience of the road network in Cabo Verde compared to bituminous roads or other alternatives considering the traffic levels.

Cobblestone roads are also expected to leave less of a carbon footprint compared to bituminous roads. Cabo Verde has been hit by several climate-related phenomena over the last few years (hurricanes, heavy rains) thus justifying the necessity to adapt the road network to climate change. As much as possible, the existing right-of-way will not be widened to minimize land acquisition. In addition, dirt rural roads in all islands in Cabo Verde can benefit from the upgrading and the climate adaptation, as evident from a conclusive economic analysis.

The number of jobs and the volume of wages provided to the local population, resulting from the decision to opt for cobblestones, will be closely monitored. Cobblestone roads in Cabo Verde are labor intensive, and a part of the local population will leverage their skills in the implementation of cobblestone roads, from production to laying.

Emergency repairs will be decided on a case-by-case basis for small-scale roads works that are not covered by the PBMC.

Component 2: Institutional Strengthening and Project Management

This component will cover all the training and capacity building to be financed by the proposed AF. In the original Project, only the training and capacity building in the road sector was covered by this component. Following the split of the transport sector in several ministries, it would be better to put all the training and capacity building activities under one component to ensure better

coordination among the different ministries and directorates involved. This component will also finance the operating costs of the PCU.

Component 3: Road Safety

This component will continue financing the development of a road accident mapping system to better improve the accident database and M&E system as well as the improvement of the highway code to follow international best practices. Once fully achieved, these two key activities will have easy-to-sustain tangible results as they require none to minimal operating costs. A free system developed by the World Bank is being considered for the road safety database.

Component 4: Inter-Island Transport Strategy

This component will cover all the studies and technical assistance to be financed by the proposed AF. Activities under this component will focus on the preparation, adoption, and implementation of strategies and plans to reform the transport sector (air and maritime), including transport SOEs, as well as the definition of an action plan to preserve the road network against climate change and the lack of sustainable maintenance funding. The scope of this component has been downsized compared to the original project in order to put the efforts on a few essential reforms and activities in line with the on-going policy discussion between the development partners, led by the World Bank, and the GoCV. The reforms on TACV supported by this component are challenging, but critical in the short-term (TACV debts are more than 100 percent of the country Gross Domestic Product). The costs of doing nothing for TACV will far outweigh the costs of the reforms.

The implementation of the safeguards measures, other than the compensation to the persons affected by the project, is estimated at about US\$460,000. This cost is embedded in the project activities costs.

A citizen engagement mechanism is already in place in the road sector. A 24/7 toll free number is available to provide feedback. All complaints and requests are handled. In the transport sector reforms, communications are part of the activities financed. It will allow all stakeholders to provide feedback and to be part of the design of the reforms. An indicator related to response time for grievances has been added in the results framework.

Social Analysis

Explanation:

OP 4.12 - Involuntary Resettlement was triggered and applied to the original Project. The AF will not trigger additional social safeguards policies. A Resettlement Policy Framework was updated to reflect the proposed AF activities. It was disclosed at the InfoShop and in country on April 28, 2017. Resettlement is expected to be minimal if any. No resettlement is expected for the already identified road. The road rehabilitation under the AF will be cobblestone pavement laying. This method of paving is labor intensive. Like the original Project, however, the AF is unlikely to induce an influx of labor. The labor force will be recruited locally, primarily from the three project islands. Distances to project sites will vary between 30 minutes to one hour. The new road investments will mainly benefit under-served communities in remote areas with poor road transport accessibility.

<p>Environmental Analysis</p>
<p>Explanation:</p> <p>OP 4.01 - Environmental Assessment was triggered and applied for the original Project. The AF will not trigger additional environmental safeguards policies. An Environmental and Social Management Framework was updated to reflect the proposed AF activities. It was disclosed in-country and at the InfoShop on April 27, 2017. One road in Santa Antao has already been identified for rehabilitation. Accordingly, an environmental and social impacts assessment of this road was finalized. It was disclosed in-country and at the InfoShop on April 27, 2017.</p>
<p>Fiduciary Assessment</p>
<p>The FM arrangements for the AF will be based on the existing arrangements in place under the original project. The overall FM performance was rated as highly satisfactory during the supervision mission undertaken in February 2017 and the FM risk was assessed as low. The staffing remains adequate to handle the additional activities. The interim unaudited financial reports for the original project have been submitted with acceptable quality.</p> <p>The procurement arrangements of the original project will be maintained, with the exception of the procurement of road works, which will be carried out by the Road Agency (IE). The PCU retains overall procurement responsibility. Both entities have adequate staff who are familiar with IDA projects. The capacity assessment of the PCU and IE did not reveal any substantial risks for project implementation, and overall procurement risk remains moderate.</p>
<p>Risk</p>
<p>Explanation:</p> <p>The risk for Institutional Capacity for Implementation and Sustainability has been changed from Moderate to Substantial because of the change in the institutional landscape in Cabo Verde. Originally, the Ministry of Infrastructure was in charge of the entire transport sector (road, air, and maritime). Now, the Ministry of Infrastructure is in charge of the road sector only; the Ministry of Economy is in charge of the air and maritime transport sectors; the Ministry of Internal Administration is in charge of road safety; and the Ministry of Finance is in charge of the SOEs. Moreover, a PPP unit within the Ministry of Finance has been created to lead the efforts in privatizing the SOEs. All these changes occurred after the approval and effectiveness of the original Project. To mitigate the risk of potential lack of coordination, a small steering committee with representatives of the relevant Ministries and Directions/Unit involved will be created.</p> <p>The risk for Sector Strategies and Policies is Substantial and relates to the challenges of mobilizing political support for SOE reforms and road maintenance supported under the proposed project. This will be mitigated through continuous policy dialogue and introduction of certain conditionality (legal covenants) within the project design for implementation of the agreed reforms.</p> <p>The Stakeholder risk is also rated Substantial. This risk will be mitigated through the development of a communication strategy to inform all stakeholders about the expected benefits of the reforms and build support for the Government of Cabo Verde's reform agenda.</p>

The overall project risk is rated Substantial mainly because preparing, adopting, and implementing reforms is generally challenging. Thus, the proposed AF will focus on few but key transport sector reforms.

IV. World Bank Grievance Redress

24. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework

Project Development Objectives

Original Project Development Objective - Parent:

The objective of the project is to support the Recipient's efforts to improve efficiency and management of its national road assets and lay the groundwork for transport sector State Owned Enterprise reform.

Proposed Project Development Objective - Additional Financing (AF):

The objective of the project is to support the Recipient's efforts to improve efficiency and management of its national road assets and lay the groundwork for transport sector State Owned Enterprise reform.

Results

Core sector indicators are considered: Yes

Results reporting level: Project Level

Project Development Objective Indicators

Status	Indicator Name	Corporate	Unit of Measure		Baseline	Actual(Current)	End Target
Revised	Roads in good and fair condition as a share of total classified roads	<input type="checkbox"/>	Percentage	Value	50.00	62.00	80.00
				Date	08-Apr-2013	01-Aug-2016	31-Dec-2020
				Comment			Revised target date.
New	Realistic plans or strategies defined, adopted, and implemented to reform the transport sector including SOEs	<input type="checkbox"/>	Number	Value	0.00	0.00	3.00
				Date	29-Apr-2017	29-Apr-2017	31-Dec-2020
				Comment			
Revised	Share of the national road network maintained through performance based contracts	<input type="checkbox"/>	Percentage	Value	44.00	74.00	80.00
				Date	08-Apr-2013	01-Aug-2016	31-Dec-2020
				Comment			Revised target date.

Revised	Direct project beneficiaries	<input type="checkbox"/>	Number	Value	0.00	93803.00	120000.00
				Date	08-Apr-2013	01-Aug-2016	31-Dec-2020
				Comment			Revised target and target date.
Marked for Deletion	Female beneficiaries	<input type="checkbox"/>	Percentage Sub Type Supplemental	Value	50.00	50.00	50.00
				Date			
				Comment			
Marked for Deletion	Legal framework for ports concession drafted	<input type="checkbox"/>	Yes/No	Value	No	Yes	Yes
				Date	08-Apr-2013	01-Aug-2016	31-Dec-2018
				Comment			
Marked for Deletion	Performance agreements signed between the SOE unit within the Treasury and transport sector SOEs (ENAPOR, ASA, and TACV)	<input type="checkbox"/>	Number	Value	0.00	3.00	3.00
				Date	08-Apr-2013	01-Aug-2016	31-Dec-2018
				Comment			

Intermediate Results Indicators

Status	Indicator Name	Corporate	Unit of Measure		Baseline	Actual(Current)	End Target
New	Roads rehabilitated	<input checked="" type="checkbox"/>	Kilometers	Value	0.00	0.00	50.00
				Date	21-Mar-2017	15-May-2017	31-Dec-2020
				Comment			
New	Roads rehabilitated - rural	<input checked="" type="checkbox"/>	Kilometers Sub Type Supplemental	Value	0.00	0.00	50.00
				Date			
				Comment			
New	Roads rehabilitated - non-rural	<input checked="" type="checkbox"/>	Kilometers Sub Type	Value	0.00	0.00	0.00
				Date			
				Comment			

			Supplemental				
New	A realistic loss reduction strategy has been defined, adopted, and implemented for TACV	<input type="checkbox"/>	Yes/No	Value	No	No	Yes
				Date	29-Apr-2017	29-Apr-2017	31-Dec-2020
				Comment			
Revised	Roads Rehabilitated and/or Maintained under project financed PBMCs	<input type="checkbox"/>	Kilometers	Value	0.00	474.00	524.00
				Date	08-Apr-2013	01-Aug-2016	31-Dec-2020
				Comment			Revised target date. The change in target reflects PBMCs financed by the Bank and does not include government-financed PBMCs.
New	Grievances responded and/or resolved within one month under the performance-based road contracts	<input type="checkbox"/>	Percentage	Value	90.00		100.00
				Date	11-Apr-2017		31-Dec-2020
				Comment			
New	Amount of labor and material costs paid for the cobblestone road rehabilitation	<input type="checkbox"/>	Amount(USD)	Value	0.00		1850000.00
				Date	01-Apr-2017		31-Dec-2020
				Comment			This amount includes the wages paid to the cobblestone road workers and to the cobblestone producers

New	Number of jobs created through the cobblestone road rehabilitation (person-days)	<input type="checkbox"/>	Number	Value	0.00		25000.00
				Date	01-Apr-2017		31-Dec-2020
				Comment			
New	Number of female jobs created through the cobblestone road rehabilitation (person-days)	<input type="checkbox"/>	Number Sub Type Breakdown	Value	0.00		10000.00
				Date	29-Apr-2017		31-Dec-2020
				Comment			
Revised	Annual reports on the condition of the national network and on priorities in terms of rehabilitation and maintenance	<input type="checkbox"/>	Yes/No	Value	No	No	Yes
				Date	08-Apr-2013	01-Aug-2016	31-Dec-2020
				Comment			Revised target date.
Revised	Percentage of national road network where axle load control is enforced	<input type="checkbox"/>	Percentage	Value	0.00	0.00	77.00
				Date	08-Apr-2013	01-Aug-2016	31-Dec-2020
				Comment			Revised target date.
Revised	Annual reports on accidents issued every year from the improved database and monitoring system	<input type="checkbox"/>	Yes/No	Value	No	No	Yes
				Date	08-Apr-2013	01-Aug-2016	31-Dec-2020
				Comment			Revised target date.
Revised	The highway code is revised	<input type="checkbox"/>	Yes/No	Value	No	No	Yes
				Date	08-Apr-2013	01-Aug-2016	20-Dec-2020
				Comment			Revised target date.
Revised	Timely publication of annual Financial Audits (ENAPOR, ASA, TACV)	<input type="checkbox"/>	Number	Value	2.00	3.00	3.00
				Date	08-Apr-2013	01-Aug-2016	31-Dec-2020
				Comment			Revised target date.

Revised	Comprehensive Aggregate Annual Fiscal Risk Report on SOEs	<input type="checkbox"/>	Yes/No	Value	No	No	Yes
				Date	08-Apr-2013	01-Aug-2016	31-Dec-2020
				Comment			Revised target date.
Marked for Deletion	ASA: Airport departure tax per international passenger is adjusted	<input type="checkbox"/>	Amount(USD)	Value	17.00	18.50	25.00
				Date	08-Apr-2013	01-Aug-2016	31-Dec-2018
				Comment			
Revised	ENAPOR: Port tariffs are adjusted	<input type="checkbox"/>	Yes/No	Value	No	No	Yes
				Date	08-Apr-2013	01-Aug-2016	31-Dec-2020
				Comment			Revised target date.
Revised	IMP: Regulatory Agency model, training and business plan is defined.	<input type="checkbox"/>	Yes/No	Value	No	No	Yes
				Date	08-Apr-2013	01-Aug-2016	31-Dec-2020
				Comment			Revised target date.
Revised	Number of students benefiting from the training equipment to be acquired under the credit	<input type="checkbox"/>	Number	Value	0.00	320.00	400.00
				Date	08-Apr-2013	01-Aug-2016	31-Dec-2020
				Comment			Revised target date.

Annex 2: Additional Financing Activities Description

1. Component 1: Road Asset Preservation (IDA financing of SDR 12.393 million or US\$17 million equivalent, of which US\$3 million equivalent is for emergency repairs)

- Carrying out, under the terms of PBMCs on selected dirt or cobblestone roads, of (a) rehabilitation works and (b) routine maintenance, including emergency works and reinforcement. The rehabilitation part is financed by IDA while the four years maintenance is financed by the FAMR. The FAMR has committed about US\$12 million for the four years maintenance part of the PBMC in the original Project. About US\$6.9 million is being used for the ongoing PBMC of the original Project. The remaining portion of about US\$5.1 million will be used for the maintenance part of the PBMC of the AF.
- M&E of PBMC performance.
- Carrying out of small-scale emergency road repairs that are not covered by the PBMC in the cumulative amount of US\$3 million.

2. Component 2: Institutional Strengthening and Project Management (IDA financing of SDR 0.729 million or US\$1 million equivalent)

- Provision of training and capacity-building activities for the entities involved in the implementation of the Project.
- Provision of support to the PCU, including through the financing of operating costs and the preparation of audits required under the Project.

3. Component 3: Road Safety (IDA financing of SDR 0.729 million or US\$1 million equivalent)

- Development and implementation of an improved accident database and M&E system, including the training related to the use of the new system.
- Review, improvement, and adoption of a highway code, including outreach and dissemination activities.

4. Component 4: Inter-island Transport Strategy (SDR 2.187 million or US\$3 million equivalent)

- Provision of studies and technical assistance including outreach, dissemination, and communication activities to:
 - Increase the efficiency and efficacy of the FAMR;
 - Improve the resilience of the road network to climate change by defining adequate mitigation and adaptation measures;

- Analyze and improve the trade and logistic performance of Cabo Verde;
- Define, adopt, and implement strategies and action plans to put in place a safe, efficient, and reliable inter-island maritime transport; and
- Define, adopt, and implement strategies and action plans to reform or privatize efficiently transport SOEs, including TACV.

5. **Contingencies (SDR 3.645 million or US\$5 million equivalent)**