Financing Agreement

(Sixth Poverty Reduction Support Credit)

between

REPUBLIC OF CAPE VERDE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 17, 2010
CREDIT NUMBER 4840-CV

FINANCING AGREEMENT

AGREEMENT dated December 17, 2010, entered into between REPUBLIC OF CAPE VERDE (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I.A of Schedule 1 to this Agreement, and (b) the Recipient’s maintenance of an appropriate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to six million four hundred thousand Special Drawing Rights (SDR 6,400,000) (variously, “Credit” and “Financing”).

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Payment Dates are June 15 and December 15 in each year.
2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.

2.07. The Payment Currency is Dollars.

ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end:

(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient’s macroeconomic policy framework and the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following, namely, a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient’s macroeconomic policy framework.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is its Minister of Finance.

6.02. The Recipient’s Address is:

Ministry of Finance  
C.P. 30  
Praia  
Cabo Verde

Cable: COORDENACAO  
Telex: 608 MCECV  
Facsimile: (238) 61 38 97

6.03. The Association’s Address is:

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

Cable address: INDEVAS  
Telex: 248423(MCI)  
Facsimile: 1-202-477-6391  
Washington, D.C.
AGREED at District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF CAPE VERDE

By

/s/ Maria de Fatima Lima da Veiga
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ McDonald P. Benjamin
Authorized Representative
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

A. Actions Taken Under the Program. The Recipient has taken the following actions:

Policy Area: Good Governance

1. Cleared its domestic arrears which were acknowledged in 2005, except for those with its municipal chambers which will be off-set through debts owed by the said municipalities to the central government, as evidenced by the Recipient’s Minister of Finance letter dated August 19, 2010.

2. Submitted to its National Assembly the audited: (a) state general accounts for the year 2007, as evidenced by the Boletim Oficial Nr. 29 dated August 2, 2010; and (b) accounts of 13 municipalities, 5 embassies and 3 institutes, evidenced by the letter issued by the Recipient’s Tribunal de Contas dated October 19, 2010.

3. Made fully operational the DSCP, as evidenced by: (a) the decree-law 45/2009 which established it and defined its role; (b) the certificate No.72/2010 dated August 23, 2010, issued by the Minister of Finance; and (c) the activity plan (the Plano de Atividades) for 2010, issued by the DGPCP on January 2010, as evidenced by the activity plan and the correlated implementation report dated September 2010.

4. Improved its human resources management system allowing for the mobile placement of civil servants as evidenced by the Decree Nr.54/2009, dated December 7, 2009.

5. Implemented its M&E system as evidenced by: (a) Resolution 12/2010 issued by the Conselho de Ministros whereby it certifies that COSiSA has been established; (b) the letter dated October 28, 2010, issued by DNP, NoSI and INE confirming that the platform linking the M&E system to INE has been completed; (c) the letter dated October 28, 2010, issued by DNP which certifies that the integrated financial management system for the Recipient’s budget, containing the M&E indicators for its programs in education, health, agriculture and infrastructure, has been completed; and (d) the letter dated October 28, 2010, issued by DNP attaching the vision scope of the Recipient’s M&E system.
Policy Area: Competitiveness

6. Caused the board of directors of the Banco do Cabo Verde to adopt the banking law bill on the legal framework for credit institutions and financing corporations and to submit it to the Ministry of Finance, as evidenced by the letter dated October 29, 2010, sent by the Governor of the Banco de Cabo Verde to the Minister of Finance confirming therein that the supervisory authority of the Banco de Cabo Verde has been strengthened and that the onshore and offshore banking activities’ legislation has been unified.

7. Taken steps towards improving its business climate, as evidenced by: (a) the letter dated October 11, 2010, issued by the Conselho de Ministros confirming that the bankruptcy law bill has been submitted by ADEI; (b) the letter dated October 11, 2010, issued by the Conselho de Ministros confirming that the decree-law providing the simplification of procedures for closing companies has been submitted by UCRE; and (c) Decree Nr 70/2009 dated December 30, 2009, issued by the Conselho de Ministros establishing fixed values for real estate registration duties replacing the ad-valorem duties imposed by the Recipient.

8. Adopted measures to improve the performance of ELECTRA as evidenced by: (a) the adoption by ELECTRA’s Board of Directors of a comprehensive investment plan, including a financing and implementation schedule as evidenced by item 2 of the Act Nr. 19/2010 of ELECTRA’s Board of Directors dated on October 26, 2010; (b) the Resolution 19/2010 dated April 16, 2010, issued by the Conselho de Ministros defining ELECTRA’s institutional restructuring program including a roadmap for its implementation confirming the creation and registration of the two new subsidiaries; (c) the adoption by ELECTRA’s board of directors of a set of measures to improve commercial and operational performance (billing, use of fuel oil and transmission losses) as evidenced by item 3 of the Act Nr 19/2010; (d) the debt restructuring plan issued by ELECTRA’s Board of Directors on April 19, 2010, reflecting: (i) a time-bound action plan to restructure ELECTRA’s arrears with its providers; and (ii) ELECTRA’s initial steps with its creditors inviting them to negotiate the rescheduling of the said arrears as evidenced by the letters from ENACOL to the Minister of Tourism, Industry and Energy dated August 4, 2010, and to General Director for Treasury at the Ministry of Finance.

9. Caused TACV to adopt measures to improve its operational, financial and commercial performance, as evidenced by: (a) the submission of TACV’s annual balances for 2007, 2008 and 2009 (including audited balances for 2007); (b) the letter dated October 12, 2010, issued by TACV’s Board of Directors confirming
that arrears with its domestic and internal suppliers have been cleared; (c) the debt rescheduling agreement signed between ASA and TACV providing that arrears among both entities have been rescheduled dated November 30, 2009; (d) the letter dated October 28, 2010, issued by the board of directors of TACV reflecting that the accounting system has been acquired, as evidenced by the signed contract between TACV and the provider for such system dated October 8, 2010; and (e) adoption of a set of human resources related measures dealing with rationalization of staff, suspension of several costly employee benefits, including free airfare allowances for family members, as evidenced by the Resolution (Ordem de Serviço) Nr 64 of August, 20, 2010, issued by TACV’s Board of Directors; and (f) adoption of a new sales and distribution policy to increase revenues as evidenced by the Resolution (Ordem de Serviço) Nr 13 of February 10, 2009, issued by the Board of Directors of TACV.

Section II. Availability of Financing Proceeds

A. General. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

B. Allocation of Financing Amounts. The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Withdrawal Tranche</td>
<td>6,400,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>6,400,000</td>
</tr>
</tbody>
</table>

C. Withdrawal Tranche Release Conditions

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the appropriateness of the Recipient’s macroeconomic policy framework.

D. Deposits of Financing Amounts. Except as the Association may otherwise agree:
1. all withdrawals from the Financing Account shall be deposited by the Association into a dedicated account designated by the Recipient and acceptable to the Association; and

2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient’s budget management system, in a manner acceptable to the Association.

E. Excluded Expenditures. The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

F. Audit. Upon the Association’s request, the Recipient shall:

1. have the dedicated account referred to under Section D.1 above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;

2. furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association’s request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and

3. furnish to the Association such other information concerning the Deposit Account and their audit as the Association shall reasonably request.

G. Closing Date. The Closing Date is June 30, 2011.

H. Access to Information. The Association may disclose the Legal Agreements and any information related to the Legal Agreements in accordance with its policy on access to information, in effect at the time of such disclosure.
**SCHEDULE 2**

**Repayment Schedule**

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each June 15 and December 15:</td>
<td>1.25%</td>
</tr>
<tr>
<td>commencing June 15, 2021, to and including December 15, 2030</td>
<td>1.25%</td>
</tr>
<tr>
<td>commencing June 15, 2031, to and including December 15, 2045</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.
APPENDIX

Section I. Definitions

1. “Activity Plan” means DGPCP’s, as defined here below, activities programmed for 2010.

2. “ADEI” means the Recipient’s business development and innovation agency established further to Resolution Nr. 13/2009 dated May 18, 2009, under the Ministry of Economy, Growth and Competitiveness.

3. “ASA” means the Recipient’s state airport administration established on February 17, 1984, as amended to become a corporation on June 2001.


6. “Conselho de Ministros” means the Recipient’s Council of Ministers.

7. “COSISA” means the Recipient’s committee for the national M&E system.

8. “DGPCP” means the Recipient’s general directorate of patrimony and public procurement within the Ministry of Finance.

9. “DNP” means the Recipient’s national directorate for planning.

10. “DSCP” means the Recipient’s directorate of public procurement services under the DGPCP.


12. “Excluded Expenditure” means any expenditure:

   (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;

   (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3
(1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, unmanufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td></td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
(f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.”


14. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010, with the modifications set forth in Section II of this Appendix.

15. “M&E” means monitoring and evaluation.

16. “NoSI” means the Recipient’s operational nucleus for information society within the Recipient’s Office of the Prime Minister.

17. “INE” means the Recipient’s national institute of statistics established further to decree Nr. 49/96 dated December 23, 1996.

18. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated November 5, 2010, from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

19. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

20. “TACV” means “Transporte Aereo do Cabo Verde”, the Recipient’s national airline established in 1958 having become a public was designated as the national carrier and became a public company in 1983.


22. “UCRE” means the Recipient’s unit for coordination and state reform within the Ministry of State Reform.
Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Section 2.05 (renumbered as such pursuant to paragraph 2 above) is modified to read as follows:

   “Section 2.05. Refinancing Preparation Advance

   If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

4. Sections 4.01 (Project Execution Generally), and 4.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.

5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   “Section 4.06. Plans; Documents; Records

   … (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

7. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:
“Section 4.07. Program Monitoring and Evaluation

… (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six (6) months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

8. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“’Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“’Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

(d) The term “Program Preparation Advance” (renamed as such pursuant to subparagraph 8(c) above) is modified to read “Preparation Advance” and its definition is modified to read as follows:

“’Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.05.”