Financing Agreement

(Fifth Poverty Reduction Support Credit)

between

REPUBLIC OF CAPE VERDE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 18, 2009
FINANCING AGREEMENT

AGREEMENT dated December 18, 2009, 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 macro-economic 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 nine million five hundred thousand Special Drawing Rights (SDR 9,500,000) (“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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 progress achieved in carrying out the Program and the actions specified in Section I of Schedule 1 to this Agreement;

(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 that 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 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 the Minister of Finance.

6.02 The Recipient’s Address is:

Ministry of Finance
C.P. 30
Praia
Cabo Verde

Cable: Telex: Facsimile:
COORDENACAO 608 MCECV (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: Telex: Facsimile:
INDEVAS 248423(MCI) 1-202-477-6391
Washington, D.C.
AGREED at Washington, DC, District of Columbia, as of the day and year first above written.

REPUBLIC OF CAPE VERDE

By /s/ Fatima 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 actions taken by the Recipient under the Program include the following, namely that the Recipient has:

Promote Good Governance

1. Completed the implementation of the second phase of the 2005 plan for the clearance of public arrears as evidenced by the reduction of outstanding public arrears to 16 percent of the original stock as confirmed by the Recipient’s Minister of Finance on letter dated October 15, 2009.

2. Submitted to its National Assembly the audited: (a) State General Accounts for the year 2006, as evidenced by the Boletim Oficial I Serie, Number 14, dated April 6, 2009; and (b) accounts of key municipalities and embassies, as evidenced in the letter issued by the Recipient’s Tribunal de Contas dated September 10, 2009.

3. Approved, through its Conselho de Ministros the regulations of the new public procurement law, as evidenced by the Boletim Oficial I Serie Number 1 dated January 5, 2009.

4. Completed the integration of 11 municipalities, within the territory of the Recipient, to the Municipal Information System (SIM), as evidenced by the letter issued by the Recipient’s Minister of Decentralization, Housing and Territorial Development dated September 10, 2009.

5. Approved, through its National Assembly, the Statistical Law, as evidenced by the Boletim Oficial Serie I, Number 9, dated March 2, 2009.

Support Competitiveness and Growth

6. Approved through its Conselho de Ministros the reduction in corporate tax rates for businesses, as evidenced by the 2009 Budget Law published as a supplement of the Boletim Oficial Serie I, Number 48, dated December 29, 2008.

7. Completed the initial phase of implementation of the Recipient’s action plan which will adjust the Recipient’s procedures and legislation on trade to those of WTO on such sector, including the: (a) approval by its Conselho de Ministros of an ecological tax bill, as evidenced by the letter issued by the Conselho de Ministros on September 3, 2009; and (b) approval by its Conselho de Ministros of the draft-law for the customs’ code consistent with WTO, as evidenced in the letter issued by the Conselho de Ministros on October 30, 2009.

8. Approved, through: (a) its Conselho de Ministros, the Cadastre Decree Law as evidenced by the Boletim Oficial I Serie, Number 33 dated August 17, 2009; and (b) its Prime Minister Office, the appointment of a task force empowered to implement the Cadastre Law, as evidenced by the instruction (Despacho) Number 2/2009 issued jointly by the Minister of Finance and the Minister of Decentralization, Housing and Territorial Development on January 12, 2009.

10. Approved, through its Conselho de Ministros, a medium term development strategy for the electricity sector, prepared by its Ministry of Economy and Competitiveness, as evidenced by the letter from its Conselho de Ministros dated November 20, 2009.

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 shall be withdrawn in a single tranche. 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 Tranche</td>
<td>9,500,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>9,500,000</td>
</tr>
</tbody>
</table>

C. 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 an 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.

D. 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.

E. Closing Date. The Closing Date is June 30, 2010.
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></td>
</tr>
<tr>
<td>commencing December 15, 2019 to and including June 15, 2029</td>
<td>1.25%</td>
</tr>
<tr>
<td>commencing December 15, 2029 to and including June 15, 2044</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


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

3. “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, un-manufactured, 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.

4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.

5. “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 August 7, 2009 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.

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


8. “WTO” means World Trade Organization.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) 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 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.”