

CONFORMED COPY

CREDIT NUMBER 2377 CV

(Privatization Technical Assistance Project)

between

REPUBLIC OF CAPE VERDE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 22, 1992

CREDIT NUMBER 2377 CV

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 22, 1992, between REPUBLIC OF CAPE VERDE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of

Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "fiscal year" means the Borrower's fiscal year;
- (b) "MOFP" means Ministry of Finance and Planning;
- (c) "PERP Unit" means the unit established pursuant to paragraph 2 of Schedule 4 to this Agreement;
- (d) "PESRAB" means the Advisory Board established pursuant to paragraph 3 of Schedule 4 to this Agreement;
- (e) "Program" means the Public Enterprise Sector Reform Program described in a letter, dated May 6, 1992, addressed to the Association by the Borrower; and
- (f) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to three million one hundred thousand Special Drawing Rights (SDR 3,100,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in Bank of Cape Verde on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1997 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of

Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 15 and September 15, commencing September 15, 2002 and ending March 15, 2032. Each installment to and including the installment payable on March 15, 2012 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MOFP with due diligence and efficiency and in conformity with appropriate technical, administrative, and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

### ARTICLE IV

## Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that the said accounts and records shall be audited on a semiannual basis by said auditors, who shall prepare audit reports accordingly and furnish them to the Association, not later than three (3) months after the end of such semiannual audit period, along with an opinion as to whether the statements of expenditure submitted during such period, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

## ARTICLE V

### Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) a situation has arisen which shall make it improbable that the Borrower shall carry out the program, or a significant part thereof; and

(b) the Public Enterprise Reform Act (No. 6/IV/91) of the Borrower, dated August 8, 1991, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially or adversely the Borrower's ability to perform any of its obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely: any event specified in paragraph (a) or (b) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

- (a) The PESRAB has been established, and all its members duly appointed.
- (b) The PERP Unit has been restructured, and its Director and other professional and support staff duly selected.
- (c) The Borrower has selected an independent auditor, acceptable to the Association, to audit the Project accounts in accordance with the requirements of Section 4.01 of this Agreement.
- (d) The Borrower has submitted terms of reference, acceptable to the Association, for the elaboration of the Procedures' Manual referred to in paragraph 6 of Schedule 4 to this Agreement, and has selected a consultant, having qualifications and experience acceptable to the Association, to prepare the Manual.
- (e) The Borrower has adopted a model consultancy contract, acceptable to the Association, including a sample letter of invitation, for the recruitment of consultants under the Project.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representatives of the Borrower; Addresses

Section 7.01. The Minister of Finance and Planning of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Minister of Finance and Planning  
C. P. 30  
Praia  
Cabo Verde

Cable address:

FINANCAS  
CABO VERDE

Telex:

6058 MCECV

Faxsimile:

(238) 613897

For the Association:

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

Cable address:

Telex:

INDEVAS  
Washington, D.C.

248423 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF CAPE VERDE

By /s/ Carlos A. Santos Silva

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox

Regional Vice President  
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Technical assistance	1,120,000	100%
(2) Studies	230,000	100%
(3) Auditing and valuation services	290,000	80%
(4) Training	720,000	100%
(5) Vehicles and equipment	90,000	100%
(6) Operating costs	40,000	30%
(7) Unallocated	610,000	
TOTAL	3,100,000 =====	

2. For the purposes of this Schedule, the term "operating costs" means the incremental costs arising under the Project on account of office rent, supplies and

utilities, and maintenance of vehicles, fuel and office equipment.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of (a) payments made for expenditures prior to the date of this Agreement, or (b) expenditures under category (4) of paragraph 1 of this Schedule, unless the Borrower has submitted to the Association, for its approval, a proposed training program, giving full details of all training proposals to be financed under the Project, including appropriate justification for the training, terms of reference and budgetary requirements.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to assist the Borrower (a) in building its capacity to implement a wide-ranging public enterprise reform program, and (b) in developing and implementing its policy of promoting the private sector as a main vehicle for economic development.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

#### Part A: Institutional Development

1. Reorganize and strengthen the capacity of the PERP Unit of MOFP to conduct public enterprise reform and divestiture, and monitor the performance of public enterprises.
2. Train officials responsible for the monitoring of public enterprise performance within MOFP and other technical Ministries.

#### Part B: Privatization and Liquidation

Design and implement a privatization and liquidation strategy and action program.

#### Part C: Public Enterprise Performance Improvement

1. Conduct a viability assessment of a number of public enterprises in order to determine whether they are to be restructured, privatized or liquidated.
2. Devise and implement a restructuring and performance improvement program for those enterprises that are not due to be privatized under the Project.
3. Improve the legal and institutional arrangements governing the relations between the Borrower and public enterprises generally.
4. Train public enterprise executives and other senior staff in such areas as corporate planning, setting and monitoring of performance objectives and performance contracts, financial management, audit and control, management information systems, marketing, and personnel planning and administration.

#### Part D: Accompanying Measures

1. Provide advisory services to (a) match the supply of labor created by reduction of staffing in the restructured public enterprises and the demand of labor in the private sector, and (b) review options for promoting the creation of business enterprises by retrenched staff of public enterprises.
2. Support on-the-job training of retrenched public enterprise staff recruited by private employers.
3. Promote the organization of private sector-operated, demand-driven, work-oriented training workshops and evening courses for former public enterprise staff.

Part E: Private Sector Promotion

1. Review the business law environment and, in particular, the legislative provisions and administrative procedures governing labor markets, commercial activities, investments, taxation, property (both real and intellectual), and the establishment and operation of companies, with a view to adapting them and making them more responsive to the need of private sector development.
2. Design and/or refine the legal, institutional and regulatory framework required to open up new sectors of the economy to private sector initiative.
3. Promote private sector development in areas, such as (i) fishing, (ii) tourism, (iii) non-traditional, labor intensive and high value added, light manufacturing and cottage industries, and (iv) accounting and auditing services; which offer the best prospects for growth and a potential for export.

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The Project is expected to be completed by December 31, 1996.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

Except as provided in Part B hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Other Procurement Procedures

1. Items or groups of items for goods estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$270,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.
2. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$20,000 or more.

Part C: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods estimated to cost the equivalent of \$20,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to this Agreement.



(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

## Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

### SCHEDULE 4

#### Implementation Program

1. (a) The Borrower and the Association shall, not later than October 31, 1993 and, thereafter, not later than October 31 of each subsequent year, undertake a joint review of the Project or, as the case may be, not later than October 31, 1994, a mid-term review, during which they shall exchange views generally on all matters relating to the progress of the Project and the performance by the Borrower of its obligations under this Agreement; including, in particular, review: (i) the progress of the Project for the current fiscal year, the performance of consultants under the Project, the progress of the training program, the progress of the Privatization program and its actual record of transparency, and the performance of public enterprises and those enterprises that have been privatized, having regard to the performance indicators agreed upon to this effect between the Borrower and the Association, and (ii) the proposed budget and work program for the forthcoming fiscal year, including key monitorable outputs and a schedule of proposed procurement actions.

(b) Not later than one month prior to each such review, the Borrower shall furnish to the Association, for its comments, a report, in such detail as the Association shall reasonably request, on the progress and status of the Project, and giving details, in particular, of the proposed budget and work program for the forthcoming fiscal year, as submitted by PERP Unit and subsequently endorsed by PESRAB.

(c) Following each such review, the Borrower undertakes to act promptly and diligently, in order to take any corrective action deemed necessary to remedy any shortcoming noted in the implementation of the Project, or to implement such other measures as may have been agreed upon between the parties in furtherance of the objectives of the Project.

(d) Without limitation to the preceding paragraphs (a), (b) and (c) of this Section, the Borrower shall, throughout the period of implementation of the Project, submit to the Association, for its review and comments, semiannual reports on the progress of implementation of the Project.

2. The Borrower shall assign responsibility for the day-to-day implementation of the Project to a restructured Public Enterprise Reform and Privatization (PERP) Unit of MOFP, consisting of a Director, having qualifications and experience acceptable to the Association, and the requisite number of suitably qualified and experienced local professional and support staff.

3. The Borrower shall set up a Public Enterprise Sector Rationalization Advisory Board (PESRAB), to be chaired by the Minister of Finance and Planning, and consisting of the Director of the PERP Unit, who shall be the secretary thereof, and of suitably qualified and experienced public and private sector representatives, which shall advise the Minister of Finance and Planning on all

policy issues relating to the Program.

4. The Borrower shall, not later than March 31, 1993, launch a public relations campaign aimed at explaining to the general public the objectives and other details of Part B of the Project, and mobilizing investors' interest.

5. The Borrower shall:

(a) have an environmental assessment carried out, by its National Commission for the Environment, of all enterprises that are due to be privatized under the Project; and

(b) in the case of those enterprises that are classified by the said Commission as being a threat to the environment, (i) have an environmental audit thereof carried out, and (ii) take such measures as may be required in order to mitigate the potentially adverse environmental impact resulting from the activities of such companies.

6. The Borrower shall, not later than December 31, 1992, adopt a Procedures Manual, acceptable to the Association, governing the procedures for the privatization of its public enterprises, or the assets thereof, under the Project.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$200,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been

shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

