

Public Disclosure Authorized

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CREDIT NUMBER 4175 - CV

Development Credit Agreement

(Poverty Reduction Support Credit II)

between

REPUBLIC OF CAPE VERDE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 8, 2006

Public Disclosure Authorized

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 8, 2006, between REPUBLIC OF CAPE VERDE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated December 20, 2005, (hereinafter called the Letter of Development Policy), describing therein a program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty in the Borrower's territory (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Borrower has carried out the measures and taken the actions described in Schedule 2 of this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework satisfactory to the Association; and

(C) on the basis, *inter alia*, of the foregoing, the Association has decided to, in support of the Program, provide such assistance to the Borrower by making the Credit in a single tranche as hereinafter provided;

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, (as amended through May 1, 2004) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

"'Project' means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.";

(b) Section 4.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account

specified in Section 2.02 (b) of the Development Credit Agreement; provided, however, that withdrawals in the currency of the Borrower shall be made in such currency or currencies as the Association shall from time to time reasonably select.”;

(c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions”;

(d) The last sentence of Section 5.03 is deleted;

(e) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive;”

(f) Section 9.06 (c) is modified to read:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”; and

(g) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

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

(a) “Civil Servant’s Data Base” means the Borrower’s official electronic files containing, *inter alia*, information on: (i) civil servant’s individual names; (ii) their grades; (iii) their numbers of years worked; and (iv) their salary levels;

(b) “*Conselho de Ministros*” means the Borrower’s Council of Ministers, headed by the Prime Minister, and comprising the heads of the following Ministries: (i) Culture; (ii) Presidency of the Council of Ministers, State Reform and National Defense; (iii) Economy, Growth and Competitiveness; (iv) Education and Higher Education; (v) Environment and

Agriculture; (vi) Finance and Public Administration; (vii) Foreign Affairs, Cooperation and Communities; (viii) Health; (ix) Internal Administration; (x) Justice; (xi) Labor, Family and Solidarity; (xii) Decentralization, Housing and Territorial Planning; (xiii) Transport, Infrastructure and Sea; and (xiv) Assistant to Prime Minister, Vocational Training and Employment;

(c) “DECRP” means *Documento de Estratégia de Crescimento e de Redução da Pobreza* means the Borrower’s public strategy for growth and poverty reduction, approved by the *Conselho de Ministros* on August 2, 2004;

(d) “*Escudo de Cabo Verde*” and the symbol “C.V. Esc.” mean the lawful currency of the Borrower;

(e) “*Ministério da Educação*” means the Borrower’s Ministry of Education, or any successor thereto;

(f) “*Ministério das Finanças e Planeamento*” means the Borrower’s Ministry of Finance and Planning, or any successor thereto;

(g) “*Ministério da Justiça*” means the Borrower’s Ministry of Justice, or any successor thereto;

(h) “*Ministério da Reforma do Estado e da Administração Pública*” means the Borrower’s Ministry of State Reform and Public Administration, or any successor thereto;

(i) “*Ministério da Saúde*” means the Borrower’s Ministry of Health, or any successor thereto;

(j) “*Ministério do Trabalho e Solidariedade*” means the Borrower’s Ministry of Labor and Solidarity, or any successor thereto;

(k) “PSM” means *Pensão Social Mínima*, the Borrower’s minimum social pension fund, as defined in decree number 2-95, dated January 23, 1995;

(l) “PSS” means *Pensão de Solidariedade Social*, the Borrower’s social solidarity pension fund, as defined in decree-law number 29-2003, dated August 25, 2003;

(m) “QDMP” means *Quadro das Despesas a Médio Prazo*, the Borrower’s medium term expenditure framework, as defined in the Borrower’s budget framework and planning laws; and

(n) "State General Accounts" means the Borrower's public financial accounts, as defined in law number 78/V/98, dated December 7, 1998.

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 seven million Special Drawing Rights (SDR7,000,000) (the Credit).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) Except as the Association may otherwise agree: (i) all withdrawals from the Credit Account shall be deposited by the Association into an account in Dollars designated by the Borrower and acceptable to the Association; and (ii) the Borrower shall ensure that upon each deposit of an amount of the Credit into said account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Association.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association determines at any time that an amount of the Credit was used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, refund an amount equal to the amount of said payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

Section 2.03. The Closing Date shall be August 31, 2006, 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 and 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 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), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing on September 15, 2016, and ending on March 15, 2046. Each installment to and including the installment payable on March 15, 2026, 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 the Association of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) 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; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) 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

Particular Covenants

Section 3.01. (a) The Borrower 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.

(b) Prior to each such exchange of views, the Borrower 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.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program.

Section 3.02. Without limitation upon the provisions of Section 9.01 (a) of the General Conditions, the Borrower shall promptly furnish to the Association such information relating to the provisions of Article II of this Agreement as the Association may, from time to time, reasonably request.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of the Borrower at the time responsible for finance is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance and Public Administration
C.P. 30
Praia,
Republic of Cape Verde

Cable address:

Telex:

Facsimile:

COORDENACAO
Cape Verde

608 MCECV

(238) 261 38 97

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477 6391

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/ Jose Brito

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mahmood A. Ayub

Authorized Representative

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Association or the Bank shall have financed or agreed to finance under another credit, loan, or grant;
2. expenditures for goods included in the following groups or subgroups 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 Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

3. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
4. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);
5. expenditures on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
6. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2

Actions Referred to in Recital (B) of the Preamble to this Agreement

1. Fiscal policy

(a) The Borrower has revised its 2005 budget, in form and substance satisfactory to the Association, taking into account adequate funding of DECRP priorities.

(b) The Borrower, through *Ministério das Finanças e Planeamento*, has completed a plan, dated November 2, 2005, in form and substance satisfactory to the Association, for the settlement of all the Borrower's debts and contingent liabilities.

2. Budget planning and preparation

(a) The Borrower, through *Ministério das Finanças e Planeamento*, has prepared the QDMP, dated August 31, 2005, in form and substance satisfactory to the Association, including information on the Borrower's: (i) general expenditure policy for the period 2005-2007; and (ii) sectorial expenditure policy for the period 2005-2007.

(b) The Borrower's *Conselho de Ministros* has approved and submitted to the Borrower's parliament, as a prelude for final approval: (a) the budget framework law; and (b) the planning law.

3. Internal and external budget controls

The Borrower's *Conselho de Ministros* has submitted to the Borrower's parliament, as a prelude for final approval, the finalized State General Accounts for the years comprising the period between the years 2000-2002.

4. Decentralization

The Borrower's local finances law has been promulgated and published on the Borrower's official gazette on September 5, 2005, to regulate, *inter alia*: (a) the financing fund for the Borrower's municipalities; and (b) the Borrower's common municipal fund.

5. Public administration

The Borrower, through *Ministério da Reforma do Estado e da Administração Pública*, has confirmed that the Civil Servant's Database is operational to enable: (a) regular updating of

data by different entities of the Borrower's public sector; (b) diagnostics on human resources matters; and (c) civil service reform activities.

6. Legal and Judicial reform

The Borrower, through *Ministerio da Justiça*, has allocated C.V. Esc.6,000,000 to pay for legal services for underprivileged citizens, as per the agreement of provision of legal services between said *Ministerio da Justiça* and the Borrower's bar association, regulated by Decree Number 10/2004, dated November 2, 2004, published in the Borrower's official gazette on November 8, 2004.

7. Public education

The Borrower, through *Ministério da Educação*, has implemented a first year action plan for teacher training, in form and substance satisfactory to the Association, for public teachers working on primary education in the Borrower's territory.

8. Public health

The Borrower, through *Ministério da Saúde*, has published a report on the Borrower's public health's statistics for the year 2004, in form and substance satisfactory to the Association, including, *inter alia*: (a) vital health data; (b) mandatory declarable diseases; (c) public health service coverage; (d) immunization coverage; and (e) human resources policies in the public health area.

9. Social protection, integration and insertion

The Borrower, through *Ministério do Trabalho e Solidariedade*, has: (a) prepared a database with information on PSM's and PSS' beneficiaries, dated September 1, 2005, in form and substance satisfactory to the Association, including, *inter alia*, information on: (i) names; (ii) gender; and (iii) ages and residence of said beneficiaries; (b) validated current beneficiary list of PSM and PSS services; and (c) issued new identification cards to said PSM's and PSS' beneficiaries.