

CONFORMED COPY

CREDIT NUMBER 4280 - CV

Financing Agreement

(Third Poverty Reduction Support Credit)

between

REPUBLIC OF CAPE VERDE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 5, 2007

FINANCING AGREEMENT

Agreement dated April 5, 2007, 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 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 six million eight hundred thousand Special Drawing Rights (SDR 6,800,000) (“Credit”).
- 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 Payment Dates are February 15 and August 15 in each year.
- 2.05. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.

2.06. 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;
- (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 exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which 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.

4.02. The Additional Event of Acceleration consists of the following, namely that any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS

- 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 and Public Administration.

- 6.02. The Recipient's Address is:

Ministry of Finance and Public Administration
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 Washington, D.C.	248423(MCI)	1-202-477-6391

AGREED at the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF CAPE VERDE

By /s/ Emanuel H. S. Duarte
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Irene S. Xenakis
Authorized Representative

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

The actions taken by the Recipient under the Program include the following, namely that the Recipient has:

A. Promotion of Good Governance

1. executed its 2006 Budget, in form and substance satisfactory to the Association, as evidenced in the quarterly reports submitted to its Parliament;
2. approved the 2007 Budget Law in accordance with the benchmarks for social sectors (health and education) stated in the GPRSP, as evidenced in the *Boletim Oficial* First Serie, No. 2 dated January 11, 2007;
3. completed the first phase of the implementation of the Recipient's plan for the settlement of contingent liabilities and arrears, consisting of: (i) clearance of 33% of recognized arrears (towards domestic suppliers) in 2006 as evidenced in the quarterly reports mentioned under A.1 above; and (ii) adjustment of the utility tariffs to reflect the April 27, 2006 elimination of fuel subsidies as evidenced in the letter (*Declaração*) issued by the President of the *Agencia de Regulação Economica* (ARE) on February 5, 2007;
4. submitted to its Parliament the State General Accounts for the years 2004-2005 as evidenced in the letter from the Prime Minister dated September 6, 2006;
5. submitted to its Parliament, through the Conselho de Ministros, the draft law regulating the reorganization and competencies of the Tribunal de Contas, as evidenced by the Declaration by the Minister of Finance and Public Administration, dated March 2, 2007;
6. submitted to its Parliament, through the *Conselho de Ministros*, the draft national procurement law as evidenced in the letter from the Minister of the Chairmanship of the *Conselho de Ministros* dated February 7, 2007; and
7. (i) presented to its *Conselho de Ministros* the draft civil services law and obtained agreement for its dissemination to the public as evidenced in the letter from the Minister of the Chairmanship of the *Conselho de Ministros* dated

February 7, 2007; and (ii) finalized the integration of a human resources databases and payroll as evidenced in the letter (*Declaração*) issued by the Minister of Finance and Public Administration on February 5, 2007.

B. Development and Upgrade of Human Resources

1. finalized the first phase of the implementation of the Recipient's basic education plan, by the completion of the second year of training of teachers, in form and substance satisfactory to the Association, as evidenced in the letter from the Minister of Education and Higher Education dated December 29, 2006; and
2. caused the National Institute for Social Protection to expand its coverage and to establish special regimes as evidenced by the *Boletim Oficial*, number 30 dated July 25, 2005.

C. Improvement of the Effectiveness and Sustainability of the Social Protection System

Created the National Pension Centre and made it operational as evidenced by the *Boletim Oficial* number 32 dated November 13, 2006.

D. Monitoring and Evaluation

Has completed the first phase of the 2006 action plan of the Technical Secretariat for Development Assistance (STAD) as evidenced by: (i) making the results of Core Welfare Indicator Survey (CWIQ) available through summary tables; (ii) rolling out the STAD staff recruitment by short listing and scheduling interviews for selected candidates; and (iii) rolling out the *Agenda Estatística* consisting of the carrying out of statistical training as evidenced by the letter from the Director of the National Institute of Statistics dated February 7, 2007.

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:

Allocations	Amount of the Financing Allocated (expressed in SDR)
Single Tranche	6,800,000
TOTAL AMOUNT	6,800,000

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 December 31, 2007.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 15 and August 15:	
commencing August 15, 2017 to and including February 15, 2027	1%
commencing August 15, 2027 to and including February 15, 2047	2%

* 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. “*Agencia de Regulação Economica (ARE)*” means the Recipient’s economic regulatory agency.
2. “*Boletim Oficial*” means the Recipient’s Official Gazette.
3. “*Conselho de Ministros*” means the Recipient’s Council of Ministers.
4. “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:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, 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
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)

- (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) under a contract 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 during the procurement or execution of such contract, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to remedy the situation. “Excluded Expenditure” means any expenditure.
- 5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 with the modifications set forth in Section II of this Appendix.
- 6. “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 February 12, 2007 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.
- 7. “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. “*Tribunal de Contas*” means the Recipient’s independent general audit office.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 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. 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.

4. 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.
5. 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.”

6. 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.

7. 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”.