Financing Agreement

(Eighth Poverty Reduction Support Development Policy Financing)

between

REPUBLIC OF CABO VERDE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 14, 2014
CREDIT NUMBER 5418-CV

FINANCING AGREEMENT

AGREEMENT dated May 14, 2014, entered into between REPUBLIC OF CABO 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 1 A of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an adequate 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 ten million one hundred thousand Special Drawing Rights (SDR 10,100,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%).

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 the repayment schedule set forth in Schedule 2 to this Agreement.

2.07. The Payment Currency is Dollar.
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 I 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 Additional Condition of Effectiveness consists of the following, namely 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 responsible for finance and planning.
6.02. The Recipient’s Address is:

Minister of Finance and Planning
Ministry of Finance and Planning
Avenida Amilcar Cabral
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 Praia, Republic of Cabo Verde, as of the day and year first above written.

REPUBLIC OF CABO VERDE

By

[Signature]

Name: Ms. Cristina Duarte
Title: Minister of Finance and Planning

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Name: Ms. Vera Songwe
Title: Country Director for Senegal, Cabo Verde, The Gambia, Guinea Bissau and Mauritania
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

A. **Actions Taken Under the Program.** The actions taken by the Recipient under the Program include the following:

**Policy Area: Good Governance and Public Sector Efficiency**

1. Approval by the Recipient’s Parliament of the 2013 Budget Law No 23/VIII/2012 which contains measures to augment domestic revenues, including: (i) increasing the value added tax (VAT) rate applied to hotels and restaurants from 6 percent to the standard rate of 15 percent; (ii) increasing the VAT collection base for energy, water, communications and road-transportation services; (iii) expansion of the tax base of the Ecological Tax; (iv) establishing a “tourism fee” of Euro 2 per guest-night; and (v) establishing a statistical fee for custom services all evidenced by the *Boletim Oficial* No 71, dated December 31, 2012.


3. Approval by the Recipient’s Council of Ministers of Decree-Law No 20/2013, establishing the legal framework for the Single Treasury Account which introduces a unified document for the collection of taxes and non-tax revenues and consolidates all bank accounts held by different ministries and public agencies into a single account held by the Recipient’s General Directorate of the Treasury (DGT) as evidenced by the *Boletim Oficial* No 20, dated April 20, 2012.

4. (a) Adoption by Council of Ministers of the Decree-Law No 37/2013 which expands the mandate of the Recipient’s State Participations Service (*Serviço de Participações do Estado* (SPE)) as evidenced by *Boletim Oficial* No 50, dated September 24, 2013. (b) Issuance of the State Owned Enterprises (SOEs)s Aggregate Contingent Liability Report of 2012 as evidenced by the letter issued by DGT dated October 23, 2013, and the Report on Contingent Liabilities for 2012 of the six main SOEs prepared by DGT. (c) Presentation of the 2012 audited financial statements of ASA, ELECTRA, ENAPOR, IFH and TACV as evidenced by the letter sent to the Association by the DGT and the audited reports.
Policy Area: Competitiveness, Private Sector Development and Labor Productivity

5. Approval by Parliament of Law No 24/VIII/2013 establishing the Public Lighting Fee and regulations to facilitate the recovery of arrears to ELECTRA as evidenced by the Boletim Oficial No. 4 dated January 21, 2013.

6. (a) Approval by the Recipient’s Maritime and Port Agency of the Deliberative Act No 12/CA/2013 establishing a new tariff policy for services provided by ENAPOR as evidenced by the Boletim Oficial No 7, dated February 1, 2013. (b) Approval by the Recipient’s Civil Aviation Agency of Regulation No1/2013, establishing a security fee of Euro 2 levied on domestic and international flights to be collected ASA as evidenced by the Boletim Oficial No 41, dated August 2, 2013.

7. Approval by the Council of Ministers of the Legislative Decree No 1/2013 amending the Law of Ports approved on November 1, 2010, along with new statutes for the Maritime and Port Agency AMP and ENAPOR, a concession agreement between ENAPOR and the Ministry of Infrastructure and Maritime economy (MIEM) and revised regulations for concessions in the port sector as evidenced by the Boletim Oficial No 47, dated September 12, 2013.

8. Adoption by TACV Board of measures to improve the operational and commercial performance of TACV, including the: (a) closure of five unprofitable international routes as evidenced by a letter issued by TACV’s Board of Directors dated January 31, 2014; (b) approval of regulations limiting the concession of travel facilities as evidenced by the TACV’s Board of Directors resolution dated December 30, 2013; and (c) approval of the spin-off of TACV’s ground-handling services as evidenced by the TACV’s General Assembly of Stakeholders Act No. 2/2013 dated November 22, 2013.

9. Adoption by the Council of Ministers of regulations related to the 2010 Customs Code designed to further streamline customs procedures as evidenced by the Certificate issued by the Presidency of the Council of Ministers dated January 14, 2014.

10. (a) Adoption by the Council of Ministers of the Letter of Integrated Education, Training and Employment as evidenced by the Boletim Oficial No 59, dated November 1, 2013. (b) Capitalization of the Training Support Fund (TSF) approved in the 2013 Budget Law No 23/VIII/201 as evidenced by the Boletim Oficial No 71, dated December 31, 2012. (c) Adoption by the Council of
Ministers of TSF operational manual as evidenced by the Declaration Resolution issued by the Ministry of Youth, Employment and Human Resources (MJERH), dated March 7, 2014, confirming that the manual is being used following the Council of Ministers decision dated February 28, 2013.

11. Approval by the Council of Ministers of the Regulatory Decrees No 4 through 17 defining the legal boundaries of 14 protected areas in the islands of Boa Vista, Sal, Santo Antão and São Vicente as evidenced by the Boletim Oficial No 18, dated April 5, 2013, and the Boletim Oficial No 23, dated May 9, 2013.

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>10,100,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>10,100,000</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 adequacy 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 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.
E. 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 said account and its audit as the Association shall reasonably request.

F. 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.

G. Closing Date. The Closing Date is December 31, 2014.
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%</td>
</tr>
<tr>
<td>commencing June 15, 2024, to and including December 15, 2033</td>
<td>1%</td>
</tr>
<tr>
<td>commencing June 15, 2034, to and including December 15, 2053</td>
<td>2%</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. "ASA" means Agência de Segurança Aeroportuária, the Recipient’s airport security administration established further to Decree Nr. 144/83 dated December 31, 1983, as amended on June 2001.

2. "Boletim Oficial" means the Recipient’s Official Gazette.

3. "ELECTRA" means “Empresa de Electricidade e Agua”, the Recipient’s electricity and water utility established further to Decree-Law Nr. 37/82 dated April 17, 1982.

4. “ENAPOR” means Empresa Nacional de Administração dos Porto, the Recipient’s National Port Authority established further to Decree Nr. 52/82 dated June 19, 1982.

5. “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.

6. “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.
7. "IFIH" means *Imobiliária Fundiaria e Habitat*, the Recipient’s real estate and housing fund established further to Decree Nr. 129/82 dated December 31, 1982, as amended by Decree Nr. 73/99 dated November 29, 1999.


9. "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 15, 2013, 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.

10. “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.

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

12. “VAT” means value added tax.

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. 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) A new term called “Interest Charge” is added to read as follows:

“‘Interest Charge’ means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b).”

(d) The term “Payment Date” is modified by inserting the words “Interest Charges” between the words “Service Charges” and “Commitment Charges.”
(e) 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”.