Financing Agreement
(First State-Owned Enterprises Reform and Fiscal Management Development Policy Financing)

between

REPUBLIC OF CABO VERDE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date 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: (i) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule I to this Agreement; and (ii) 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) apply to and form 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 a credit, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to twenty-eight million and nine hundred thousand Special Drawing Rights (SDR 28,900,000) (variously, “Credit” and “Financing”).

2.02. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.

2.03. The Service Charge is three-fourths of one percent (3/4 of 1%) per annum on the Withdrawn Credit Balance.

2.04. The Payment Dates are June 15 and December 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 United States Dollar.

2.07. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.
ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:

(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 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 the event specified in Section 4.01 of this Agreement occurs.

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 Signature Date.
ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is its Minister of Finance.

6.02. For purposes of Section 11.01 of the General Conditions:

(a) the Recipient's address is:

Minister of Finance
Ministry of Finance
Avenida Amilcar Cabral
C.P. 30, Praia
Cabo Verde, and

(b) the Recipient's Electronic Address is:

E-mail: Carla.Cruz@mf.gov.cv or Hernani.trigueiros@mf.gov.cv

6.03. For purposes of Section 11.01 of the General Conditions:

(a) the Association's address is:

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

(b) the Association's Electronic Address is:

Telex: Facsimile:
248423 (MCI) 1-202-477-6391
AGREED as of the Signature Date.

REPUBLIC OF CABO VERDE

By

[Signature]

Authorized Representative

Name: Celso Vieira
Title: Vice-President and Minister of Finance
Date: 06-06-2019

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: Louise Gold
Title: Country Director
Date: 06-06-2019
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:

1. The Recipient has adopted and implemented a strategy to reduce fiscal exposure to SOEs while boosting air connectivity, as evidenced by: (i) the approval, through Resolution 87/2017 of August 2017, of an agenda and a list of 23 entities (including the airline TACV) for SOE restructuring, privatization or concession; and (ii) the issuance of Resolution 23/2019 of March 2019, authorizing that the debts absorbed by the central government as part of the national airline’s sale be offset by the proceeds from the restructuring of select entities.

2. For enhanced maritime financial sustainability and quality in maritime inter-island service provision, the Recipient has proceeded to grant an exclusive concession to a qualified private strategic partner for the provision of minimum inter-island public transportation services.

3. To improve the financial situation of the energy utility, the Recipient has approved a new performance-based management contract with ELECTRA, incorporating adequate targets, results indicators and incentives.

4. To reduce fiscal risks associated to the social housing program Casa Para Todos, the Recipient has instructed the IFH to open separate dedicated bank accounts for collecting the proceeds of the sale of those units remaining with IFH (standing I and II), and IFH has opened the accounts.

5. To enhance budget management, the Recipient has submitted to Parliament a draft organic budget law defining the rules and budgetary principles that apply to the preparation, implementation, evaluation, control and accountability of the budget.

6. To enhance debt management, the Recipient has submitted to Parliament a draft debt law which in Article 16 enshrines development of regular Medium-Term Debt Strategies (MTDS) and associated annual borrowing plans consistent with public debt targets defined in the MTDS (Article 5).

7. To enhance fiscal accountability, the Recipient has introduced a new Court of Account Law extending the powers of the supreme audit institution to all entities managing public funds and introducing additional audit methods including performance and compliance audits.

8. To implement the standards of the Global Forum on Transparency and Exchange of Information for Tax Purposes, the Recipient has applied for membership to the Global Forum.
To rationalize public investment selection, consistent with the 2014 planning law and the 2018 budget decree-law, all new investment projects in the Recipient’s 2019 budget submitted to Parliament have been selected in accordance with phase 1 of the Public Investment Management System and consistent with the Recipient’s development objectives.

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 proceeds. 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>28,900,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>28,900,000</td>
</tr>
</tbody>
</table>

C. Withdrawal Tranche Release Conditions

1. 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. Deposit of Financing Amounts

1. Notwithstanding the provisions of Section 2.03 of the General Conditions:

   (a) the Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain the following two dedicated accounts on terms and conditions satisfactory to the Association: (i) a dedicated account in United States Dollars (“Foreign Currency Dedicated Account”); (ii) a dedicated account in Cabo Verdean Escudos (“Local Currency Dedicated Account”); and,

   (b) all withdrawals from the Financing Account shall be deposited by the Association into the Foreign Currency Dedicated Account. Upon each deposit of an amount of the Financing into the Foreign Currency Dedicated
Account, the Recipient shall deposit an equivalent amount into the Local Currency Dedicated Account.

2. The Recipient, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Association: (a) the exact sum received into the Foreign Currency Dedicated Account; (b) the details of the account to which the Cabo Verdean Escudos equivalent of the Financing proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Recipient’s budget management systems; and (d) the statement of receipts and disbursement of the Foreign Currency Dedicated Account.

E. Audit. Upon the Association’s request, the Recipient shall:

1. have the Dedicated Accounts 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 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 the Dedicated Accounts and their audit as the Association shall reasonably request.

F. Closing Date. The Closing Date is June 30, 2020.
**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 June 15, 2029 to and including December 15, 2038</td>
<td>1%</td>
</tr>
<tr>
<td>commencing June 15, 2039 to and including December 15, 2058</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 3.05 (b) of the General Conditions.
APPENDIX

Section I. Definitions


4. “Foreign Currency Dedicated Account” means the account referred to in Part D.1(a) of Section II of Schedule I to this Agreement.


6. “Global Forum on Transparency and Exchange of Information for Tax Purposes” or “Global Forum” means the multilateral forum of 154 members (as of the Signature date) aiming at ensuring the implementation of internationally agreed standards of transparency and exchange of information in the tax area.

7. “IFF” means “Imobiliária Fundiaria e Habitat” the Recipient’s real estate and housing fund established further to Decree No. 129/82 dated December 31, 1982, as amended by Decree No. 73/99 dated November 29, 1999.

8. “Local Currency Dedicated Account” means the account referred to in Part D.1(a) of Section II of Schedule I to this Agreement.

9. “MTDS” or “Medium-Term Debt Strategy” means the plan set out in the draft Debt Law approved by the Recipient’s Council of Ministers on May 17, 2018, to achieve over the medium-term a desired composition of its debt portfolio, capturing preferences with regard to the cost-risk tradeoff.

10. “Public Investment Management System” means the tool set out in Budget Decree Law No. 1/2018 approved by Council of Ministers on December 21, 2017, and published in the Official Gazette dated January 3, 2018, which is used to streamline the preparation, appraisal, approval and management of all government projects,
regardless of the source of funding, and the type of procurement or implementation method used.

11. "Program" means: the program of objectives, policies, and actions set forth or referred to in the letter dated April 2, 2019, 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 and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program’s objectives.

12. "Signature Date" means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.

13. "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.

14. “SOE” or “SOEs” means State-owned enterprise(s).

15. “TACV” means the Recipient’s national airline established in 1958 as Transporte Aereo do Cabo Verde (TACV) which was designated as the national carrier and became a public company in 1983 and was rebranded as Cabo Verde Airline (CVA) in 2018.