Financing Agreement
(State Owned Enterprises Related Fiscal Management Project)

between

REPUBLIC OF CABO VERDE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
AGREEMENT dated as of the Signature Date between REPUBLIC OF CABO VERDE ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association 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, on the terms and conditions set forth or referred to in this Agreement a credit in an amount equivalent to thirteen million eight hundred thousand Special Drawing Rights (SDR 13,800,000) (variously, “Credit” and “Financing”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.

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

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 The Service Charge is three-fourths of one percent (3/4 of 1%) per annum on the Withdrawn Credit Balance.

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 3 to this Agreement.

2.07. The Payment Currency is Dollar.
ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project, through its Ministry of Finance, in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Events of Suspension consists of the following:
   (a) the Recipient provides Public Financing to TACV; and,
   (b) any action has been taken that interferes, in the opinion of the Association, with the implementation of the Retrenchment Plan.

4.02. The Additional Event of Acceleration consists of the following:
   (a) The event specified in paragraph (b) of Section 4.01 of this Agreement occurs and is continuing for a period of 30 days after notice of the event has been given by the Association to the Recipient.
   (b) The event specified in paragraph (a) of Section 4.01 of this Agreement occurs.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following namely the adoption by the Recipient of a Project Implementation Manual in form and substance satisfactory to the Association.

5.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

5.03. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.
ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is its minister responsible for 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

(b) the Recipient’s Electronic Address is:

Facsimile: E-mail:
(238) 61 38 97 Carla.Cruz@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

Ministério das Finanças

Authorized Representative

Name: Olavo Correia
Title: Minister of Finance
Date: June 22, 2018

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

BANQUE MONDIALE

Authorized Representative

Name: Louise J. Cord
Title: Country Director
Date: June 6, 2018
SCHEDULE 1

Project Description

The objective of the Project is to strengthen SOE related fiscal management.

The Project consists of the following parts:

Part 1: Results-based Financing

Providing financing for an Eligible Expenditure Program (EEP) to support the Recipient in capacity-building of the UASE to improve its monitoring of the Recipient’s SOE portfolio and support to critical reforms in TACV to decrease its needs for future Public Financing through, *inter alia*:

1.1. Increasing SOE compliance with its reporting obligations and strengthening the state’s ownership role by preparing comprehensive and analytical annual reports on the entire SOE portfolio containing benchmarking on financial and operational performance, contributions by SOEs to the economy through taxes and dividends and a complete overview of the Recipient’s Public Financing to SOEs.

1.2. Strengthening of the financial management of TACV through the implementation of strategic reforms including, *inter alia*: (i) human resources reconfiguration and preparation of the retrenchment of approximately 207 staff; (ii) reduced Public Financing for TACV’s operations resulting from other strategic reforms; and (iii) retrenchment and payment of Severance Payments to approximately 207 staff of TACV.

Part 2: Technical Assistance

Provide financing for technical support to the implementation of the Recipient’s SOE reform program and strengthen its capacity for macro-fiscal monitoring through, *inter alia*:

2.1. (i) improving the technical capacity of UASE to closely monitor SOE financial and operational performance, assess the quality of proposals and reports presented by SOEs (including business plans, performance agreements, and human resource restructuring plans), and carry out SOE performance benchmarking with the objective to inform the Recipient’s decision-making in relation to SOEs; (ii) carrying out a review of the SOE portfolio, including individual company valuations to identify possibilities for further divestment; (iii) reviewing of current ownership arrangements with a view to identify opportunities to further strengthen portfolio management; (iv) improving macroeconomic monitoring, reporting and use of macroeconomic modelling and econometric tools; (v) strengthening public debt management and fiscal responsibility including broadening the coverage of
contingent liabilities; and (vi) capacity building to identify, launch and negotiate public-private partnerships.

2.2. (i) assisting in the preparation of secondary regulation to the implementation of the SOE Framework Law; (ii) assisting in the preparation of a SOE policy setting out the Recipient's objectives in relation to each sector and SOE operated in said sector, including, \textit{inter alia}, minimum performance standards, dividend policy and subsidies; (iii) assisting in the development of guidance material and standards for SOE Board members; and (iv) training for SOE Board members on, \textit{inter alia}, best international practices on financial analysis and performance evaluation.

Part 3: Project Management Support

Provision of support for Project management and implementation, including for, \textit{inter alia}, coordination, procurement, financial management, audit, legal and monitoring and evaluation (including independent verification) activities and financing of Incremental Operating Costs.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

Unidade de Acompanhamento do Sector Empresarial do Estado (UASE)

1. The Recipient shall maintain, throughout Project implementation, the UASE within the Ministry of Finance, composed of key staff, with qualifications and under terms of reference acceptable to the Association, as further detailed in the PIM. The UASE shall be responsible for overall implementation of the technical aspects of the Project, including, *inter alia*, ensuring coordination and communication with key stakeholders, monitoring, evaluation and reporting of Project implementation, as further detailed in the PIM.

Unidade de Gestão de Projetos Especiais (UGPE)

2. The Recipient shall maintain, throughout Project implementation, the UGPE within the Ministry of Finance, composed of key staff, with qualifications and under terms of reference acceptable to the Association, including one accountant, one procurement officer, and one financial management specialist and any other specialists as may have been agreed with the Association, as further detailed in the PIM. The UGPE shall be responsible for the implementation of the financial management, procurement and disbursement aspects of the Project, as further detailed in the PIM.

Project Steering Committee (PSC)

3. The Recipient shall establish, and thereafter maintain, throughout Project implementation, the PSC, which shall be co-headed by high level representatives of the Ministry of Finance and Ministry of Transport and Tourism and shall also include any other high-level representatives of other key stakeholders, as further detailed in the PIM. The PSC shall be responsible for coordinating and providing overall strategic guidance for Project implementation.

Independent Verification Agent

4. Not later than three (3) months after the Effective Date, the Recipient, through the Ministry of Finance, shall hire a consultant with experience, qualifications and terms of reference acceptable to the Bank, for purposes of verifying the validity of EEPs and compliance with DLI 3.
B. **Project Implementation Manual (PIM)**

1. The Recipient shall carry out the Project in accordance with a PIM, which shall set out detailed guidelines, methods and procedures for the implementation of the Project, including: (i) a detailed description of the EEPs; (ii) the indicators to be used in the monitoring and evaluation of the Project; (iii) the procedures for Project monitoring, supervision and evaluation, including the format and content of the Project Reports; (iv) the DLI verification protocols; and (v) procurement and financial management procedures including clearly defined procedures related to payments verification and processing, and record and management of Eligible Expenditures financed with the Credit proceeds; (vi) corruption and fraud mitigation measures; and (vii) such other arrangements and procedures as shall be required for the effective implementation of the Project.

2. The Recipient shall not assign, amend, abrogate or waive any provision of the PIM without the prior written approval of the Association.

3. In case of any conflict between the terms of the PIM and those of this Agreement, the terms of this Agreement shall prevail.

C. **Retrenchment**

1. For purposes of Part 1.2(iii) of the Project, the Recipient shall cause TACV to: (i) prepare a retrenchment plan, under terms of reference satisfactory to the Association, and in accordance with the Recipient’s applicable legal framework; (ii) adopt such retrenchment plan before any retrenchment is carried out under the Project; (iii) ensure that any retrenchment of TACV staff is carried out according to such retrenchment plan, in a manner satisfactory to the Association; and (iv) once the retrenchment plan has been implemented, promptly prepare and furnish the Association a report on the results of said implementation, in form and substance satisfactory to the Association.

2. The Recipient shall, and shall cause TACV to, maintain, throughout Project implementation, and publicize the availability of a grievance redress mechanism, in form and substance satisfactory to the Association, to hear and determine fairly and in good faith all complaints raised in relation to retrenchment carried out under Part 1.2(iii) of the Project, and take all measures necessary to implement the determinations made by such mechanism in a manner satisfactory to the Association.

**Section II. Project Monitoring, Reporting and Evaluation**

A. The Recipient shall furnish to the Association each Project Report not later than one month after the end of each calendar semester, covering the calendar semester.
B. DLI Audit, DLI Progress Report, DLI Audit Report

1. In implementing Part 1 of the Project, the Recipient shall ensure:

   (a) no later than one (1) month after the end of each calendar quarter, or by such later date as agreed with the Association, prepares and furnishes to the Association an interim unaudited DLI Progress Report satisfactory to the Association;

   (b) no later than one (1) month after the end of each calendar Year, or by such later date as agreed with the Association, carries out an independent DLI Audit which shall, inter alia, certify the extent to which the DLI 3 for the pertinent calendar Year covered by the DLI Audit has been met and the eligibility of the EEPs in relation to Severance Payments; and

   (c) no later than one (1) month after the end of each calendar Year, or by such later date as agreed with the Association, prepares and furnishes to the Association a complete DLI Audit Report satisfactory to the Association, including all the findings and results from the DLI Audit, as well as any additional certifications from the DLI Audit as the Association may reasonably request.

Section III. Withdrawal of the Proceeds of the Financing

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:
Category | Amount of the Credit Allocated (expressed in SDR) | Percentage of Expenditures to be Financed (inclusive of Taxes)
--- | --- | ---
(1) EEPs under Part 1.1. of the Project | 1,380,000 | 100% up to the DLI amount in Schedule 4 (Table 4.C.) of this Agreement
(2) EEPs under Part 1.2(i) and (ii) of the Project | 4,140,000 | 100% up to the DLI amount in Schedule 4 (Table 4.A.) of this Agreement
(3) EEPs under Part 1.2(iii) of the Project (Severance Payments) | 5,520,000 | 100% up to the DLI Amount in Schedule 4 (Table 4.B.) of this Agreement
(4) Goods, non-consulting services, consulting services, Training and Incremental Operating Costs under Parts 2 and 3 of the Project | 2,380,000 | 100%
(5) Refund of the Preparation Advance | 380,000 | Amount payable pursuant to Section 2.07 (a) of the General Conditions

**TOTAL AMOUNT** | **13,800,000**

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made for:

   (a) payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed SDR 2,760,000 may be made for payments made prior to this date but on or after September 1, 2017;

   (b) payments under Category (1) with respect to meeting DLI 4 and for which a withdrawal request has been submitted, unless the Recipient has furnished evidence satisfactory to the Association, and following the
requirements set forth in the PIM, that payment for EEP have been made by the Recipient in accordance with the Recipient’s applicable legal framework and the PIM;

(c) payments under Category (2) with respect to each DLI met and for which a withdrawal request has been submitted, unless the Recipient has furnished evidence satisfactory to the Association, and following the requirements set forth in the PIM, that payment for EEP have been made by the Recipient in accordance with the Recipient’s applicable legal framework and the PIM; and

(d) payments under Category (3) with respect to DLI 3 and for which a withdrawal request has been submitted, unless the Recipient has furnished evidence satisfactory to the Association, and following the requirements set forth in the PIM, that payment for EEP have been made by the Recipient in accordance with the Recipient’s applicable legal framework and the PIM.

2. Without limitation to the provisions set forth in Section III.B.1. of this Schedule, each withdrawal under Category (1), (2) and (3) shall be made in the amount specified in the “DLI Amount” row of table in the Schedule 4 to this Agreement, subject to submission to the Association of evidence acceptable to the Association in its form and content and following the requirements set forth in the PIM, confirming the achievement of the respective DLI (and for which a withdrawal request has been submitted).

3. In connection with the foregoing, if the Association determines, based on the evidence referred to in Section III.B.1(b)(c) and (d) above that a DLI has not been met or has partially been met, the proportion of the corresponding DLI Amount shall be reduced in proportion to the respective degree of DLI Achievement in accordance with the formula set forth in the PIM, and any unwithdrawn balance of the withdrawal request for said Year in respect of such unmet or partially met DLI shall remain available for the subsequent withdrawal, or may be cancelled.

4. Notwithstanding the foregoing, if the Association determines, at any time and at its sole discretion, that any portion of the amounts disbursed by the Recipient under Category (1) or (2) or (3) was made for reimbursement of expenditures that are not eligible under the EEPs or not in compliance with the provisions of paragraphs 1 (b) and (c) and paragraph 2 of this Section, the Recipient shall promptly refund any such amount to the Association as the Association shall specify by notice to the Recipient.

5. The Closing Date is July 31, 2023.
SCHEDULE 3

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, 2028, to and including December 15, 2037</td>
<td>1%</td>
</tr>
<tr>
<td>commencing June 15, 2038, to and including December 15, 2057</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.
<table>
<thead>
<tr>
<th>DLI Description, Targets and Amount</th>
<th>Baseline</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>Total proportion of Credit amount in SDR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DLI 1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TACV has adopted and publicly announced a Retrenchment Plan, in form and substance satisfactory to the Association</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DLI Amount expressed in SDR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,070,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,070,000</td>
</tr>
<tr>
<td><strong>DLI 2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TACV has established a grievance redress mechanism to hear retrenchment-related grievances, in form and substance satisfactory to the Association, pursuant to the Retrenchment Plan</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>DLI Amount expressed in SDR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,070,000</td>
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<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,070,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>4,140,000</td>
</tr>
</tbody>
</table>
Table 4.B. DLI Table for Category 3

<table>
<thead>
<tr>
<th>DLI Description, Targets and Amount</th>
<th>Baseline</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>Total proportion of Credit amount in SDR</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLI 3</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5,520,000</td>
</tr>
<tr>
<td>Staff targeted by the Retrenchment Plan has been retrenched, in accordance with the Retrenchment Plan</td>
<td>DLI Amount expressed in SDR</td>
<td>5,520,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5,520,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5,520,000</td>
</tr>
</tbody>
</table>

Table 4.C. DLI Table for Category 1

<table>
<thead>
<tr>
<th>DLI Description, Targets and Amount</th>
<th>Baseline</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>Total proportion of Credit amount in SDR</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLI 4</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,380,000</td>
</tr>
<tr>
<td>Detailed annual SOE reports prepared by UASE</td>
<td>DLI Amount expressed in SDR</td>
<td>276,000</td>
<td>276,000</td>
<td>276,000</td>
<td>276,000</td>
<td>276,000</td>
<td>1,380,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,380,000</td>
</tr>
</tbody>
</table>
APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006, and revised in January 2011 and as of July 1, 2016.

2. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.

3. “Disbursement Linked Indicator” or “DLI” means a set of indicators specified in Schedule 4 to this Agreement and in the PIM (as hereinafter defined).

4. “EEPs” means a set of defined expenditures for salaries, Severance Payments, Training and Incremental Operating Costs, acceptable to the Association and set out in the PIM, incurred by the Recipient and TACV in connection to Part 1 of the Project.


6. “PSC” means Project Steering Committee that supervise and coordinate the Project, co-chaired by the Minister of Finance and by the Minister of Economy, and includes representatives from TACV.


8. “Public Financing” means any financial support to TACV operations provided by the Republic of Cabo Verde, including transfer of funds, payments made on behalf of that entity to third parties, loans provided to that entity, or guarantees provided to creditors on behalf of that entity.

9. “Severance Payments” means the payments made to approximately 207 TACV staff in relation to early retirement, collective dismissals and voluntary dismissals under Part 1.2(iii) of the Project, in accordance with the retrenchment plan to be approved by the World Bank.

10. “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. “UASE” means Unidade de Acompanhamento do Sector Empresarial do Estado, (Supporting Unit for the State Entrepreneurial Sector), a unit established within the Recipient’s Ministry of Finance pursuant to Decreto – Lei 57/2016, of November 9 published in the Recipient’s Boletim Oficial I Series – No. 64, dated November 9, 2016, and referred to in Section I.A.1. of Schedule 2 to this Agreement.

14. “UGPE” means Unidade de Gestao de Projetos Especiais, a unit established within the Ministry of Finance pursuant to Resolucao 81/2017 of July 28, 2017, and referred to in Section I.A.2. of Schedule 2 to this Agreement.