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THE AFRICAN DEVELOPMENT BANK GROUP

PROJECT APPRAISAL REPORT
ENERGY TRANSITION, EFFICIENCY AND EXPANSION PROJECT (ETREEP)

DEMOCRATIC REPUBLIC OF SAO TOMÉ AND PRINCIPE (STP)

UA 18 MILLION

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AFRICAN DEVELOPMENT BANK GROUP

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

ENERGY TRANSITION, EFFICIENCY AND EXPANSION PROJECT (ETREEP)

PROJECT APPRAISAL REPORT

RDGS/PESD DEPARTMENTS

March 2026

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CURRENCY EQUIVALENTS

Exchange rate effective 10/31/2025

Currency Unit	Equivalent
1 Unit of Account	1.35833 USD
1 Unit of Account	1.17569 EUR
1 United States Dollar	0.73617 UA
1 Euro	0.85056 UA
1 Unit of Account	28.84860 STN
1 Euro	24.53759 STN
1 United States Dollar	21.23735 STN

FISCAL YEAR

1 January – 31 December

WEIGHTS AND MEASURES

1 Metric ton	2,204.62 Pounds (lbs)
1 Kilogramme (kg)	2.20462 lbs
1 Meter (m)	3.28 Feet (ft)
1 Millimetre (mm)	0.03937 Inches
1 Kilometre (km)	0.62 Mile
1 Hectare (ha)	2.471 Acres

ABBREVIATION AND ACRONYMS

ADF	African Development Fund
AfDB	African Development Bank
CRFA	Country Resilience and Fragility Assessment
CSP	Country Strategy Paper
DP	Development Partners
E&S	Environmental and Social
EIB	European Investment Bank
EIRR	Economic Internal Rate of Return
EMAE	Empresa de Água e Eletricidade - Water and Energy Utility
ENCO	Empresa nacional de Combustiveis - National Fuel Company
ESCON	Environmental and Social Compliance Note
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESWG	Energy Sector Working Group
ETISP	Energy Transition and Institutional Support Project
ETREEP	Energy Transition, Efficiency and Expansion Project
FC	Foreign Currency
FIRR	Financial Internal Rate of Return
FM	Financial Management
GDI	Gender Development Index
GDP	Gross Domestic Product
GHG	Greenhouse Gases
GoSTP	Government of São Tomé and Príncipe
HDI	Human Development Index
IT	Information Technology
Kms	Kilometres
kWh	Kilowatt Hour
LC	Local Currency
LCPDP	Least Cost Power Development Plan
M&E	Monitoring and Evaluation
MIRN	Ministry of Infrastructures and Natural Resources
MEF	Ministry of Economy and Finance
MTF	Multi-Tier Framework

MV	Medium Voltage
MW	Megawatts
NPV	Net Present Value
OCB	Open Competitive Bidding
PAR	Project Appraisal Report
PCN	Project Concept Note
PCR	Project Completion Report
PIU	Project Implementation Unit
PLW	People Living with Disabilities
PPA	Power Purchase Agreement
RAP	Resettlement Action Plan
SDG	Sustainable Development Goals
SEAH	Sexual Exploitation and Harassment
SEFA	Sustainable Energy for Africa
SONANGOL	Empresa Angola de Petroleo e Gas - Angola Fuel and Gas Company
STP	São Tomé and Príncipe
TYS	Ten-Year Strategy
U$	United States Dollar
UA	Units of Account
WB	World Bank

PROJECT INFORMATION SHEET

CLIENT INFORMATION

Project Name	Energy Transition, Efficiency and Expansion Project - ETREEP
Sector	Energy
Grant Recipient	Democratic Republic of São Tomé and Príncipe
Project Instrument	Grant
Executing Agency	Ministry of Infrastructure and Natural Resources

COUNTRY AND STRATEGIC CONTEXT

Country Strategy Paper Period:	2024 – 2029
Country Strategy Paper Priorities supported by Project:	Pillar II Support for sustainable infrastructure development
Government Program (PRSP, NDP or equivalent):	Government 5 Year Plan 2023-2027
Project classification:	Four Cardinal Points: Cardinal Point number 4 - Build Resilient Infrastructure, Add Real Value-Invest in climate-resilient infrastructure and energy systems: Drive a just energy transition that respects Africa's right to develop while advancing renewables and gas projects. High 5 priorities: H5 - 2.0 Light up and power Africa, H5 - 2.3 Power Transmission; H5 - 5.0 Improve the Quality of Life of the People in the project area, H5 - 5.7 Scale up promising solutions for employment, H5 - 5.16 Climate Change and Green Growth
	Sustainable Development Goals: (i) SDG 7 - Ensure access to affordable, reliable, sustainable, and modern energy for all; (ii) SDG 8 - Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all; (iii) SDG 9 - Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation;(iv) SDG 10 Reduce inequality within and among countries and (v) SDG 13 – Taking urgent action to combat climate change and its impacts.
Selectivity priority/ies:	1.1 Increase utility-scale renewable energy 1.2 Strengthen revenue protection and sector and utility sustainability 1.3 Strengthen and enhance energy efficiency

Country Performance and Institutional Assessment:	3.11 out of 6 (2020)
Projects at Risk in the country portfolio:	7% (10 February 2026)

PROJECT CATEGORISATION

Environmental and Social Risk Categorisation	Category 2
Does the project involve involuntary resettlement?	No
Climate Safeguards Categorisation:	Category 2
Fragility Lens Assessment:	Yes
Gender Marker System Categorisation:	Category 2
Youth Jobs Skills Marker System	Category 4

ADF/ADB KEY FINANCING INFORMATION

Interest Rate:	Not Applicable
Service Charge:	Not Applicable
Commitment Fee:	Not Applicable
Tenor:	Not Applicable
Grace Period:	Not Applicable

Source	**Amount (millions)**		**Financing Instrument**
	UA	**USD**	
African Development Fund	14.00	19.02	Grant
TSF Pillar I	4.00	5.43	Grant
World Bank	3.68	5.00	Grant
Government Counterpart Contribution:	0.41	0.55	In Kind
Total Project Cost:	**22.09**	**30.00**	

PROJECT DEVELOPMENT OBJECTIVE AND COMPONENTS

Project Development Objective:	Expanding renewable energy, strengthening grid infrastructure and promoting low-carbon growth.
Project Components:	**Component 1: Energy Transition and Efficiency** 1.1 Construction of 4 MWp PV plant and installation of 2 MWh Battery Energy Storage Scheme (BESS)

	1.2 Supply and Installation of 1000 Light-Emitting Diode (LED) streetlights
	Component 2: Expansion, Access and Grid and System Stability 2.1 Upgrade and rehabilitation of Low voltage (LV) networks in Principe Island 2.2 Modernise the Dispatch Centre 2.3 Supply and installation of 40.000 prepaid meters
	Component 3: Institutional Capacity Development, Project Management and TA 3.1 Project Supervising Firm 3.2 Financial Auditor 3.3 Environmental Auditor 3.4 Trainings & workshop 3.5 IT and Communication equipment 3.6 Vehicle 3.7 Project Management 3.8 Consulting Services 3.9 Operational Costs

PROJECT PROCESSING SCHEDULE TO BOARD APPROVAL

PCN Approval:	12 December 2024
Appraisal Mission:	3 to 7 November 2025
Planned Board Presentation:	27 March 2026
Effectiveness:	1 May 2026
Project Implementation Period:	1 May 2026 - 31 May 2031
Planned Mid-term Review:	15 June 2028 - 30 June 2028
Project Closing Date:	30 November 2031

1 STRATEGIC CONTEXT

A. Country Context, Strategy and Objectives

1. The Democratic Republic of São Tomé and Príncipe (STP) is an island state with untapped potential, consisting of two small islands and several islets. Its land area is 1,001 km², with São Tomé Island and its adjacent islets covering 859 km², and Príncipe Island, including its adjacent islets, covering 142 km². Located in the Gulf of Guinea off the west coast of Africa, in 2025 it has a population of 209,607 people of which 84 percent have access to electricity. In September 2025 the country became the first in the world to have its entire national territory recognised as a UNESCO World Biosphere Reserve. Access to clean cooking solutions remains a significant challenge in São Tomé and Príncipe, with only around 18.97% of households using clean energy sources for cooking and heating, namely LPG (18.89%) and electricity (0.08%) in 2020. Most households still rely on wood (62.26%) and charcoal (18.77%).

2. In macroeconomic terms, STP faces a fiscal crisis characterized by weak growth, high inflation, and persistently low foreign exchange reserves. Real GDP growth reached 2.1% in 2025, up from 1.1% in 2024, supported by tourism recovery, historically elevated cocoa prices despite recent drops, easing global inflationary pressures, and lower oil prices. However, growth remains constrained by inadequate infrastructure and acute energy shortages. In 2025 inflation declined to 10.9% from its 21.3% peak in 2023, yet further disinflation remains difficult amid supply constraints (particularly in the energy sector) which continue to weigh on productivity and private sector confidence. After structural deficits historically, fiscal consolidation began in 2024 and continued in 2025, with STP showing fragile overall fiscal surpluses of less than 1% of GDP. Current account deficits are also structural, limiting reserve accumulation beyond two months of imports of goods and services. Commodity price volatility, delayed energy reforms, declining donor inflows, rising protectionism, and climate-related shocks constitute significant downside risks.

3. According to the World Bank's latest internationally comparable estimates in Purchasing Power Parity terms, based on 2017 São Tomé and Príncipe household survey, 13% of the population lived below the international extreme poverty line of US$3 per day, while 70% were below the US$8.30 per day upper-middle-income threshold, highlighting widespread economic vulnerability. Multidimensional poverty declined sharply from 40.7% in 2008 to 11.7% in 2023, indicating substantial long-term progress. However, gains have largely stalled since 2019 following the COVID-19 shock and subsequent global disruptions to tourism and macroeconomic stability. Poverty remains predominantly rural, where employment opportunities are limited – especially for youth. The unemployment rate stood at 14.2% in 2023, with significant gender disparities (22.1% for women versus 9.9% for men), which largely reflects labour force discouragement due to the lack of opportunities.

4. These challenges contribute to persistently high-income inequality, with a Gini coefficient of 0.47. Spatial disparities in living standards and life expectancy remain marked, while deficiencies in waste management and rural service provision constrain human development. Emigration, particularly among the working-age population, has accelerated since 2022, exacerbating skills shortages in education, health, and construction. Estimates suggest that close to 20% of the population now resides abroad, underscoring domestic labour market stress and increasing reliance on diaspora networks.

5. The project is aligned with the STP Country Strategy Paper 2024-2029, and will contribute to the achievement set under pillar II which is Enhancing Energy Transition, by building a new renewable energy power plant and contributing to sector efficiency by scaling up the use of prepaid meters and network improvement which will lead to reduction of

technical and non-technical losses. By building and improving this infrastructure the project contributes to renewable energy penetration, loss reduction, overall electrification, and service reliability.

6. It aligns with the Bank Gorup's five development priorities for the institution, the High 5s, priority 1 – Light up and Power Africa; and priority 5 - Improve the Quality of Life for the People of Africa, and the fourth cardinal point - Build Resilient Infrastructure, Add Real Value-Invest in climate-resilient infrastructure and energy systems; and Drive a just energy transition that respects Africa's right to develop while advancing renewables and gas projects.

7. These focus areas, namely, building resilient infrastructures and modern and sustainable energy systems, are essential in transforming the lives of the African people and therefore consistent with the United Nations agenda on Sustainable Development Goals (SDGs), specifically SDG 7, which advocates access to affordable, reliable, sustainable, and modern energy for all. Concurrently, the project aligns with the Bank Group's Ten-Year Strategy (TYS) by advancing inclusive growth and green growth through five operational priorities: infrastructure development, governance and accountability, and skills and technology. The project aligns with the New Deal on Energy for Africa by increasing investments in the energy sector and supporting the Government of STP in strengthening the policy, regulatory, and governance environment.

B. Sector and Institutional Context

8. São Tomé and Príncipe has a small, isolated electricity system with a total installed capacity of roughly 38 MW, most of it located on São Tomé Island. The energy matrix is predominantly imported diesel-fired thermal (approximately 95%), and the remaining 5% from hydroelectric and photovoltaic solar sources. Of the installed capacity, only 19 MW is available due to old, poorly maintained diesel generators. The electrical system consists of five thermal power plants, namely the Santo Amaro 1, Santo Amaro 2, Santo Amaro 3, Bobô-Foro 2, and Tesla plants, as well as two photovoltaic solar plants and one hydroelectric plant. Contador Hydroelectric Plant output varies seasonally with rainfall. Solar energy remains a small but growing component, supported by international development partners. To overcome this generation gap, the GoSTP has signed contracts for the construction of an 11 MW photovoltaic plant by Scatec at the Água Casada site in São Tomé Island and a 4MW plus storage plant in Príncipe Island. In addition, the GoSTP has acquired 6 diesel gensets with a total capacity of 5MW.

9. The sector faces challenges across administrative, financial, legal, and technical areas, as outlined below:

- **High Production Costs:** Electricity production is predominantly diesel-fired thermal, which results in high production costs (U$ 0.30/kWh). This results in the country incurring significant debt from diesel purchases and generator maintenance.
- **Supply-Demand Imbalance:** Due to the high cost of diesel and inadequate generator capacity maintenance, production capacity is often limited. This, in turn, leads to a supply-demand imbalance that is resolved either through load shedding or results in blackouts. Additionally, occasional blackouts occur, typically caused by loss of large generating units or transmission lines, thereby compromising its resilience.
- **Inadequate Network Structure:** The lack of a clear distinction between transmission and distribution networks complicates the implementation of a coherent, effective electrical protection plan. As a result, faults are not isolated at their point of occurrence, propagating to the source and disrupting the system, leading to significant reductions in service quality. The capacity of the existing transmission system is severely limited, partly due to inadequate reactive power at the major load centres and transmission constraints.

- **Losses:** High losses within the system are due to both technical and non-technical (34%) factors, reducing the grid's overall efficiency. This impacts electricity costs, as the level of losses is factored into the determination of retail tariffs. However, the efforts made by EMAE and the Government to reduce these losses through strategically designed policies have been effective, though further progressive improvements are still needed.
- **Technical Capacity Constraints:** There is a need for more technical expertise in planning, operations, and maintenance of the system, as well as gender balance in the energy sector. Challenges in succession planning and staff retention negatively impact knowledge management and skills development, thereby affecting the overall development and stability of the grid.

10. São Tomé and Príncipe joined the Mission 300 initiative alongside other African countries by approving a National Energy Compact at the Bloomberg Global Philanthropy Forum in September 2025. The National Energy Compact covers the period 2025–2030 and was developed to guide reforms, public spending, and investment to expand access to clean, reliable electricity in line with Mission 300's goals. Specifically, São Tomé and Príncipe has an ambition to attain universal electrification by 2030, and to achieve 50% renewable energy in the energy mix. The energy compact embraces a holistic and integrated approach, organised into four primary pillars:

i. Achieving universal access to electricity and clean cooking
ii. Expanding clean energy infrastructure and reducing costs
iii. Ensuring the financial sustainability of the sector and enhancing the operational performance of utilities
iv. Unlocking private investment and strengthening institutions

11. The National Energy Compact was developed through extensive engagement and consultation with various stakeholders, including development partners, the private sector, and civil society, to foster partnerships crucial to achieving the Compact's ambitious goals. The GoSTP is currently engaging development partners to mobilise USD 297 million to implement the Compact and attract additional investment in the power sector, while increasing the share of renewable energy in the energy mix, thereby improving the reliability and sustainability of the national energy supply.

12. The potential for renewable energy in STP is practically limited to small hydropower and solar photovoltaics. The GoSTP could replace all thermal power plants and provide universal electricity access to the population of STP through renewable resources.

13. The energy sector in São Tomé and Príncipe is governed by the Ministry of Infrastructure and Natural Resources (MIRN), through the Directorate General of Natural Resources and Energy (DGRNE), which guides sector policy. DGRNE, as a service of MIRN, implements policy for natural resources (Water, Minerals, and Energy). Additionally, DGRNE/DE, as the technical institution representing the granting authority, is the body responsible for approving investment plans and sector projects, including those of EMAE. EMAE is the public company, future concessionaire, responsible for providing public services related to the production, transportation, distribution, and commercialisation of electricity across the entire national territory. EMAE, under the technical supervision of MIRN and the financial oversight of MEEF, enjoys administrative, financial, and patrimonial autonomy.

14. The Regulator, *Autoridade Geral de Regulação de São Tomé e Príncipe* (AGER), is responsible for overseeing the electricity, water, telecommunications, and postal sectors in the country. The Legal Framework of the Electricity Sector, established by Decree-Law No. 26/2014, serves as the foundation for regulating the energy sector in the country. *Empresa Nacional de Combustíveis e Óleos* (ENCO) is the country's National Oil and Gas Utility. It is

the only fuel supplier, which is 7 per cent owned by the Angolan oil company SONANGOL and 26 percent owned by the GoSTP.

15. There are other supporting institutions/committees such as: (i) the Coordinating Committee of the Electricity Sector Transformation Program (CCPTSE) and the Technical Group supporting the Electricity Sector Transformation Program (GTPTSE), which provide technical expertise to the Government in the implementation of the Electricity Sector Transformation Program; (ii) *Agência Nacional do Petróleo* (ANP) is the public regulatory and promotion body for petroleum and gas activities in the country and (iv) *Agência Fiduciária de Administração de Projectos* (AFAP): agency established for project fiduciary management.

C. Rationale for Fund's Involvement

16. The energy transition objectives focus on increasing renewable energy penetration to around 50% in the medium term, expanding solar PV and battery storage, rehabilitating hydropower plants, reducing technical losses, improving grid stability, strengthening institutional capacity, and lowering dependence on imported fossil fuels to enhance energy security and affordability. The proposed ETREEP project is built around 3 components that respond to the government's plans, namely: 1) Energy Transition and Efficiency; 2) Expansion, Access and Grid and System Stability; and 3) Institutional Capacity Development and Project Management.

17. The project will support the government's efforts to achieve its primary goal under the energy compact: a 100 per cent electricity access rate by 2030, achieved by adding 2,000 new connections and diversifying the energy mix by increasing the renewable energy contribution to 50 per cent. On the other hand, the project will support and contribute to reducing electricity generation costs and the need for subsidies by integrating more renewable energy and improving the operational performance and efficiency of the public utility EMAE. The project will also facilitate renewable energy scale-up by deploying common infrastructure, thereby reducing the need for carbon-intensive thermal power generation and contributing to sustainable energy provision. Likewise, investing in network reliability and expanding access in STP, and providing technical assistance to improve the performance of key electricity sector institutions, will contribute to achieving SDG7, which aims to ensure access to affordable, reliable, sustainable, and modern energy for all. Furthermore, investments to expand electricity access and improve service reliability through the installation of prepaid metres will enhance EMAE's financial sustainability by reducing non-technical losses and increasing collection rates.

18. The ETREEP project benefits from synergies with the ongoing Fund investments in the country, namely the Energy Transition and Institutional Support Project (ETISP) and, crucially, the PBO. Under ETISP, the results include the construction of a 1.3 MW solar power plant, which increased the country's contribution to the energy matrix from renewable sources. Additionally, the project supports the installation of rooftop solar systems on government buildings (Central Bank and Immigration services) and the design of the country's green energy acceleration plan. From the PBO, the Fund supported the following policy measures: the development and approval of the energy and water utility (EMAE) Turnaround Strategy; a new tariff methodology for determining cost-recovery electricity tariffs; and an Arrears Clearance Plan for non-public sector customers. Additionally, the country approved its NDC Action Plan (2022-2030), Renewable Energy Roadmap, and Green Energy Acceleration Plan to facilitate private-sector investment in solar PV projects. ETREEP seeks to add renewable generation to the current energy matrix, invest more in grid stability, upgrade the low voltage (LV) networks, and the national control centre.

D. Development Partners Coordination

19. The Fund and development partners are supporting GoSTP's efforts to achieve its development objective of providing access to reliable electricity. The main players in the sector are the UNDP, the WB, the EIB, and the EU. The Fund supported the establishment of the Energy Sector Working Group (ESWG), which will provide a simple and effective way to ensure complementarity, harmonisation, coordination, and avoid duplication of efforts. The ESWG will support the GoSTP in coordinating and implementing reforms to improve the performance of EMAE and the sector. The small number of Development Partners (DPs) operating in the sector facilitates frequent information exchange and coordination. The Fund has a parallel financing arrangement with UNDP for the ongoing development of the Santo Amaro solar power station (1.5MW). For the ETREEP project, the Fund will partner with the World Bank through parallel financing.

2 PROJECT DESCRIPTION

A. Project Development Objective

20. The project aims to expand renewable energy, strengthen grid infrastructure, and promote low-carbon growth, through the integration of new RE capacity, strengthened distribution infrastructure, improved service reliability/quality by installing prepaid meters and upgrade the LV lines which will reduce losses and increase sector efficiency.

B. Theory of Change

21. The energy sector faces significant challenges and has a significant impact on the fiscal deficit due to its dependence on fossil fuels for electricity generation. Major challenges, including a poor legal framework, limited land available for solar plants, and outdated energy infrastructure, hamper the development of renewable energy generation. To address these challenges, in the short term, a new photovoltaic (PV) power plant with a battery energy storage system (BESS) will be built, LV lines will be upgraded and rehabilitated, the control centre will be upgraded and modernised, prepaid meters will be installed, and energy will be saved through the installation of more efficient lamps. In the long term, all these actions will lead to the following impacts: (i) increased renewable energy (RE) production and share in the energy mix, (ii) reduced energy losses leading to improved quality and consistency of energy service, (iii) increased revenue collection contributing to improved financial sustainability of the EMAE, and (iv) and increased street security for pedestrians and vehicles (energy saved from street illumination). Ultimately, the project will contribute to lower environmental pollution in the country, higher economic activity and lower strain on the government budget. The primary beneficiaries of the power to be supplied are the local households, communities, and local businesses, especially in the tourism and agro-processing industries, who stand to benefit from the government’s universal electricity access objective. These results are premised on the assumptions that the investment in RE projects is realised, the households can afford to pay for electricity services, technical and operational losses are addressed, electricity infrastructure is adequately maintained, and the Government implements the required reforms to support new RE generation.

C. Project Components

22. The program has 3 components distributed as follows:

Component 1: Energy Transition and Efficiency

- **Subcomponent 1.1:** Construction of 4 MWp PV plant and installation of 2 MWh BESS: The installation of the PV plant and BESS in Principe Island will increase the renewable energy in the country's energy mix by 10%.
- **Subcomponent 1.2** Supply and Installation of 1,000 LED streetlights: Existing incandescent streetlights will be replaced by LED, using the existing poles.

Component 2: Expansion, Access and Grid and System Stability

- **Subcomponent 2.1:** Upgrade and rehabilitation of LV networks on Principe Island: This activity will facilitate the installation of prepayment meters to be financed by the Fund.
- **Subcomponent 2.2:** Modernise the Dispatch Centre: This activity consists of providing new hardware and software to EMAE to enable the management of all generation and distribution assets, including substations. This will enable the injection of additional oscillating renewable energy currently being financed by other DPs.
- **Subcomponent 2.3:** Supply and installation of 40,000 prepaid meters and other related equipment, such as connection boxes, circuit breakers, and others: this activity aims to reduce REMAE's commercial losses, which are above 30%.

Component 3: Institutional Capacity Development and Project Management, Technical Assistance

- **Subcomponent 3.1**: Project Supervising Firm: The project will contract one supervising engineering firm for the entire project, as the activities are related.
- **Subcomponent 3.2**: Financial Auditor: a financial auditing firm is intended to be hired to review the project accounts throughout the project's implementation period to ensure accountability, value for money, and transparency.
- **Subcomponent 3.3**: Environmental Auditor: an environmental auditing consultant will be hired to ensure the project complies with all environmental and social standards and mitigates risks to avoid negative impacts on the environment.
- **Subcomponent 3.4**: Training & workshop: This subcomponent will enable EMAE and other sector departments and entities to receive training to enhance their technical skills and capabilities (including training of local technicians in maintenance to ensure system longevity and resilience).
- **Subcomponents 3.5:** IT and Communication equipment: acquisition of IT and communication equipment for the project and other institutions in the sector.
- **Subcomponents 3.6:** Vehicle: acquisition of a vehicle for MIRN to support monitoring of the projects (Inspection Department).
- **Subcomponents 3.7**: Project Management/PIU Salaries: the project will use the current Project Implementation Unit (PIU) under the ETISP project which will be composed of a Project Coordinator, Procurement Specialist, Financial Management (FM) Specialist, Accountant, Environmental and Social Specialist, Gender Specialist, Monitoring and Evaluation, PCR consultant, Communication Specialist, Technical Specialist, and 2 to 3 junior assistants for specific areas such as, but not limited to M&E, procurement, FM and engineering. These teams and MIRN will be supported by a supervising firm, which will oversee all work under the project.
- **Subcomponents 3.8:** Consulting Services : under this subcomponent, the project will provide funds to carry out technical, ESIA and feasibility studies, including RAP for potential future hydro projects in the country, namely, Io Grande, Bombain, Santa Luzia and Abade, and LV lines.
- **Subcomponents 3.9:** Operational Costs: this subcomponent will cover additional space for the Project team, fuels, printing, including supplies, office equipment and materials, traveling, per diem for project monitoring by MIRN/EMAE and the PIU

team, translations, port and airport taxes, and other cost relevant for the successful implementation of the project.

D. Project Cost and Financing Arrangements

23. The total cost for the project is UA 22.09 million (USD 30 million), which will be financed as follows: UA 14 million ADF16 PBA allocation and UA 4 million TSF Pillar I in the form of grants, and a grant from the WB in the amount of UA 3.68 million, which was approved in September 2025. The GoSTP contribution will be in kind, valued at UA 0.41 million. This project is part of a wide program by the GoSTP, and the Fund has selected these activities for financing in coordination with the GoSTP.

E Project'sTarget Area and Population Beneficiaries and other Stakeholders

24. SãoToméandPríncipeconsistsoftwo mainislands,SãoToméandPríncipe,with a total population of209,607. The entire identification process wasconductedinconsultation with the relevant authorities (MIRN, EMAR, MINFIN) and the Energy Sector Working Group

(ESWG), which comprised, but was not limited to, WB, EU, UNDP, and the UN System. The project aims to impact 50,000 households directly.

F. Bank Group Experience and Lessons Reflected in Design

25. The Bank Group's interventions in power, agriculture, and public finance management have been essential to supporting the strengthening of key institutions, the rehabilitation of important infrastructure, and investments. The IDEV 10-year Country Strategy and Program Evaluation (CSPE) report emphasises the project's sustainability, monitoring and evaluation, and the need to continue strengthening the Bank Group's positioning in agriculture and infrastructure development. A key lesson learned from the 2018-23 CSP extension is that resources allocated to STP are insufficient to meet the country's high development needs and are essential to supplement limited ADF resources.

26. The current portfolio comprises 5 operations, including one energy project. Main issues and lessons learned affecting portfolio performance are related to: (i) unavailability of counterpart funds, (ii) quality of submitted applications leading to delays in processing and (iii) quality at the entry linked to the availability and quality of studies and technical designs.

27. These issues and lessons have been considered in the context of the design of this project through the following measures: i) unavailability of counterpart funds: the Fund will pay 100% of the project costs including duties and taxes through a waiver for counterpart funding to respond to the economic context of the country in line with the Bank Group's Policy on Eligible Expenditures (appendix 1 elaborates the justification as per policy); ii) quality of submitted applications leading to delays in processing: the Fund has provided additional training to the PIU and Government entities in areas such as procurement, FM and safeguards issues; iii) quality at the entry linked to the availability and quality of studies and technical designs: all studies were prepared before project design and advance contracting used to allow fast disbursement. To reduce costs, the project will package several related activities to attract more competition during the tender process. Apart from these, the project will also emphasise capacity building and institutional strengthening for long-term sustainability, including the engagement of young professionals and technicians for on-the-job skills development.

28. The design of the project also considered the main lessons from ETISP, namely difficulties in procurement and costs resulting from the country's insularity; the time-consuming nature of many procurement processes; a gender-blind approach in project implementation; and unclear PIU, EMAE, and Government decision-making processes.

29. Experience has shown that involving decision-making leaders enables the project to progress satisfactorily. Therefore, for project implementation and monitoring, a project steering committee will be created under the direct management of the Minister of MIRN, comprising other Ministries to be invited at the discretion of the MIRN Minister, donors, EMAE, AGER, PIU, and DGRNE.

3 PROJECT FEASIBILITY

A. Financial and Economic Analysis

30. The analysis is based on preliminary assumptions derived from the energy sector review of São Tomé and Príncipe. The analysis shows that the project is financially viable, as it will generate sufficient incremental cash flows to recover the project's financial costs (capital and recurrent). The financial analysis results indicate that the project will yield a Financial Internal Rate of Return (FIRR) of 5.23% and will contribute a net benefit of USD 10.02 million in Net Present Value (NPV) to the Utility's cash flows, discounted at 2.06%. The project's financial

viability is enhanced by the significantly low financing costs from the ADF concession resources.

31. The project's economic analysis was carried out to determine the net economic benefits of investing in a PV plant and a BESS (Battery Energy Storage System), a network upgrade, and prepaid meters. The results from the economic analysis provide an economic internal rate of return ("EIRR") of 13.53%. Overall, from the country's perspective, the project is expected to generate an economic NPV of USD 3.66 million (discounted at 11%), inclusive of Greenhouse Gas ("GHG") emissions avoided.

Table 5: Key economic and financial figures (for cost-benefit analysis)

FIRR	5.23%
FNPV (2%)	USD 10.02 million
EIRR	13.53%
ENPV, (11%)	USD 3.66 million

32. A sensitivity analysis is conducted to assess the impact of changes in model assumptions deemed risky and potentially adverse to the project's financial and economic sustainability. In Solar PV projects, the amount of available irradiation is likely to impact the project significantly. Similarly, investment cost overruns are likely to affect the project's viability. The result of the sensitivity analysis has been summarised below.

Additional Positive Effects

33. Improved adequacy and reliability of power supply from the project will result in additional non-financial benefits: (i) longer hours of light in households means school-going children will have adequate time to do homework and consequently do better at school (ii) reduced health risks: besides being a fire hazard, kerosene lamps emit toxic fumes including carbon monoxide and other fine particulates cause eye strains and chest infections that could lead to asthma and cancer; (iii) reduced crime rates and road accidents, as well as increased productivity arising from street lighting (vii) reliable electricity services will ensure sustainability of Government interventions in other social sectors such as provision of quality health services in rural health facilities, markets, street lighting, etc.; and (viii) the additional concessional co-financing resources will help the Government to achieve the project objective at the lowest financing cost and, therefore, help maintain retail tariffs at affordable levels for the beneficiary communities.

B. Environmental and Social Safeguards

Environmental

34. Categorisation - The Project was classified and validated as Category 2 in SAP and in ISTS on 3 December 2024, and this classification is in line with the São Tomé Decree No. 37/1999 of 30 November, which regulates the Environmental Impact Assessment Process and the Bank Group Integrated Safeguards System. The targeted activities primarily involve installing a 4MW BESS (Battery Energy Storage System) on Príncipe Island. The categorisation is justified by the fact that the project activities are likely to generate environmental and social risks and impacts that are site-specific, reversible, short-term and can be effectively managed through implementation of mitigation hierarchy measures.

35. Required Documents and Disclosure - The Client must prepare one Environmental and Social Impact Assessment (ESIA) and a Stakeholder Engagement Plan (SEP) that includes a Grievance Redress Mechanism. The client has prepared the ESIA and SEP, including the GRM, which has been reviewed and cleared by the Fund. Both documents were disclosed by the client on 12 and 16 January 2026, and by the Fund on 27 January 2026. The client prepared an Environmental and Social Management Plan mandatorily annexed to the Financing Agreement (ESMP-FA) and fill a Self-Assessment Form for risks associated with Child Labour, Forced Labour, Modern Slavery and GBV/SEAH in the Global Supply Chain that has been reviewed and cleared by the Fund in November 2025. The ESMP-FA was disclosed by the client on 22 January 2026, and by the Bank on 27 January 2026.

36. Environmental and Social Risks - As a Category 2 project, it may lead to moderately significant environmental and social risks and impacts, such as: loss of vegetation; soil destabilisation and erosion due to excavation work; road traffic incidents and safety during the transport of equipment, and materials; noise and vibration; dust emissions and air pollution due to excavation,; occupational health and safety issues including workplace injuries, labour and working conditions, exposure to electric and magnetic fields, thermal runaway and chemical leakage. Socially, although no physical resettlement is anticipated, the concentration of non-local workers also poses a potential risk of gender-based violence, sexual abuse and harassment related to the construction activities. Glare from sunlight reflected off PV panel modules is also a potential concern for community and worker safety, which could, in turn, affect nearby receptors.

37. Environmental and Social Impacts -. During the construction phase, the Project is expected to generate negative impacts during construction including increased impacts to current emissions of 29.92 kt CO_2eq, significant increased noise levels of 11dBA. In addition, vegetation clearance for the installation of PV modules, access roads, and the overhead transmission line will result in the localized permanent and direct loss of about 2,82 ha of flora.

38. Mitigation Measures - The primary mitigation measures addressing risks and impacts across the project's biological, physical, socio-economic, and health and safety components have been incorporated into the environmental and social management plans and programmes developed as part of the project's cleared Environmental and Social Impact Assessment (ESIA).

39. To mitigate construction phase impacts, the project will implement E&S plans that include a tailored Health, Safety, and Environment (HSE) plan to address workplace hazards, ensure proper sanitation, and reduce workers' disease; An Emergency Response Plan (ERP) is included to address potential incidents and accidents, along with procedures for investigation and corrective action. Environmental measures include minimising dust and particulate matter emissions from temporary and permanent sources; minimising noise emissions during land clearing, excavation, and vehicle and machinery movements; avoiding excavation during heavy rain and installing temporary drainage systems; developing and implementing a waste

and hazardous materials management plan that includes segregating waste (recyclable, hazardous, landfill); minimising vegetation clearance and delineating clearance areas, without encroaching into the Azeitona Forest; and developing a conservation and transplantation procedure for endemic and threatened species.

40. During the Operation Phase, key mitigation measures include maintaining secure storage for hazardous waste, returning to the supplier for recycle damage and end-of-life PV panels and batteries; minimising major vegetation clearing activities during the dry season (June to August); fencing the PV and BESS site to ensure that unauthorised people do not enter; developing and implementing an Occupational, Health and Safety Management Plan in providing PPE and first aid; maintain grievance mechanism and holding regular consultations. These actions are detailed in the approved Environmental and Social Management Plan (ESMP).

41. Additional capacity-building will be implemented for workers, especially regarding HSE activities throughout the project cycle. To prevent conflicts, ensure inclusivity, and avoid inequalities, a standalone SEP has been developed that shall provide transparent communication and a grievance redress mechanism. The estimated cost to implement and monitor environmental and social risk mitigation measures, including stakeholder engagement and grievance redress mechanisms, is UA 60,000.

42. Capacity to Implement Environmental and Social Mitigation Measures - The Executing Agency (EA) has been formally established under the Energy Transition and Institutional Support Programme (ETISP), with the Ministry of Public Works, Infrastructure, and Natural Resources (MIRN) designated as the Executing Agency. MIRN provides strategic oversight and technical coordination for the program. The PIU comprises a team of national consultants and specialists, including a Project Coordinator, a Financial Management Specialist, an Environmental and Social Safeguards Specialist, a Gender Equality Advisor, and a Procurement Specialist. This structure reflects a growing institutional capacity to manage the ESMP defined for the Project. EA has sufficient experience in managing Bank-funded operations, including familiarity with the Bank Group's ISS requirements. To ensure effective implementation, monitoring, and sustainability of the Project, targeted capacity building for the Project Implementation Unit (PIU) is essential. This component will aim to strengthen institutional capabilities, enhance technical competencies, and ensure alignment with international environmental and social standards. The capacity-building activities shall include needs assessment, institutional capacity strengthening, training and knowledge transfer, partnership, and monitoring.

43. Applicable Environmental and Social safeguards instruments and their readiness: The client has prepared and disclosed one ESIA, cleared by the Fund but not yet disclosed in-country or by the Fund, and has committed to fully implementing all related environmental and social plans, including measures for unforeseen risks. Quarterly E&S performance reports and annual independent audits will be submitted and shared with both the Fund and stakeholders. A project-level Grievance Redress Mechanism (GRM) included in the SEP will be established at the start of implementation, made known to the stakeholders, and maintained functional over the lifecycle of the project. In the event of an Environmental-Occupational-Health and Safety (EOHS) incident, the client must notify the Fund within 48 hours, provide relevant investigation reports, and, if required, submit a root-cause analysis and implement a corrective action plan. These commitments are embedded in the financing agreement and its Annexed ESMP. On that basis, the project is compliant and ready for submission to Board consideration, as evidenced by the ESCON annexed.

Involuntary Resettlement

44. No physical resettlement or economic displacement is expected to occur during the implementation of the project.

Climate Change and Green Growth

45. São Tomé & Principe is the 28th most vulnerable country and the 95th (of 187) most ready country (ND-GAIN Index, assessment for 20225). Climate change is manifesting through the accelerating pace of sea-level rise, causing severe coastal degradation and salinisation; increased incidence of flash floods; decreased rainfall and consequent reductions in river flows; more intense extreme weather events; and a highly variable climate. Adverse effects of climate change impact the energy sector and public/private infrastructure more broadly; for example, the state of calamity declared in December 2021 after severe flooding, which damaged infrastructure and disrupted the normal functioning of socio-economic activities (NDC 3.0, 2025).

46. The project is identified as climate risk category 2 (moderately vulnerable to physical climate risk) requiring demonstration of climate-informed project design. Measures will be implemented to reduce exposure of infrastructure to extreme weather events (e.g. infrastructure citing, elevation of electrical equipment, installation of reinforced panels and mounts, and flood management measures). Regarding GHG mitigation potential, the project promotes cleaner electricity through combined "Base case + solar/BESS system"; the diversification of the energy mix has the added co-benefit of enhancing overall resilience of the energy system (dominated by diesel with a small, growing contribution from hydropower); CO2 Emissions average over the Operation period [tons/a] estimated as 1,761.02. In the NDC 3.0 (2025), STP has stressed the need to climate-proof infrastructure and specified commitments to reduce greenhouse gas emissions in the energy sector by increasing renewable energy generation, reducing grid losses and improving energy efficiency. The project is aligned with the objectives of the Banks Climate Change Policy Framework (2021-2030) and it is Paris Aligned (in conformity with the MDB Joint Methodologies for PA of Direct Investment Operations).

C. Other Cross-cutting Priorities

Poverty reduction, Inclusiveness and Job Creation

47. STP still faces food insecurity and poverty (between 2018 and 2025 35 % of the population lived on less than $1.90 per day and the prevalence of undernourishment was worryingly high ranging from 14.7% to 11.9%). The national food production system, primarily consisting of smallholder agriculture, is considered fragile due to limited market access and profitability caused by poor infrastructure, limited public investment, and poor coordination. The technologies implemented, along with skills promotion and capacity building at the community and national levels through the country's extension services, will enhance food production.

Youth Jobs and Skills Considerations

48. According to the Bank Country Focus Report (2024), STP faces human capital development challenges in the areas of education, skills, and employment. According to the 2021/2022 UN HDR, the country ranked 119th out of 166 countries with a score of 62.7 out of 100. STP had made progress in increasing primary school enrolment, which reached 107% in 2017, slightly above the world average of 103.4% among 147 countries. The literacy rate also improved to 90.1% in 2022. Although the share of public spending on education continues to increase, rising from 17.5% of the national budget in 2022 to 18.6% in 2023, the quality and relevance of education remain low, and many students drop out before completing secondary

education. As a result, large segments of the population are unskilled. According to the AFDB Africa Economic Outlook Report (2024), the multidimensional poverty rate fell from 40.7% in 2008 to 11.7% in 2019. The national unemployment rate rose to 15.7% in 2022 from 8.9% in 2017, with women (14.6%) and youth ages 15–24 (21.3%) being the most affected. STP faces challenges in the areas of education, skills and employment. According to the UN Human Development Report (HDR) 2019, the multidimensional poverty rate fell from 40.7% in 2008 to 11.7% in 2019, due to better performance in child mortality, school attendance, sanitation, electricity, and housing access. Most of the population is engaged in low-skilled self-employment and informal activities, failing to create quality jobs that could alleviate poverty. The UNICEF Annual report (2024) for STP indicates that unemployment (8.9 per cent is significantly higher among women and youth as 61 per cent of the population is under 25. data underlined an increase in completion rate, reaching 97 per cent in primary education, 91 per cent in lower secondary education and 57 per cent in upper secondary education, with higher completion rates among girls at all levels (SDG-4, SDG-5). TVET in São Tomé and Príncipe is still at an early stage of development, with ongoing efforts toward establishing a National Qualifications Framework (NQF) and strengthening certification systems.

49. The operation aligns with Bank Group's TYS (2024-2033) by investing in youth, through entrepreneurship and job creation, with an emphasis on the role of the private sector. Institutionalising skills development and job creation as a corporate priority by incorporating specific youth indicators into the Results Management Framework. The Jobs for Youth Strategy (2016-2025) takes an ecosystem approach, addressing the full range of youth employment challenges. The Fund will use three strategic intervention areas: Integration, Innovation, and Investment. The Project has accrued benefits for youth and is Category 4 in the Youth, Jobs and Skills Marker, which was approved by the Board of Directors in 2024. The population of STP is youthful, with a median age of 19, and nearly 79% of the population is below 35 years of age. The overall benefits of the ETREEP project will therefore accrue mostly to young people through access to reliable energy sources at home, schools and health facilities. The project will provide additional benefits to youth through employment opportunities during the construction and installation phase, thereby helping reduce current youth unemployment (22.6%). The ETREEP project will also support opportunities for youth skills development, especially in green skills, and will help develop a green skills strategy within the TVET curriculum. STP has a high youth not in education, employment or training (NEET) rate of 30%. Short courses on areas such as solar and electrical installation can support the quick integration of youth into the labour market. Affordable, reliable electricity can support youth-led businesses such as cyber shops, digital jobs, barber shops, salons, eateries, and the like.

50. **YJSMS categorisation**: The project category is 4 based on the criteria on a scale of 1-4. The RMF has no Objective, no outcomes or outputs that consider Youth, and no skills. with potential to improve to category 3 during implementation through integration of youth, jobs and skills.

51. **Economic Opportunities and Inclusiveness**: The project can support downstream economic activities for MSMEs and youth-owned businesses. Lighting provides opportunities for education and household productivity. Technical skills training for staff provides another pathway for transferring solar energy skills and knowledge to youth in the community.

52. **Job creation and Green Jobs**: The Executing Agency workforce is almost 80% in the 15–35-year age range. In the PCN, the youth graduates' job shadowing is considered for a Firm contracted to implement the project. A clear budget needs to be allocated for this under the Firm contract. At the PCN stage, the project did not assess the creation of green jobs; however, during implementation, the contractor may allocate roles to local personnel in renewable energy, such as solar panel installers on Principe Island.

53. **M&E Tracking**: The project will track the percentage of staff aged 15–35 years involved in the installation of street lighting and prepaid meters. The Results Monitoring Framework (RMF) should include indicators on direct employment, disaggregated by sex and youth (15–35 years), to monitor the number of direct jobs created or whose quality has improved.. For data collection on youth employment, EMAE can utilize existing personnel databases to identify staff within the 15–35 age group participating in installation activities. During project implementation, EMAE will compile and maintain a list of staff assigned to installation tasks, allowing the project to calculate the percentage of youth within the workforce engaged in these activities.

54. **Youth Jobs Skills Action** Plan: The YJSMS Action Plan is attached in Annexes to the PAR reflecting the categorisation, sector issues and recommendations for project implementation on Youth, Jobs and Skills.

Opportunities for Building Resilience

55. São Tomé and Príncipe (STP) faces deep structural vulnerabilities, including an undiversified economy, geographic isolation, high climate exposure, and limited human and institutional capacity. Principe Island faces even greater constraints due to "double insularity," characterised by extreme isolation, scarce resources, high production and trade costs, and restricted access to services and economic opportunities. These factors heighten dependence on external aid and hinder private-sector growth, infrastructure development, and tourism potential. STP's energy challenges are compounded by ageing infrastructure and a heavy reliance on imported diesel, with the national utility (EMAE) facing high operational costs due to outdated transmission and distribution systems. Because hydroelectric and fossil-fuel power remain inadequate and costly, many households and small industries continue to depend on firewood and charcoal, contributing to an ongoing energy crisis since 2019. Frequent power outages, estimated at 3 to 4 hours daily, even in health facilities, undermine service delivery, affecting diagnostics, vaccine cold chains, and surgical services. Heavy use of solid fuels also drives indoor air pollution, the third leading cause of death and disability in 2019. Expanding renewable and clean energy is therefore essential to improving health outcomes, ensuring reliable electricity, and reducing pollution-related diseases.

56. In this context, the ETREEP project is timely and highly relevant, as improved electrification will help reduce fragility, support critical energy infrastructure, and strengthen Principe's integration with the rest of the country in line with the Bank Group's Strategy for Addressing Fragility and Building Resilience in Africa (2022–2026). The project will significantly enhance resilience in São Tomé and Príncipe by improving access to reliable electricity, thereby stimulating inclusive economic growth, supporting human development, and strengthening the enabling environment for private-sector and SME expansion. An enhanced power supply will reduce reliance on external aid, lower production costs, and promote investment, while also improving education, health, security, and the overall quality of life. The project will deepen Principe's integration with São Tomé and the wider region, boost trade and tourism, and enhance institutional capacity within the energy sector through technical support, governance improvements, and preparation for future hydropower projects. Collectively, these interventions will enable economic, social, and institutional resilience, thereby supporting a sustainable, self-sufficient energy future for the islands.

São Tomé and Príncipe Fragility and Resilience Box: Challenges and Weaknesses

High levels of youth unemployment: Vulnerability to climate change: Ageing and inadequate maintenance of energy and water infrastructure Unsustainable energy mix, heavily skewed to thermal generation through imported fuel, weighs on the fiscus and the balance of payment and does not exploit hydro and solar potential. Limited economic diversification and a small domestic market Weak business environment

Gender Equality and Women's Empowerment Promotion

57. This project has been categorised as a Category 2 under the gender marker system, because its outcomes and outputs positively impact gender and end poverty, significantly improve the quality of life of women and provide better access to health, education, water, and sanitation services. The primary beneficiaries of the power to be supplied are local households, communities, and local businesses, especially in the tourism and agro-processing industries, and this will increase job opportunities for women, reducing the time spent on domestic chores and traditional processing activities.

58. Gender gaps in STP related to energy access include women's household energy burdens; limited participation and employment opportunities in the energy sector; poor education and employment skills in the energy sector and STEM; and lack of access to finance, which is crucial for adopting improved cooking technologies and starting energy-related businesses. In Principe Island, women's demand for fuel wood and charcoal contributes significantly to air pollution and greenhouse gas emissions. Poor lighting in public institutions undermines education levels and skills and increases the risk of child mortality, whilst poor street lighting heightens the chances of GBV and sexual assault.

59. Through the modernisation of equipment, solar plant interventions, new meters, and public lighting, ETREEP will address the energy gaps faced by women, including (i) temporary job creation opportunities during the construction of a new PV plant and the upgrade and rehabilitation of the network on Príncipe Island, which will create opportunities for women and youth, boys and girls; (ii) access to better-quality, clean energy for the most vulnerable households, including women-headed households, through the installation of prepayment meters; (iii) a reduction in incidents of crime, harassment, and insecurity that tend to affect more women and youth through modern, robust street-lighting systems that enhance lighting; (iv) strengthened capacity of public institutions in health, education, water and sanitation, and commerce to provide better energy services to women and children, with increased outreach by providing services after daylight; (iv) implementation of business ideas by women and youth, as well as agro-processing and small industrial activities, which contribute to indirect job creation; (v) better access to energy at household levels to reduce women's long hours of unpaid work and demand for fuel wood and charcoal. ETREEP contributes to solid capacity building for EMAE, which will include a Social and Gender specialist to support the sector's work on sex-disaggregated data for project activities, gender mainstreaming in the ESIA, RAP, and feasibility studies, and to support the sector in advancing gender-responsive policies towards gender equality within the energy sector.

4 IMPLEMENTATION

A. Institutional and Implementation Arrangements

60. One of the key recommendations that came out from the CPPR held in August 2025, is a gradual consolidation of project implementation units (PIUs) at the sector level into a shared fiduciary unit. The portfolio's high number of PIUs relative to project size and overall volume, combined with uneven staffing quality, undermines efficiency and increases transaction costs. The PIUs should integrate cross-cutting functions such as M&E, E&S, Gender, and Fiduciary services to strengthen collaboration, enhance accountability, and improve implementation quality. Consolidation would enable joint financial audits, better coordination on cross-cutting issues, and more effective implementation of activities in Príncipe Island (UNESCO Biosphere Reserve), fostering more strategic and resilient delivery models suited to STP's context. Proposed actions have been incorporated into the new CPIP to enhance implementation efficiency and delivery, and should be implemented gradually and sequentially, considering the electoral cycle in November 2026.

61. The CPPR recommendations envisage a gradual implementation of a shared fiduciary unit under the Ministry of Economy and Finance, with transitional arrangements built into the design of new projects. The ETREEP project will start with a full PIU, leveraging the current PIU under ETISP. The MIRN will act as the Executing Agency.

62. Once the creation of a shared fiduciary unit under the Ministry of Economy and Finance is completed and a one-off capacity assessment of the established fiduciary unit is conducted by Bank, the fiduciary activities under ETREEP will be moved to that unit.

63. As interim implementation arrangements, the project will use the existing Project Implementation Unit (PIU) established under the ETISP project, which is composed of a Project Coordinator, a Procurement Specialist, a Financial Management Specialist, an Environmental and Social Specialist, and 2 junior assistants. To boost the capacity of the PIU, the project will hire a Procurement Specialist, M&E specialist, an accountant, a communication specialist, a Gender Specialist, and a Technical Specialist (engineer). This team and MIRN will be supported by a supervising firm, which will supervise all the work under the project. The PIU shall be responsible for carrying out, inter alia, the following tasks: (i) the day-to-day implementation of the Project including preparation and submission to the Fund of progress reports, financial reports, audit reports, and any other technical reports on Project activities and results; (ii) all Project related monitoring and evaluation activities including compliance with the Fund's procurement, financial management and control requirements and supervision and monitoring of consultants and contractors performance; (iii) all Project related procurement including supervision of quality assurance, disbursement, financial management, monitoring and evaluation, and environmental and social safeguards management; (iv) consultations with stakeholders and partner organizations regarding implementation of the Project; (v) facilitation of collaborations between stakeholders and the Recipient; and (vi) overall day-to-day communication with the Fund on all matters concerning Project implementation, including seeking no objections in line with the Fund's rules and procedures and providing the operational link to the Fund on matters related to implementation of the Project .

64. A Project Steering Committee (PSC) will be set up to provide overall policy guidance and strategic direction for the Project, ensure engagement, commitment, synergy, and harmonization in Project implementation amongst participating stakeholders, and review and approve annual work plans and budgets throughout the Project implementation period. The PSC will meet at least every quarter, either in person or virtually, and will comprise Director level representatives from MIRN (to serve as PSC chair), Ministries of Finance, Environment, EMAE, AGER, DGRNE and other strategic partners/stakeholders invited at the discretion of the MIRN as necessary. The Project Coordinator will be the secretary of the PSC. Subject to

the aforesaid, MIRN shall regulate the activities of the PSC in accordance with the PSC Terms of Reference acceptable to the Fund, including with regards to meeting procedures, adjournment processes, and determining the form and notice period for meetings (or proxy appointments), the means of giving that notice, and quorum requirement for meeting.

B. Procurement

65. Procurement of goods, works, and consulting services will be carried out in accordance with the "Procurement Framework for Operations Financed by the Bank Group", October 2015 edition, and the provisions of the Financing Agreement. Detailed procurement arrangements have been defined and agreed upon in the technical Annexe. As part of interim implementation arrangements, procurement will be undertaken through the existing PIU established under the ETISP, and the Project Executing Agency (EA) will be the Ministry of Infrastructure and Natural Resources (MIRN). Once the creation of a shared fiduciary unit under the Ministry of Economy and Finance is completed, the fiduciary activities under ETREEP will be moved to that unit and Ministry of Economy and Finance will become the Executing Agency. A detailed assessment shows that the MIRN lacks the capacity to effectively handle project procurement activities due to insufficient familiarity with Bank Group Procurement Procedures, despite the Ministry currently implementing a project funded by the AfDB. To this end, advance contracting will be done to mitigate the risk of start-up delays.

66. The Fund approved the following activities to be initiated through Advance Procurement (i) Installation of a 4 MW solar panel plant and 1.2 MW batteries on Príncipe Island; (ii) Launch of a tender for the hiring of a supervision consultant firm for the 4 MW solar panel plant and 1.2 MW batteries; (iii) Acquisition of 40,000 split electronic prepayment meters; and (iv) Acquisition of 1,000 LED streetlights; and (v) Acquisition of IT equipment;

67. The Recipient will undertake such advance contracting at their own risk, and any concurrence by the Fund with the procedures, documentation, or proposal for award(s) does not commit the Fund to provide financing of the project. The procurement under advance contracting must be carried out in accordance with the provisions in the Fund's Procurement Policy Framework.

68. The ETREEP procurement framework is characterized by a Substantial risk rating, necessitating the use of Bank Procurement Methods and Procedures (BPM) over the national system to ensure fiduciary compliance. While the project utilizes an established PIU, the recruitment of additional dedicated procurement staff will be essential to overcome institutional capacity gaps and the market limitations inherent to São Tomé and Príncipe.

69. Third Party Procurement Methods and Procedures (TPMPs): The procurement of IT and communication equipment to be implemented by the World Bank under a joint financing and will follow the World Bank’s procurement framework benefiting for the existing Mutual Reliance Agreements (MRA) signed between the African Development Bank and the World Bank.

C. Financial Management, Disbursement and Audit

70. Given the fiduciary requirements of the proposed AfDB financing, the project will use the same Project Financial Management (FM) Specialist under the ETISP project, who has the appropriate qualifications and experience, to primarily focus on project-related financial management tasks. A qualified Accountant will be hired to support the Project Financial Management (FM) Specialist to form the FM team. The project team will continue using the procedures manual developed under the ETISP project.

71. The Fund will provide comprehensive training to the executing agency and the project implementation firm on the Fund’s financial management requirements and disbursement

procedures. The roles of the Project FM Specialist and the seconded Accountant will be spelt out in detailed terms of reference, and he/she will be subjected to an annual performance evaluation to ensure that they enable the executing agency to comply with the Fund's financial management requirements.

72. The Project Implementation Unit will prepare an annual work plan and budget for the project activities under each of the specific project components. A comparison of budgeted versus actual expenditure will be done on a quarterly basis in its financial reports and the project management will take steps to address significant deviations from budgeted expenditure.

73. The project will continue to use the software acquired under ETISP project to ensure transaction processing and for the generation of financial reports. The project will purchase additional licences to continue the use of the software. The project will also be required to submit interim financial reports within 45 days following the end of each calendar quarter.

74. Furthermore, the project will recruit external auditors on a competitive basis in compliance with the relevant procurement guidelines. In accordance with the Fund's financial reporting and audit requirements, the project will prepare and submit annual audited financial statements, together with the auditor's opinion and management letter, to the Fund not later than six (6) months after the end of the financial year.

75. The project will use of the Fund's various disbursement methods including (i) Direct Payment, (ii) Special Account (SA); (iii) Reimbursement guarantee; and (iv) Reimbursement in accordance with Bank Group rules and procedures as set out in the Disbursement Handbook as applicable. The Fund will issue a Disbursement Letter, the contents of which will be discussed and agreed with the Government of São Tomé and Príncipe during negotiations.

D. Monitoring and Evaluation

76. MIRN, with the support of the PIU and EMAE, will be responsible for carrying out the monitoring and evaluation of the entire project through results-based management frameworks. High-level monitoring of energy sector performance will be conducted jointly by MIRN and the Ministry of Planning, Finance and Blue Economy (MPFEA). Quarterly project reports must be submitted by the PIU and will serve as the basis for the Fund's semi-annual Implementation Progress Reports. The project will also produce a mid-term evaluation and a Project Completion Report, in coordination with Fund's staff and using Fund tools and evaluation standards. Although preliminary assessments indicate a credible framework for results monitoring, there is room to improve monitoring and evaluation capacity at the corporate level by strengthening the approaches, methodologies and practices used. This will be supported and mitigated through the services of a supervision consultant, who will be contracted to work with MIRN, PIU and EMAE.

77. Besides this, auditing processes (financial and environmental) will be carried out to make sure that the information provided by the PIU conforms to Fund's requirements. The Fund at its own discretion will also deploy missions to follow up on the project implementation and verify the outputs report by both MIRN and the PIU.

E. Governance

78. MIRN is the public ministry responsible for infrastructure investment which includes, Electricity, Waters, Ports and Airports. For the implementation of ETREEP and to mitigate the risks related to the EA (MIRN), the project will use the current PIU composed by people with experience in managing multilateral financing investments, and this PIU will be based at the MIRN. Complementary skills to facilitate capacity building within the team will be required from consulting firms, namely the supervisor consulting firm and the financial and

environmental firms, which will be hired under the project to enhance project and internal controls and ensure effective monitoring of the utilisation of project resources.

F. Sustainability

79. The Government and EMAE buy in of the project is critical for its sustainability. All relevant entities were involved during the project identification, design and preparation. The creation of PSC by the GoSTP, led by the Minister of Infrastructure and Natural Resources, underscores the project's importance to the country and will enable close monitoring, including by involving other government ministries/entities outside the energy sector (project ownership). This will play a critical role in avoiding the change of project priorities when there are changes in the Government. Building a strong and capable PIU with competent people is also critical for project success. Bringing in additional technical capabilities through consulting firms will facilitate skills transfer to locals, especially the MIRN, EMAE and the PIU, which will help build local capacity to take care of the project in the future.

80. The STP Energy Compact prioritises strengthening EMAE's financial and operational performance through a combination of measures, including tariff adjustments, debt restructuring, and operational reforms, with the goal of achieving full cost recovery by 2030. The Government announced tariff adjustments effective 1 January 2025, resulting in an average increase of 15% across categories with a 5-year trajectory towards full cost recovery. Additionally, STP plans to shift electricity generation from diesel reliance to adopting more cost-effective, sustainable, and environmentally friendly electricity sources.

G. Risk Management

81. The main risks for ETREEP will be the unavailability of counterpart funds, frequent change of project components, ownership of the project, and weak capacity for effective implementation.

82. These risks have been considered in the context of the design of this project through the following mitigation measures: i) unavailability of counterpart funds: the Fund will pay 100% of the project costs through a waiver for counterpart funding to respond to the economic context of the country in line with the Bank Group’s Policy on Eligible Expenditures; ii) frequent change to project components: the ownership of the project by the GoSTP and its participation from the identification up to project design and preparation was critical; iii) ownership of the project: the adoption/creation of a PSC led by the Minister of Infrastructure and Natural Resources and involving other ministries/sector entities is key for the successful implementation of the project; iv) weak capacity for effective implementation: additional technical capabilities through consulting firms will allow knowledge transfer to locals, especially the MIRN, EMAE and the PIU.

H. Knowledge Building

83. Effective knowledge management – including the collection, generation, and dissemination of information: The project will identify and analyse knowledge products from existing projects in the country, focused on renewable energy, grid reinforcement, sustainable energy, and project management, to serve as a basis for the knowledge management activities this project will implement. This will also allow the project to understand where knowledge needs to improve to enhance its outcomes.

84. Thus, the project will define specific target areas of knowledge improvement and the most appropriate knowledge products for these targets and define the most relevant events for knowledge access and sharing such as regular physical or virtual workshops. The project will generate various knowledge products (RE trainings, Project Management, FM and

Procurement, E&S, M&E, etc), conduct studies (success stories, surveys, etc.), organise study visits/peer-learning events, different meetings/workshops for one to one communication with actual and potential beneficiaries, thereby establishing diligent internal and external information circulation ow available for not only for project stakeholders but for also wider audience.

5 LEGAL INSTRUMENTS AND AUTHORITY

A. Legal Instrument

85. The legal instruments for financing the Project will be; (a) a Protocol of Agreement between the African Development Fund (the "Fund") and the Democratic Republic of São Tomé and Principe (the "Recipient"), and (ii) a Protocol of Agreement between the Recipient and African Development Bank and the Fund (*collectively referred to as the "Fund"*) acting as Administrators of the Transition Support Facility (TSF).

B. Conditions Associated with the Fund's Intervention

86. **Conditions Precedent to Entry into Force**: Each Agreement shall enter into force on the date of its signature by the Fund and the Recipient.

87. **Conditions precedent to first disbursement**: The obligation of the Fund to make the first disbursement of the grants shall be conditional upon the entry into force of the Agreements, and fulfilment by the Recipient, in form and substance satisfactory to the Fund, of the following condition:

Confirmation that the existing Project Implementation Unit (PIU) established under the Energy Transition and Institutional Support Project (ETISP), and composed of a Project Coordinator, Procurement Specialist, Financial Management Specialist, and Environmental and Social Specialist, will remain in place and serve as the interim PIU for the Energy Transition, Efficiency and Expansion Project (ETREEP), with the mandate, staffing and resources acceptable to the Fund, indicating names, role/position, curriculum vitae, and designation/assignment/appointment letter/contract and job description/terms of reference of the PIU staff onboard.

88. **Conditions Precedent to Disbursements for Works**

The obligation of the Fund to disburse the Grant for works shall be subject to the satisfaction of the following additional conditions by the Recipient:

(a) Submission of the site-specific Environmental and Social Impact Assessment ("ESIA") and Environmental and Social Management Plan ("ESMP") for each, works, civil works in a given lot, prepared in accordance with the SESA, ESMF and the Fund's Safeguards Policies, in form and substance satisfactory to the Fund; and
(b) Submission of the evidence of approval of the site-specific ESIA and ESMP by the competent national authority of the Recipient.

89. **Undertakings:** The Recipient shall: (a) finance the operating costs and maintain its existing PIU composed of at least the following four core staff; (i) a project coordinator, (ii) a procurement specialist, (iii) a financial management specialist, and (iv) M&E specialist, throughout the duration of the Project implementation period, with the mandate, staffing and resources acceptable to the Fund, (b) within three (3) months after the signing of the Protocol of Agreement recruit a (i) a M&E specialist, (ii) Accountant, (iii) Communication Specialist, (iv) a Technical Specialist (engineer), and (v) a supervising firm which will supervise all the works under the project; each with qualifications, experience, and terms of reference acceptable to the Fund, to boost the capacity of the PMU, (c) within three (3) months after the

signing of the Protocol of Agreement, establish and maintain the existence and functioning of the Project Steering Committee composed of Director level representatives from MIRN (to serve as PSC chair), Ministries of Finance, Environment, EMAE, AGER, DGRNE and other strategic partners/stakeholders invited at the discretion of the MIRN as necessary, in a form and with a composition and mandate acceptable to the Fund, throughout the duration of the Project implementation period, (d) provide, and/or use its reasonable endeavours to cause beneficiaries to provide, as promptly as needed, funds, facilities, services and other resources required for implementation of the Project, and/or necessary or appropriate to ensure that the goals of the Project and the purpose of the Grant are accomplished, (e) implement the project with due diligence and efficiency, and in compliance with the Bank Group Integrated Safeguards System (ISS) Policy requirements, Environmental and Social Management Plan (ESMP), and applicable national legislation, in a manner and in substance satisfactory to the Fund, (f) refrain from taking any action which would prevent or interfere with the implementation of the ESMP, including any amendment, suspension, waiver, and/or voidance of any provision thereof, whether in whole or in part, without the prior written concurrence of the Fund, (g) prepare and submit to the Fund, as part of Project reporting, quarterly progress reports on the implementation of the ESMP including any deficiencies identified and the corrective measures thereto, an annual E&S performance audit conducted by an independent E&S safeguards expert at the end of each project year, to be submitted to the Fund by the end of the first quarter of the subsequent project year, and a completion E&S performance/compliance audit report reviewed and cleared by the Fund prior to the preparation of the overall Project Completion Report, to be shared with both the Fund and stakeholders, (h) establish a project-level Grievance Redress Mechanism (GRM) included in the SEP at the start of project implementation, , make it known to the stakeholders, and maintain its existence throughout the project lifecycle, (i) in the event of an Environmental-Occupational-Health and Safety (EOHS) incident, notify the Fund within 48 hours, provide the relevant National Authority investigation report(s), and, if required by the Fund, submit a root-cause analysis (RCA) report and implement a corrective action plan, (j) establish collaboration arrangements and maintain their existence and functioning in a form and with a composition acceptable to the Fund, throughout the Project lifecycle, to ensure timely, well-coordinated, and effective implementation of the Project, and (k) for disbursement through a Special Account, submit to the Fund a withdrawal request with a Special Account denominated in forex opened at a bank acceptable to the Fund, in the name of the Project, for deposit of the proceeds of the Grant.

C. Compliance with Bank Group Policies

☒ This project complies with all applicable Bank Group policies.

☐ There are exceptions to Bank Group policies.

African Development Bank Group Independent Recourse Mechanism

90. Communities and individuals who believe that they are adversely affected by an African Development Bank Group (AfDB) supported project may submit complaints to existing project-level grievance redress mechanisms or the AfDB's Independent Recourse Mechanism (IRM). The IRM ensures project affected communities and individuals may submit their complaint to the AfDB's Independent Recourse Mechanism which determines whether harm occurred, or could occur, as a result of AfDB non-compliance with its policies and procedures. To submit a complaint or request further information please contact: IRM@afdb.org or, visit the IRM website www.irm.afdb.org. Complaints may be submitted at any time after concerns have been brought directly to the Fund's attention, and the Fund Management has been given an opportunity to respond before reaching out to the IRM.

6 RECOMMENDATION

91. Management recommends that the Boards of Directors approves the award of the proposed grant of Fourteen Million Units of Account (UA 14,000,000) from the resources of the ADF, and Four Million Units of Account (UA 4,000,000) from the resources of TSF Pillar-I, to the Democratic Republic of Sao Tome and Principe, to finance implementation of the Project under the terms and conditions stipulated in this report.

7 RESULTS FRAMEWORK

RESULTS FRAMEWORK					
A	**PROJECT INFORMATION**				
PROJECT NAME AND SAP CODE: ENERGY TRANSITION, EFFICIENCY AND EXPANSION PROJECT (ETREEP) - P-ST-FAB-003			**COUNTRY/REGION:** Sao Tomé and Principe		
PROJECT DEVELOPMENT OBJECTIVE: 1. Expand renewable energy, strengthen grid infrastructure, and promote low-carbon growth, by integration of new RE capacity, strengthened distribution infrastructure, improved service reliability/quality by installing prepaid meters and upgrade the LV lines which will reduce losses and increased sector efficiency.					
ALIGNMENT INDICATOR (S): Energy generation (GWh), of which % of renewable energy, and Power transmission and distribution losses (% of output)					
B	**RESULTS MATRIX**				
RESULTS CHAIN AND INDICATOR DESCRIPTION	**RMF/ADOA INDICATOR**	**UNIT OF MEASUREMENT**	**BASELINE (date)**	**TARGET AT COMPLETION (date)**	**MEANS OF VERIFICATION**
OUTCOME STATEMENT 1: Transition from fossil fuel-based energy production					
OUTCOME INDICATOR 1.1: New renewable power capacity installed	☒	*Number*	*2.2MW*	*6.2MW*	*Report from the contractor, report from the supervising company, EMAE IT, Project Progress Reports and Data Systems*
OUTCOME INDICATOR 1.2: *Reduction of Carbon emissions*	☐	Tons	0	1,761.02	*Report from the contractor, report from the supervising company, EMAE IT, Project Progress Reports and Data Systems*
OUTCOME INDICATOR 1.3: Temporary Direct and indirect jobs created by the project	☒	*Number*	*0*	*20*	*Report from the contractor, report*

				(80% men, and 20% women)	*from the supervising company, EMAE IT, Project Progress Reports*
❙ **OUTCOME STATEMENT 2: Improve revenue collection**					
OUTCOME INDICATOR 2.1: Increase billing and collection rate	☐	*%*	*50*	*80*	*EMAE revenue systems, Audit Reports, Project Report and Data Systems*
OUTCOME INDICATOR 2.2: Reduce non-technical electricity losses	☐	*%*	*34*	*20*	*EMAE revenue systems, Audit Reports, Project Report and Data Systems*
COMPONENT 1: Energy Transition and Efficiency					
❙ **OUTPUT STATEMENT 1.1: Installation of 1000 LED streetlights**					
OUTPUT INDICATOR 1.1.1: *New LED streetlights installed*	☐	Number	0	1,000	*Report from the contractor, report from the supervising company, EMAE IT, Project Progress Reports and Data Systems*
❙ **OUTPUT STATEMENT 1.1: Construction of a 4MW Solar Power Pant and 2MW BESS**					
OUTPUT INDICATOR 1.1.2: Construction of New Solar Power Plant and BESS	☐	*Number*	*2*	*3*	*Report from the contractor, report from the supervising company, EMAE IT, Project Progress Reports and Data Systems*

COMPONENT 2: Expansion, Access and Grid and System Stability					
▌OUTPUT STATEMENT 2.1: Upgrade and rehabilitation LV networks in Principe Island					
OUTPUT INDICATOR 2.1.1: *Distribution lines rehabilitated*	☒	Kilometres	0	10	*Report from the contractor, report from the supervising company, EMAE IT, Project Progress Reports and Data Systems*
▌OUTPUT STATEMENT 2.2: Upgrade and Modernisation of the Dispatch Centre					
OUTPUT INDICATOR 2.2.1: Dispatch centre is modernised	☐	Number	0	1	*Report from the contractor, report from the supervising company, EMAE IT, Project Progress Reports and Data Systems*
▌OUTPUT STATEMENT 2.3: Installation of 40000 prepaid meters					
OUTPUT INDICATOR 2.3.1: *Number of Prepaid meters installed*	☒	Number	3.500[1]	43.500	*Report of the meters provider, EMAE IT, Project Report and Data Systems*
OUTPUT INDICATOR 2.3.2: *Number of Prepaid meters installed (new customers)*	☒	Number	0	2,000[2]	*Report of the meters provider,*
OUTPUT INDICATOR 2.3.3: *Number of Health facilities, schools and public spaces provided with prepaid meter*	☒	Number	0	20	*Report of the meters provider,*
OUTPUT INDICATOR 2.3.4: Youth trained on green skills	☐	Number	0	200	*Number of Installation, Repair*

[1] STP has close to 60 thousand electricity customers and 3.5 thousand have prepaid meters.

[2] 2 thousand out of the 40 thousand prepaid meters are for new customers.

				(50 women and 150 men)	*and Maintenance (IRM) certifications obtained, disaggregated by gender, Attendance list of the training*

8 ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)

ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)

AFRICAN DEVELOPMENT BANK GROUP
2023 ISS Update v01

A. Basic Information[3]		
Project Title: ENERGY TRANSITION AND EFFICIENCY PROGRAM		**Project SAP or TFMS Code:** P-ST-FAB-003
Region: RDGS	**Country:** São Tomé and Príncipe	
Project Sector Unit: Energy		**Lending Instrument:** Project Finance Loan/Grant
Appraisal dates: 3-Nov-25 **to** 7-Nov-25		**Estimated Approval Date:** Select the estimated approval date
Task Team Leader: Mario BATSANA		**Alternate Task Team Leader:** Name of the Alternate Task Manager (*if applicable*)
Environmental Safeguards Officer(s): Ziva DOMINGOS | Bruno NHANCALE		
Social Safeguards Officer(s): Ziva DOMINGOS | Name of the Social Safeguards Supervisor		
E&S Category: Category 2 (Moderate Risk)	**Operation Type:** Sovereign Operation / Public Sector Operation	**Financial Intermediary:** No
Categorization Date: 3-Dec-24	**Categorization Date in ISTS:** 3-Nov-24	**Categorization Date in SAP:** 3-Dec-24

[3] ***Note***: *This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.*

Is this project processed under rapid responses to crises and emergencies?	No
Is this project processed under a waiver to ISS requirement(s) requested by the Borrower/Client and granted by the Board?	No

B. Disclosure and Compliance Monitoring
B.1 Mandatory disclosure[4]

Environmental and Social Assessment/Audit/System/Others: ESIA	
Was/Were the document (s) disclosed ***before appraisal?***	Yes
Date of "in-country" disclosure by the Recipient/client	16-Jan-26
Date of receipt by the Bank of the authorisation to disclose	26-Jan-26
Date of disclosure by the Bank	**27-Jan-26**
Resettlement Action Plan (RAP)[5]**:** Not Applicable	
Was/Were the document (s) disclosed ***before appraisal?***	Not Applicable
Date of "in-country" disclosure by the Recipient/client	Click to select the date
Date of receipt by the Bank of the authorisation to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Stakeholder Engagement Plan (SEP)[6]**:** 1	
Was/Were the document (s) disclosed ***before appraisal?***	Yes

[4] *For multiple disclosure dates of the same type of document/instrument (ESIAs, RAPs, etc), please indicate the date of the last disclosure that meets the 50%+1 disclosure requirement.*

[5] *Including Livelihood Restoration Plan (LRP)*

[6] *Including Grievance Redress Mechanism (GRM)*

Date of "in-country" disclosure by the Recipient/client	12-Jan-26
Date of receipt by the Bank of the authorisation to disclose	26-Jan-26
Date of disclosure by the Bank	27-Jan-26
Pest or Vector Management Plan (PMP/VMP): Not Applicable	
Was/Were the document (s) disclosed ***before appraisal?***	Not Applicable
Date of "in-country" disclosure by the Recipient/client	Click to select the date
Date of receipt by the Bank of the authorisation to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Vulnerable Peoples Plan (VPP): Not Applicable	
Was the document disclosed ***before the appraisal?***	Not Applicable
Date of "in-country" disclosure by the Recipient/client	Click to select the date
Date of rereceiptby the Bank of the authorisation to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Biodiversity Management Plan (BMP)[7]: Not Applicable	
Was the document disclosed ***before the appraisal?***	Not Applicable
Date of "in-country" disclosure by the Recipient/client	Click to select the date
Date of recipt, by the Bank,o f the authorisation to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date

[7] *Refer to footnote 212 of the ISS: Depending on the nature and the scale of the risks and impacts of the project, the Biodiversity Management Plan (BMP) may be a stand-alone document, or it may be included as part of the ESMP prepared under OS1. Select this if a standalone BMP is required.*

Livelihood Restoration Plan (LRP)[8]: Not Applicable	
Was the document disclosed ***before the appraisal?***	Not Applicable
Date of "in-country" disclosure by the Recipient/client	Click to select the date
Date of receipt ybythe Bank o f the authorisation to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Riparian Communities Participation Plan (RCPP): Not Applicable	
Was the document disclosed ***before the appraisal?***	Not Applicable
Date of "in-country" disclosure by the Recipient/client	Click to select the date
Date oof receiptby the Bnk, of the authorisation to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Emergency Preparedness & Response Plan (EPRP): Not Applicable	
Was the document disclosed ***before the appraisal?***	Not Applicable
Date of "in-country" disclosure by the Recipient/client	Click to select the date
Date ofreceiptt, by theBankk, of the authorisation to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Hazardous/Medical Waste Management Plan (HWMP): Not Applicable	
Was the document disclosed ***beforet appraisal?***	Not Applicable
Date of "in-country" disclosure by the Recipient/client	Click to select the date

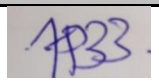
[8] *Refer to footnote 190 of the ISS: The Livelihood Restoration Plan (LRP) is normally part of the Resettlement Action Plan (RAP). However, for complex livelihood restoration, a stand-alone LRP can be prepared as part of the ESMP. Select this if a standalone LRP is required.*

Date ofreceipt by theBank, of the authorisation to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Riparian Notification (RN): Not Applicable	
Was the document disclosedbefore the***e ore appraisal?***	Not Applicable
Date of "in-country" disclosure by the Recipient/client	Click to select the date
Date of recipt, by the bank, of the authorisation to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Environmental and Social Management Plan of the Financing Agreement (FA-ESMP) [9]	
Was the document disclosed ***before the appraisal?***	Yes
Date of "in-country" disclosure by the Recipient/client	22-Jan-26
Date of receipt by the Bank of the authorisation to disclose	26-Jan-26
Date of disclosure by the Bank	27-Jan-26
Is in-country disclosure of any of the above required documents not allowed as per the country's legislation, or not expected because of crises/emergencies: Not Applicable	
If applicable, please explain below:	
Indicate why the disclosure of the said document(s) is not authorized, including the legal provision.	
B.2. Compliance monitoring indicators	
Has a satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes

[9] *As referred to in section III.2.3 of the Bank's Environmental and Social Policy (ESP)*

Has costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?	Yes
Is the total amount full implementation ofion ofr the Resettlement of affected peopintegrated intoedinton the project costs, effectively mobilised and secured?[10]	Not Applicable
Does the Monitoringing and Evaluation systeminclude monitoring of safeguardd impactssafeguard-relatedlated measures	Yes
Have satisfactory implementation arrangements been agreed with the borro,wer ahave theyame baadequatelyly reflected in the project legal documents?	Yes
C. **Clearance**	
Is the project compliant with the Bank's environmental and social safeguards requirements, and canit be submitted for approval?	Yes

[10] *In case a Resettlement Action Plan (RAP) is/are not required although the Environmental and Social Impact Assessment (ESIA) is/are disclosed, attached the image/picture/photo of the area/site/landscape to evidence that it is free of any encumbrance (simple statement or letter from the borrower does not suffice), in addition to the statement by the Borrower that it is a public-owned land.*

Prepared by	*Name*	*Signature*	*Date*
Environmental Safeguards Officer(s):	Bruno NHANCALE Ziva DOMINGOS		28-Jan-26
Social Safeguards Officer(s):	Name of the Social Safeguards Specialist Name of the Social Safeguards Supervisor		Click to select the date
Task Team Leader:	Mario Batsana		3-Feb-26
Submitted by			
Sector Director:	**BALDEH, HENRY PAUL BATCHI**		3-Feb-26
Cleared by			
Director SNSC:	Maman-Sani ISSA		15-Mar-26

PHOTOS OF THE PROJECT SITE

9 APPENDIX 01: RATIONALE FOR GOVERNMENT COUNTERPART FUNDING WAIVER REQUEST: JUSTIFICATION FOR THE USE OF ADF RESOURCES FOR 100% COVERAGE OF TOTAL PROGRAM COST

Context. The Government of São Tomé and Príncipe (GoSTP) has submitted a request to the Bank Group to finance 100% of the cost of the Energy Transition Efficiency and Expansion Project (ETREEP), including VAT and duties. This request aims to align the Bank's practice with that of other development partners, including the World Bank, and to address emerging implementation bottlenecks arising from severe fiscal constraints. The Bank Group's Policy on Expenditure Eligible for Bank Financing[11] (2008) allows, on a case-by-case basis, the waiver of the principle that Bank-financed projects are exempt from duties and taxes where: (i) the country's tax system has reasonable tax and duty rates; and (ii) taxes and duties do not constitute a significant proportion of project costs or are not specifically directed at Bank-financed projects. This appendix assesses the justification for acceding to GoSTP's request considering the current macro-fiscal environment, ongoing reform commitments, and the need to safeguard project execution under tight budgetary conditions.

Macro context. Over 2021–2025, real GDP grew at an average rate of approximately 1.1%. In per capita terms, real GDP contracted on average by 0.9% over the same period, implying that real household incomes remain below pre-pandemic levels. Growth recovery remains fragile and heavily constrained by structural vulnerabilities, particularly in the energy sector. Inflation peaked at 21.3% in 2023 and declined to 10.9% in 2025, reflecting easing global commodity prices and tighter macroeconomic management.

External vulnerabilities remain pronounced. The economy is highly dependent on imported fuel (about 95% of electricity generation is diesel-based), and fuel imports represent roughly 30% of total imports. Cocoa and palm oil account for 96.7% of export receipts, leaving the balance of payments exposed to commodity price volatility. The current account deficit widened again in 2025, and foreign exchange reserves remain around two months of imports, below adequacy benchmarks.

Table 1: Key Macroeconomic Indicators

Indicator	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Estimate	2026 Prediction	2027 Prediction
Real GDP growth rate (%)	1.9	0.2	0.4	1.1	2.1	3.0	3.8
Real GDP Growth per Capita (%)	-0.2	-1.8	-1.6	-1.0	0.1	1.0	1.9
Inflation	8.1	17.9	21.3	14.5	10.9	6.8	5.3
Overall Fiscal Balance, Including Grants (% GDP)	-1.7	-2.2	-2.1	0.9	0.6	0.2	-0.3
Current Account (% GDP)	-19.0	-14.6	-12.3	-3.7	-4.1	-4.0	-3.7

Source: Data from Domestic authorities; estimates (e) and predictions (p) are based on authors' calculations. AfDB Statistics Department, November 2025

Fiscal situation. In December 2024, the IMF approved a 40-month Extended Credit Facility (ECF) arrangement of approximately USD 24 million to support fiscal consolidation, strengthen debt sustainability, and improve governance. The first review was completed successfully in July 2025, and in late 2025 the ECF was extended by one year till 2028, to

[11] **BD/WP/2007/106/Rev.2**

allow for gradual adjustment and reform consolidation. The ECF remains on track and is linked to closing financing gaps and sustaining reforms.

Fiscal consolidation efforts have also intensified thanks to the Bank's Fiscal Sustainability and Economic Resilience Program (FSERP and its Supplemental Financing, FSERP-SF), initially designed in 2023 as a two-phase General Budget Support (PBO) series. Phase I was approved by the Bank's Board in December 2023 and Phase II in March 2025. Under FSERP, reforms explicitly target improved tax-to-GDP performance, with a medium-term objective of raising the ratio toward 15% by 2026.

Under FSERP, the authorities have undertaken VAT efficiency measures, including improved compliance monitoring, gradual reduction of exemptions, and digitalization of customs and tax administration. Income tax reforms have also been implemented, including reshuffling personal income tax brackets and corporate tax adjustments to improve equity and broaden the base while maintaining competitiveness. The introduction of VAT in June 2023 significantly strengthened revenue performance, with tax revenue reaching approximately 10.9% of GDP in 2024 (up from earlier levels but still well below the Sub-Saharan African average).

FSERP operations continue supporting fiscal consolidation and macroeconomic stabilization aligned with the IMF ECF, with a focus on strengthening domestic revenue mobilization, improving expenditure efficiency and accountability, enhancing debt transparency, and reforming energy sector governance. Out of 24 reform outputs under Phases I and II, more than 90% have been achieved or are on track, including approval of the Medium-Term Debt Strategy, rollout of ASYCUDA World for customs modernization, strengthening of AML/CFT frameworks, adoption of an e-Government Procurement strategy, and approval of the National Energy Compact 2025–2030.

Expenditure-side reforms have also been important. A public hiring freeze was introduced in 2025 to contain the wage bill, which historically absorbs around half of operating expenditure. Pro-poor spending increased significantly in the 2025 budget, while the overall fiscal balance improved to 0.9% of GDP in 2024 and an estimated 0.6% in 2025. Nonetheless, fiscal space remains extremely limited, as high fuel import costs and large structural investment needs continue constraining the budget.

Despite consolidation efforts, in 2025 STP faced a budget financing gap estimated at approximately USD 15–16 million. To help close part of this gap and ensure continuity of reforms, the Bank appraised and submitted for Board approval in November 2025 a Supplemental Financing operation (FSERP-SF), funded by a USD 7.5 million grant from the Nigeria Trust Fund. The supplemental operation was designed to stabilize public finances, preserve reform momentum, and mitigate risks to macroeconomic stability and debt sustainability during a period of constrained fiscal space.

In this context, requiring full VAT and duty exemptions for ETREEP may further strain already constrained departmental budgets and could delay project execution due to lack of counterpart funding. Covering VAT and duties under Bank financing would not undermine fiscal discipline; rather, it would ensure smoother implementation of priority energy reforms that directly contribute to macro-stability, reduced fuel imports, and improved fiscal sustainability. Moreover, at a time when the authorities are strengthening VAT compliance, rationalizing exemptions, and carefully managing limited fiscal space, avoiding VAT on externally supported strategic investments could create operational inconsistencies with the broader objective of stabilizing public finances and safeguarding reform credibility.

Debt Situation. Public debt declined from above 88% of GDP in 2021 to about 68.6% in 2024, largely due to higher grants and restrictions on non-concessional borrowing. However, STP remains in debt distress due to longstanding external arrears, as confirmed by the IMF.

The ECF and FSERP reforms are critical anchors for macroeconomic stability and debt sustainability. FSERP reforms aim to improve debt transparency, national debt management, publish regular debt bulletins, and align borrowing plans with the Medium-Term Debt Strategy. While debt ratios have declined, STP remains at high risk of debt distress. Borrowing is strictly limited to concessional terms under the IMF-supported framework. Energy sector inefficiencies, fuel import dependency, and arrears accumulation remain structural risks.

Prioritization of ADF resources. As a gap country in debt distress, STP receives grant financing under ADF and TSF windows. Resources are heavily concentrated on energy transition, PFM strengthening, and economic governance reforms. However, overall envelopes remain modest relative to the country's structural needs. Ensuring that flagship energy projects such as ETREEP are implemented without delay is critical to unlocking growth, reducing fuel dependency, and easing fiscal pressures.

Compliance with Bank Policy Requirements. Tax and duty rates in STP are broadly aligned with African and peer Small Island Developing States. The standard VAT rate of 15% falls within the typical 14–18% range observed across Sub-Saharan Africa and comparable reforming economies. This suggests that STP's VAT regime cannot be considered excessive or distortive relative to regional practice.

Table 2. Comparison of standard VAT Rates

Country	Category	VAT Rate
Mauritius	SIDS	15%
Cabo Verde	SIDS	15%
Seychelles	SIDS	15%
São Tomé and Príncipe	**SIDS**	**15%**
South Africa	Non-SIDS	15%
Angola	Non-SIDS	14%
Ghana	Non-SIDS	15%
Kenya	Non-SIDS	16%
Senegal	Non-SIDS	18%
Zambia	Non-SIDS	16%
Botswana	Non-SIDS	14%
Namibia	Non-SIDS	15%
Mozambique	Non-SIDS	16%

Taxes and duties related to ETREEP are estimated at approximately USD 2.5 million, representing about 8.33% of total project cost, which does not constitute a disproportionate share. Importantly, these taxes are not specifically targeted at Bank-financed activities. Given the ongoing fiscal consolidation trajectory under FSERP and the IMF program, strengthened revenue administration, hiring freeze, the country satisfies the policy conditions for a case-by-case waiver.

Conclusion. Considering the sustained implementation of FSERP reforms and ongoing IMF efforts, strengthening of VAT administration and income tax restructuring, containment of

the wage bill through a hiring freeze, and persistent fiscal constraints, financing VAT and duties under ETREEP would enhance implementation efficiency without undermining fiscal discipline. Thus, it would support energy transition, reduce dependence on imports, and reinforce macroeconomic stabilization objectives under the AfDB-IMF reform framework.