

Public Disclosure Authorized

OFFICIAL DOCUMENTS

GRANT NUMBER D1500-ST

Financing Agreement

(Strengthening Growth and Fiscal Policy
Development Policy Financing)

between

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated DECEMBER 13, 2016

GRANT NUMBER D1500-ST

FINANCING AGREEMENT

AGREEMENT dated DECEMBER 13, 2016, entered into between the DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE (“Recipient”) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (i) the actions which the Recipient has already taken under the Program and which are described in Section I.A of Schedule 1 to this Agreement; and (ii) the Recipient’s maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to three million and five hundred thousand Special Drawing Rights (SDR 3,600,000) (“Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are May and November in each year.
- 2.05. The Payment Currency is Euro.
- 2.06. Without limitation upon the provisions of Section 4.08 of the General Conditions (renumbered as such pursuant to paragraph 4 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 4.08 of the General Conditions:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.03. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is ten years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its Minister of Finance, Trade and Blue Economy.

6.02. The Recipient's Address is:

Ministry of Finance, Trade and Blue Economy
Largo das Alfandegas
Caixa Postal 168
São Tomé,
República Democrática de São Tomé e Príncipe

Facsimile:	E-mail address:	Telephone:
239-2222182	MFCEA@financas.gov.st	239-2224172

6.03. The Association's Address is:

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

Telex:	Facsimile:
248423(MCI)	1-202-477-6391

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

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

By:




Authorized Representative

Name: CARLOS NIEVES

Title: AMBASSADOR

INTERNATIONAL DEVELOPMENT ASSOCIATION

By:



Authorized Representative

Name: CLARA A.C. DE SOUSA

Title: COUNTRY MANAGER

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

- A. **Actions Taken Under the Program.** The actions taken by the Recipient under the Program include the following:
1. The Recipient, through its National Assembly, has approved a banking resolution law (*Medidas Especiais de Saneamento, Resolução e Liquidação de Instituições Bancárias*) that provides the Central Bank with the power and authority necessary to deal effectively with distressed financial institutions by facilitating early intervention and providing additional policy instruments to address vulnerabilities, as evidenced by Law No. 6/2015 approved on December 1, 2015, enacted on December 1, 2015, and published in the Recipient's Official Gazette (*Diário da República*) on December 31, 2015.
 2. The Recipient, through its Central Bank, has created, operationalized and staffed a new directorate (*Direcção de Sistemas de Pagamentos*) to consolidate in the same unit all responsibilities related to oversight, policy formulation and development of the national payment system, as evidenced by the issuance of Central Bank's Administrative Council Regulation No. EO-02 (*Norma de Aplicação Permanente*) of August 29, 2016.
 3. The Recipient, through its Council of Ministers (*Conselho de Ministros*), has reduced legal fees (i.e. taxes and registry fees) associated with the registry of mortgages, as evidenced by the issuance of Executive Decree (*Deliberação*) of June 8, 2016.
 4. The Recipient, through EMAE, has introduced a revised system of pre-paid energy services that will allow for accurate consumption metering and invoicing, as well as eliminating the risk of non-payment, as evidenced by the signing of the User Acceptance Plan by EMAE, ITRON and RESUL on April 4, 2016, confirming readiness of the prepayment system deployment on site.
 5. The Recipient, through AGER, has mandated EMAE to: (i) establish a comprehensive customer complaint redress system for the mediation of conflicts between citizens and EMAE, as well as representing the interests of the public, receiving feedback, complaints, information requests and suggestions for improvement of service; and (ii) send to AGER monthly reports of complaints received from customers, as evidenced by Resolution No. 20/2016 and Resolution No. 01/2016 both of September 19, 2016.

6. The Recipient has simplified the tax structure and updated the threshold values of tax brackets for presumptive income taxation, as evidenced by the approval, through the Counsel of Ministeries Decree-Law No. 06/2016 of October 31, 2016 (*Lei sobre o Regime de Pagamento do Imposto Mínimo sobre o Rendimento*).

Section II. Availability of Financing Proceeds

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
(1) Single Withdrawal Tranche	3,600,000
TOTAL AMOUNT	3,600,000

C. Withdrawal Tranche Release Conditions

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied (a) with the Program being carried out by the Recipient, and (b) with the adequacy of the Recipient's macroeconomic policy framework.

D. Deposits of Financing Amounts

Except as the Association may otherwise agree:

- (a) all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association ("Dedicated Account"); and
- (b) the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

- E. Audit.** The Recipient shall:
- (a) have the Dedicated Account and the recording of the amounts of the Financing into the Recipient's budget management system referred to in Part D of this Section audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
 - (b) furnish to the Association as soon as available, but in any case not later than four (4) months from the date of deposit of funds in the Designated Account referred to in Section D.1 above, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and
 - (c) furnish to the Association such other information concerning the said Dedicated Account and recording of the amounts of the Financing into the budget management system, and their audit, as the Association shall reasonably request.
- F. Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.
- G. Closing Date.** The Closing Date is December 31, 2017.

APPENDIX

Section I. Definitions

1. "AGER" means *Autoridade Geral de Regulação*, the Recipient's General Regulatory Authority for the Electricity Sector.
2. "EMAE" means *Empresa de Agua e Electricidade*, the Recipient's water and electricity utility company.
3. "Excluded Expenditure" means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked

718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
4. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010, with the modifications set forth in Section II of this Appendix.

5. "ITRON" means ITRON Measurements and System, LTD a technology company offering products and services on energy and water resource management, registered under the laws of the United States
6. "Program" means the program of actions, objectives and policies designed to promote growth and improve fiscal management, and set forth or referred to in the letter dated October 21, 2016, from the Recipient to the Association declaring the Recipient's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
7. "RESUL" means *RESUL Equipamento de Energia Sociedade Anonima*, a company providing services in the gas and water utilities in the energy sector, registered under the laws of Portugal.
8. "Single Withdrawal Tranche" means the amount of the Financing allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the subsequent Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*) and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 4 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

"Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents¹) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association's representatives to examine such records."

6. Paragraph (c) of Section 4.07 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

"Section 4.07. Program Monitoring and Evaluation

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing."

8. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term "Eligible Expenditure" is modified to read as follows:

"'Eligible Expenditure' means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement."

- (b) The term "Financial Statements" and its definition as set forth in the Appendix are deleted in their entirety.

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

¹ If the Credit has been fully disbursed and there is a need to request information on the use of funds, then in such case the Association has the right to request the records enumerated in Section 4.06(c) **in relation to an amount equivalent in the budget execution (in local expenditures) to the amount that was disbursed by the Association in the country's official foreign exchange reserves (normally held by the central bank), such amount not including, however, contracts for expenditures in the negative list.**

- (f) The term "Project" is modified to read "Program" and its definition is modified to read as follows:

""Program" means the program referred to in the Financing Agreement in support of which the Financing is made." All references to "Project" throughout these General Conditions are deemed to be references to "Program".