

Document of  
**The World Bank**  
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Report No: PAD2605

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 8.3 MILLION  
(US\$12 MILLION EQUIVALENT)

TO THE

DEMOCRATIC REPUBLIC OF SÃO TOMÉ E PRÍNCIPE

FOR AN

INSTITUTIONAL CAPACITY BUILDING PROJECT

April 26, 2018

Finance, Competitiveness, and Innovation Global Practice  
Africa Region

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## CURRENCY EQUIVALENTS

Exchange Rate Effective March 30, 2018

Currency Unit = Sao Tome Dobra

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19.86 Dobra = US\$1

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1.4457 US\$ = SDR 1

## FISCAL YEAR

January 1 - December 31

Regional Vice President: Makhtar Diop

Country Director: Elisabeth Huybens

Senior Global Practice Director: Ceyla Pazarbasioglu-Dutz

Practice Manager: Rashmi Shankar

Task Team Leader(s): Mazen Bouri, Alvin Etang Ndip, Kjetil Hansen

## ABBREVIATIONS AND ACRONYMS

ABL	Asset Based Lending
AFAP	<i>Agência Fiduciária de Administração de Projectos (Fiduciary Agent for Project Administration)</i>
AfDB	African Development Bank
API	Application Programming Interphase
AQR	Asset Quality Review
AWP	Annual Work Plans
BCSTP	<i>Banco Central de São Tomé e Príncipe (Central Bank of São Tomé and Príncipe)</i>
BIA	Business Investment Analysis
BISTP	<i>Banco Internacional de São Tomé e Príncipe (International Bank of São Tomé and Príncipe)</i>
CAPI	Computer-Assisted Personal Interviews
CAR	Capital Adequacy Ratio
CIMPE	<i>Comité de Implementação e Monitoramento de Políticas Económicas</i>
CMU	Country Management Unit
COSSIL	Procurement and Coordination and Supervision Office
CPS	Country Partnership Strategy
CRC	<i>Central de Riscos de Crédito (Credit Registry)</i>
CQS	Consultant's Qualification-Based Selection
DA	Designated Account
DGRN	<i>Direcção Geral dos Registos e Notariado (General Directorate of Registries and Notaries)</i>
DPO	Development Policy Operation
D/R	Disaster Recovery
DSA	Debt Sustainability Analysis
e-GP	E-Government Procurement
ENSAE	<i>Ecole Nationale de la Statistique et de l'Analyse Economique</i>
EU	European Union
FIRST	Financial Sector Reform and Strengthening Initiative
FM	Financial Management
FMS	Financial Management Specialist
FSDIP	Financial Sector Development Implementation Plan
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Income
GRS	Grievance Redress Service
GUE	<i>Guiché Único Para Empresas (Single Window for Businesses)</i>
HBS	Household Budget Survey
IAASB	International Auditing and Assurance Standards Board
IBRD	International Bank for Reconstruction and Development
IC	Installation Commission
ICBP	Institutional Capacity Building Project
ICR	Implementation Completion and Results Report
ICT	Information and Communication Technology
IDA	International Development Association
IFAC	International Federation of Accountants

IFMIS	Integrated Financial Management System
IFORD	<i>Institut de Formation et de Recherche Démographiques</i>
IFR	Interim Financial Report
IFRS	International Financial Reporting Standards
IGF	<i>Inspeção Geral das Finanças</i> (General Inspectorate of Finance)
IMF	International Monetary Fund
INE	<i>Instituto Nacional de Estatísticas</i> (National Statistics Institute)
IPF	Investment Project Financing
IPSAS	International Public Sector Accounting
ISA	International Standards on Auditing
ISM	Implementation Support Mission
ISP	Implementation Support Plan
IT	Information Technology
KPIs	Key Performance Indicators
LAC	Latin America and the Caribbean
M&E	Monitoring and Evaluation
MEF	Ministry of Economy and Finance
MFIs	Microfinance Institutions
MLST	Model Law on Secured Transactions
MoF	Ministry of Finance
MoJ	Ministry of Justice
MSMEs	Micro, Medium and Small Enterprises
MTDS	Medium Term Debt Strategy
NAP	<i>Normas de Aplicação Permanente</i> (Permanent Application Norms)
NDP	National Development Plan
NPF	New Procurement Framework
NPL	Non-Performing Loans
NPSA	National Payment Systems Act
OCAM	National Accounting Standards
OTOCA	<i>Ordem dos Técnicos Oficiais de Contas e Auditores</i> (Professional Accountancy Body)
PC	Personal Computer
PCU	Project Coordination Unit
PDO	Project Development Objective
PEFA	Public Expenditure Financial Assessment
PER	Public Expenditure Review
PEST	Political, Economic, Social and Technological
PFM	Public Financial Management
PIU	Project Implementation Unit
POM	Project Operations Manual
PPA	Project Preparation Advance
PPSD	Project Procurement Strategy for Development
PSC	Project Steering Committee
QCBS	Quality and Cost Based Selection
RETF	Recipient Executed Trust Fund
RFB	Request for Bids
ROSC	Report on the Observance of Standards and Codes

RFQ	Request for Quotation
SADC	Southern African Development Community
SAFE-e	Electronic Expenditures Management and Payment System
SCI	Statistical Capacity Score
SIGIRA	<i>Sistema de Gestão de Imóveis e de Registo de Automóveis</i> (Real Estate and Vehicle Registration Information Management System)
SME	Small and Medium Enterprises
SMS	Short Message Service
SNA	System of National Accounts
SOE	State-owned enterprises
SPD	Standard Procurement Document
STEP	Systematic Tracking of Exchanges in Procurement
STP	São Tomé and Príncipe
TA	Technical Assistance
TFSCB	Trust Fund for Statistical Capacity Building
TOR	Terms of Reference
TTL	Task Team Leader
UNCITRAL	United Nations Commission on International Trade Law
VAT	Value Added Tax
WB	World Bank
WBG	World Bank Group
We-FI	Women Entrepreneurs Finance Initiative

**BASIC INFORMATION**

Is this a regionally tagged project?	Country(ies)	Financing Instrument
No		Investment Project Financing

☒ Situations of Urgent Need of Assistance or Capacity Constraints

☐ Financial Intermediaries

☐ Series of Projects

Approval Date	Closing Date	Environmental Assessment Category
17-May-2018	30-Jun-2023	C - Not Required

Bank/IFC Collaboration
No

**Proposed Development Objective(s)**

To contribute to improved capacity of public institutions to: i) supervise the banking system; ii) promote access to finance; iii) manage public finances; and, iv) produce national statistics.

**Components**

Component Name	Cost (US\$, millions)
Financial Soundness and Access	4.00
Strengthening Budget Credibility, Tax Base and SOE Governance	4.50
Property Registration and Statistical Development	2.00
Project Implementation Support	1.50

**Organizations**

Borrower : Ministry of Finance, Trade and Blue Economy

Implementing Agency : Central Bank

**PROJECT FINANCING DATA (US\$, Millions)**

<input type="checkbox"/> Counterpart Funding	<input type="checkbox"/> IBRD	<input type="checkbox"/> IDA Credit	<input checked="" type="checkbox"/> IDA Grant	<input type="checkbox"/> Trust Funds	<input type="checkbox"/> Parallel Financing
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Total Project Cost:  
12.00

Total Financing:  
12.00  
Of Which Bank Financing (IBRD/IDA):  
12.00

Financing Gap:  
0.00

**Financing (in US\$, millions)**

Financing Source	Amount
IDA Grant	12.00
<b>Total</b>	<b>12.00</b>

**Expected Disbursements (in US\$, millions)**

Fiscal Year	2018	2019	2020	2021	2022	2023
Annual	0.00	0.90	1.80	2.50	3.00	3.80
Cumulative	0.00	0.90	2.70	5.20	8.20	12.00



## INSTITUTIONAL DATA

### Practice Area (Lead)

Finance, Competitiveness and Innovation

### Contributing Practice Areas

Governance

Macroeconomics, Trade and Investment

Poverty and Equity

### Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

### Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

## SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Substantial
5. Institutional Capacity for Implementation and Sustainability	● High
6. Fiduciary	● Moderate
7. Environment and Social	● Low



8. Stakeholders	● Substantial
9. Other	
10. Overall	● Substantial

## COMPLIANCE

### Policy

Does the project depart from the CPF in content or in other significant respects?

☐ Yes ☒ No

Does the project require any waivers of Bank policies?

☐ Yes ☒ No

### Safeguard Policies Triggered by the Project

Yes

No

Environmental Assessment OP/BP 4.01

✓

Natural Habitats OP/BP 4.04

✓

Forests OP/BP 4.36

✓

Pest Management OP 4.09

✓

Physical Cultural Resources OP/BP 4.11

✓

Indigenous Peoples OP/BP 4.10

✓

Involuntary Resettlement OP/BP 4.12

✓

Safety of Dams OP/BP 4.37

✓

Projects on International Waterways OP/BP 7.50

✓

Projects in Disputed Areas OP/BP 7.60

✓

### Legal Covenants

#### Sections and Description

Schedule 2, Section 1.C.1 Financing Agreement. The Recipient shall, and shall cause the BCSTP and INE to not later than October 31st of each year (commencing in 2018), prepare and furnish to the Association, an annual work plan and budget, in form and substance satisfactory to the Association, informed by the POM and containing activities proposed for implementation under the Project and milestones to be achieved during the following Fiscal Year, together with a proposed budget for the purpose.



#### Sections and Description

Schedule 2, Section I.A.1, Financing Agreement. No later than three (3) months after the Effective Date, the Recipient, through the Minister of Finance shall: (a) assign, and thereafter maintain, throughout Project implementation, within AFAP, a team of technical and fiduciary specialists as may be agreed with the Association, all under terms of reference, and with qualifications and experience satisfactory to the Association; and (b) ensure that throughout Project implementation, the AFAP has adequate resources and staffing to carry out its responsibilities under the Project, all as further detailed in the POM.

#### Sections and Description

Schedule 2, Section I.A.13 Financing Agreement. No later than four (4) months after the Effective Date, the Recipient shall, through AFAP, appoint, and thereafter maintain, throughout Project implementation, external auditors, under terms of reference and with qualifications and experience satisfactory to the Association.

#### Sections and Description

Schedule 2, Section I.A.14 Financing Agreement. No later than two (2) months after the Effective Date, the Recipient, through AFAP, upgrade its accounting software, in a manner satisfactory to the Association, to ensure, inter alia, the separation of separate records and ledge accounts for the Project.

#### Conditions

Type	Description
Effectiveness	Article IV 4.01 Financing Agreement. The Additional Conditions of Effectiveness consist of the following, namely the Project Operations Manual has been prepared and adopted by AFAP, in form and substance satisfactory to the Association.

#### PROJECT TEAM

##### Bank Staff

Name	Role	Specialization	Unit
Mazen Bouri	Team Leader(ADM Responsible)	EFI Program Leader/Finnacial Sector	AFCC1
Alvin Etang Ndip	Team Leader	Statistics	GPV01
Kjetil Hansen	Team Leader	PFM and SOE reforms	GGOAC
Laurent Mehdi Brito	Procurement Specialist(ADM Responsible)	Procurement	GGOPF
Joao Tinga	Financial Management Specialist	Financial Management	GGOAC



Abdoullahi Beidou	Peer Reviewer	Statistics	GPV01
Alexandra C. Bezeredi	Safeguards Advisor	Lead Social Safeguards Specialist	GSU01
Benjamin Burckhart	Social Safeguards Specialist	Social Safeguards	GSU01
Beth Anne Hoffman	Team Member	Analyst	LEGAM
Carlos Leonardo Vicente	Team Member	Financial Sector Stability	GFCAS
Denise Kassab	Team Member	Quality and M&E	EAPOS
Hocine Chalal	Environmental Safeguards Specialist	Environmental Safeguards Advisor	GEN06
Ivonne Astrid Moreno Horta	Team Member	Land Administration	GSULN
Joao H. C. Montalvao Machado	Team Member	Gender	AFRGI
Jose C. Janeiro	Team Member	Finance Officer	WFACS
Julian Casal	Team Member	Financial Sector	GFCAS
Juvenia Lidia Mapilele Cohen	Team Member	Finance Analyst	WFACS
Lorena Vinuela	Peer Reviewer	PFM	GGOLP
Magalie Pradel	Team Member	Operations and Quality	GFCAC
Maria Do Ceu Da Silva Pereira	Team Member	Payment Systems	GFCFI
Maria Isabel Nhassengo-Massingue	Team Member	Procurement Assistant	AFCS2
Medou Lo	Social Safeguards Specialist	Environmental Safeguards	GEN07
Melissa C. Landes	Environmental Safeguards Specialist	Environment	GEN07
Monique Mogue Kamga	Team Member	Team Assistant	AFCC1
Patrick Kabuya	Team Member	Accounting and Auditing	GGOAS
Rafael Chelles Barroso	Team Member	Macro/PFM	GMTA1
Ruben Jorge De Lemos Botelho Barreto	Team Member	Financial Sector	GFCGP
Sheila Lucrecia Francisco Pene Neves	Team Member	Finance Assistant	WFACS
Smita Wagh	Peer Reviewer	Financial Sector	GFCPN
Sofia De Abreu Ferreira	Counsel	Legal	LEGEN



Tanangachi Ngwira	Team Member	Quality	GFCAC
Valeria Salomao Garcia	Team Member	Bank Supervision and Resolution	GFCFS
Zenaida Hernandez Uriz	Team Member	Private Sector	GFCAC
Extended Team			
Name	Title	Organization	Location



SAO TOME AND PRINCIPE  
SAO TOME AND PRINCIPE: INSTITUTIONAL CAPACITY BUILDING PROJECT

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## I. STRATEGIC CONTEXT

### A. Country Context

**1. São Tomé and Príncipe (STP) is a lower middle-income country with a population of nearly 200,000 located on two islands off the western equatorial coast of Central Africa.** Gross National Income (GNI) per capita is estimated at US\$3,160 in PPP terms; GDP per capita is US\$1,811. Around one third of the population lives on less than US\$1.9 PPP/day; more than two thirds of the population is poor, using a poverty line of US\$3.1 PPP/day (World Bank, 2017). The country met the Millennium Development Goals on universal primary education, maternal and child health, and HIV/AIDS, TB, malaria and other diseases. It is highly dependent on external support—with 45 percent of its budget financed by development partners. Unemployment was at 13.6 percent in 2012 (latest data available). The agricultural and retail sectors generate together 50 percent of all jobs in the country.

**2. Economic growth has been stable, but it is heavily reliant on public spending and susceptible to fiscal, financial, and external shocks.** GDP growth rates averaged 4.5 percent from 2009 to 2015. Government spending was subdued in 2016, bringing down growth to an estimated three percent despite positive developments in agriculture and tourism. Agricultural goods, especially cocoa, constitute the bulk of STP's exports. Tourism is an important area of economic activity, but is not yet reaching its potential. Oil exploration has taken place since 2013, but commercial activity is not expected before 2020. Few goods are produced locally, leaving STP dependent on imports, including the oil needed to generate power. Growth has not been pro-poor because the most vulnerable population lacks the skills to access economic opportunities. Social protection policies have not succeeded in alleviating poverty and providing a path for the vulnerable population to exit poverty.

**3. Poverty reduction has been marginal despite solid economic growth and public investment.** Urban poverty is higher than rural poverty due to limited employment opportunities, notably for youth. Human capital formation has steadily progressed in recent years, as health and education have improved. STP had remarkable success in curbing infant mortality and ranks below sub-Saharan Africa averages in malaria incidences and maternal mortality. Between 1980 and 2014, its Human Development Index increased by about 23 percent, life expectancy at birth increased by 5.9 years, and mean years of schooling by three years. STP completed a new household survey at the end of 2017 to update information on poverty and social indicators. A survey dataset is expected to be available by June 2018.

**4. Income generation is hindered by limited productive capabilities and low competitiveness.** The currency peg to the euro, which was introduced in January 2010, provides an anchor for price stability and led to some limited real effective exchange rate appreciation. During 2010–15, the average current account deficit was 20 percent of GDP, which was financed by external assistance and Foreign Direct Investment. From 2013–16, external grants were equivalent to 13 percent of GDP. STP is at high risk of debt distress. Total external public debt was 75.5 percent of GDP in 2016, relative to 58.8 percent of GDP in 2015 according to the recent debt sustainability analysis. The increase in debt stock is mainly due to the incorporation of domestic arrears (17 percent of GDP). STP's main fiscal risks come from its inefficient State-owned enterprise (SOE) sector.



**5. Inclusive growth and sustained poverty reduction have been hampered by weak public institutional capacity which has hindered the mobilization of resources and delivery of vital services. Private sector development has also suffered from limited access to finance and weak property rights administration, particularly for women.** The country aims to lessen its dependence on donor support by increasing domestic revenue mobilization, improving efficiency in public services and the SOE sector, and enhancing the effectiveness of policy making through better data gathering and statistics capacity. Improvements in public sector should be coupled by a strategy to develop the private sector, a key ingredient of which is promoting affordable and sustainable access to finance. This would require ensuring the stability of the financial system and embarking on reforms in financial infrastructure and property systems that would broaden the availability of collateral for small and medium enterprises to access credit. For truly inclusive growth, these reforms should also bridge the gender gap in terms of access to finance, property rights, and female representation in decision making roles in Government. What is encouraging is that the Government has enunciated a number of key strategies that if well implemented, can ensure responsible and accountable public and financial sector management, and access to affordable finance, all of which are critical elements to support the delivery of frontline public services that ensure poverty reduction and promote shared prosperity.

## B. Sectoral and Institutional Context

### Financial Sector

**6. STP has one of the smallest financial systems in the world.** Total banking sector assets were US\$187,6 million in 2016, equivalent to 58.4 percent of GDP, up from 26 percent of GDP in 2001. The financial sector is comprised of six commercial banks with 98 percent of financial sector assets, two insurance firms that specialize in property and casualty business and four small consumer lenders. The liberalization of the banking sector in the early 2000s and the potential for offshore oil led to the entrance of private and regional banks from nearby Angola, Cameroon, and Gabon. Afriland Bank from Cameroon entered the market in 2003; followed by Banco Equador, National Investment Bank, and Island Bank in 2004; Commercial Bank in 2005 (renamed Banco Privado STP after 2016); Ecobank in 2007; Oceanic Bank from Nigeria in 2008 (renamed Energy Bank after 2011); and BGFI from Gabon in 2012. Island Bank failed in January 2014 and in 2015 was acquired by Energy Bank while Banco Equador is undergoing liquidation after its insolvency in August 2016. On February 11, 2018, BCSTP intervened in Banco Privado, a small bank with less than two percent of system assets which has been incurring losses, and appointed an official administrator to prepare the bank for liquidation (including possible transfer of assets and liabilities). The remaining five banks are all foreign owned, although the Government owns 48 percent of Banco Internacional de São Tomé and Príncipe (BISTP) (the largest bank).

**7. The rapid expansion of the banking sector in a small economy proved to be a challenge for BCSTP.** Indeed, despite the entrance of new banks, the banking sector remains highly concentrated and shallow. In 2016, the largest bank (BISTP) controlled 52.7 percent of the banking sector assets, 46.7 percent of credit, and 72.7 percent of deposits. BISTP also has the largest branch network (12 of the 23) and holds around 79.5 percent of all foreign currency deposits, which provides the bank with a distinct advantage in servicing clients requiring foreign currency to finance imports. Together, these factors have limited market competition. The failure of Banco Equador in August 2016 (at the time the third largest bank) increased concentration and, along with the challenging macroeconomic environment, led to a negative growth of total assets, credit, deposits and reduction of the number of branches from 27 to 23.



**8. The banking sector appears to be sound on average, but remains vulnerable to poor asset quality and losses.** Average capital adequacy ratio (CAR) was at 32.7 percent in Q3 2017, up from 27.8 percent in December 2016. All banks complied with the minimum CAR of 12 percent stipulated by BCSTP. Non-performing loans (NPLs) as a percent of total gross loans are high but continued to fall to 23.9 in Q3 2017, from 27.1 percent in Q4 2016. Only two banks have NPL ratios below 10 percent; the remaining four banks (including BISTP) have NPLs ranging from 24 to 41 percent. Provisions as share of past due loans increased from 71 to 79 percent, suggesting that banks have some cushion to mitigate expected losses. Annual profitability has been negative since 2011, eroding banks' capital. The system is liquid, reflecting the lack of commercial lending opportunities (including lack of bankable projects) for commercial banks in an environment of persistently high NPLs. The factors driving NPLs in STP include low economic growth, government arrears to suppliers (who in turn cannot meet their loan repayment obligations to banks), slow credit growth (a reflection of high NPLs), and gaps in debt enforcement and insolvency regime as well as lack of out-of-court workout alternatives. Overall, NPLs could undermine the stability of the financial sector if no aggressive resolution measures are undertaken.

**9. Access to finance remains a major constraint in STP, in particular for women.** Indeed, private sector credit to GDP fell from a peak of 40 percent in 2010 to 21.1 percent in 2015 and to 16.8 percent in 2016. Similarly, the ratio of deposits to GDP declined from 43.6 percent in 2015 to 33.9 percent in 2016. At the moment, for every 1,000 adults, there are 142 borrowers at commercial banks (IMF FAS 2016) in STP. However, with short term deposits, an absence of domestically issued securities, scarce foreign exchange and limited central bank reserves, the cost of funding for banks is high. Banks - in turn - offer credit only at high interest rates. Access to finance for women is particularly constrained. According to the most recent BCSTP data as of January 2018, less than 35 percent of total of number of loans provided by the banking sector went to women and in terms of amount, just over 30 percent of system credit went to women. To promote financial inclusion, the sector needs the appropriate financial infrastructure to assist in identifying and lending to promising borrowers. Banks reported the lack of a formal credit history and legal framework to support creditor rights in areas such as leasing and non-possessory lending practices as impediments to increasing lending, particularly to MSMEs. Additionally, many individuals cannot offer sufficient collateral or, if they do, the ability to publicize the creditor's security rights in a centralized registry and the legal framework to support enforceability of this collateral in an efficient and effective manner is doubtful.

**10. Since 2016, the authorities initiated financial sector reforms underpinned by the Financial Sector Development Implementation Plan (FSDIP).** In particular, BCSTP took measures to strengthen banking sector oversight, with focus on resolution. Following the passage of the Bank Resolution Law in 2015, various regulations or *Normas de Aplicação Permanente* (NAPs) were issued in July 2017, including on: (i) prompt corrective action framework; (ii) temporary administration and intervention; (iii) bridge bank; (iv) recovery and resolution planning; (v) criteria for defining a financial group and control; and (vi) resolution measures. The BCSTP is currently building the internal capacity to implement the above regulations and the Bank Resolution Law. Focus is on the establishment and training of a dedicated resolution team and development of internal resolution manuals and guidelines. Reforms are also ongoing to further develop payment systems, allow mobile financial services, and develop the nascent microfinance sector.

**11. Further efforts are needed to improve BCSTP's understanding of financial risks and inform the development of preventive measures.** Given the high risk imposed by high NPLs, a bank-wide asset quality review (AQR) would provide a full and accurate picture regarding the quality of banks' assets. The AQR would take stock of banks' asset classification and provisioning practices, identify deviations from BCSTP's



guidelines and international norms, and recommend necessary adjustments to ensure compliance. Moreover, the automation of supervisory processes (including banks' submission of supervisory returns) and regular collection of financial information of non-financial corporates, would enhance the effectiveness of BCSTP's banking supervision and assessment of macro-financial risks.

**12. After improvements, the credit registry (*Central de Riscos de Crédito – CRC*) maintained by BCSTP receives an increasing number of lender inquiries although it still has significant data quality constraints.**

An efficient, sound and comprehensive credit reporting platform is a basic premise for the development of the financial sector, as it enhances the transparency of the market and allows the various users to efficiently perform their institutional roles. In particular, financial services providers can monitor, mitigate or avoid credit risk and adverse selection, while supervisors have access to detailed data for prudential purposes. Following the 2015 Gap Analysis financed by the Financial Sector Reform and Strengthening Initiative<sup>1</sup> (FIRST) Financial Sector Development Implementation Plan TA project, the Central Bank has undertaken some enhancements (mostly related to database technical standards, disk storage, safety, and real-time updates). Notwithstanding, there are critical areas that still require improvement. Information reliability and completeness is considered a basic requirement in the set-up of credit reporting systems, and includes value added services such as scoring procedures, based on information from external sources.

**13. There is currently no structured or holistic secured transaction system in STP, which has proven in other countries to be a power catalyst for promoting inclusive finance in particular for women entrepreneurs.** This creates uncertainty about the enforceability of collateral rights in case of default – and deters lending or other financing flows in the first place. The ultimate objective of a modern and functional secured transactions system is to provide access to credit for all economic sectors, and all types of economic actors. Secured transactions systems (the use of movable assets as collateral for a loan) enable businesses and consumers to use their assets as security to generate capital. These systems are an important alternative to traditional lending because they serve borrowers with characteristics that can fall outside a bank's typical business line and allow banks to further develop their commercial banking products. Moveable asset based lending has also been proven to promote lending to women entrepreneurs. Secured transaction loans are typically secured by a company's accounts receivable, inventory, and equipment, and they primarily benefit start-ups and small and medium enterprises (SMEs) that do not have real estate or land to mortgage. These include a farmer pledging his crop as collateral for an agricultural loan, or a manufacturer of consumer or industrial goods pledging their raw materials and finished products for working capital, or a seller of goods or services pledging the cash flow from its customer accounts as collateral for business expansion.

#### Public Financial Management

**14. The institutional capacity for public financial and fiscal management led by the Ministry of Finance (MoF) has improved but remains weak.** The main challenges include a lack of resources, low technical capacity, a lack of coordination and political economy factors which prevent prudent fiscal management. Some Public Financial Management (PFM) practices are reinforcing fiscal fragility instead of supporting fiscal discipline. Previous assessments, including a 2013 Public Expenditure Financial Assessment (PEFA), have

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<sup>1</sup> The Financial Sector Reform and Strengthening Initiative (FIRST), is a multi-donor grant facility administered by the World Bank that provides short- to medium-term technical assistance to promote sounder, more efficient and inclusive financial systems. Further information about FIRST can be found at the following website: <http://www.firstinitiative.org/>



identified the need for improvements in areas of budget preparation and execution (including public procurement and public investment), accounting, treasury, banking payments and reconciliation, payroll control, and internal control, external auditing and follow-up and implementation of audit findings.

**15. The Government is aware of these shortcomings and has prepared a Public Financial Management (PFM) Reform Plan which was approved in 2017.** This plan consolidates all the MoF's reform priorities and corresponding needs on technical advisory, capacity building and IT systems. The reform plan is being used as the basis for dialogue and for identifying areas for support from the World Bank and other donor partners. The Government and the donors expect the plan to serve as a mechanism to coordinate donor's support to PFM in STP and as a guide to prioritize government's own PFM reform program. While technical assistance can help to solve some of the technical capacity challenges of improved PFM, the non-technical drivers must be effectively dealt with as well since they may continue to reduce the impact of planned reforms. These include political interference/influence over technical spheres of work, including budget projections and expenditure approvals, as well as weak performance monitoring and low proactivity on under-performing SOEs. One key challenge is to move beyond cosmetic reforms towards meaningful and sustainable changes in the workings of key PFM institutions. A key element to overcome such resistance is to engage with a broad set of stakeholders beyond the technical nexus of MoF, including civil society and media organizations, parliamentary commissions, as this can help strengthen coalitions for reforms and accountability, thereby keeping a focus on impact and results. Increased transparency and monitoring of government spending and results is another important focus area which can have broader impact across the entire public sector.

**16. Low domestic revenue mobilization and poor expenditure control limits the state's capacity to provide needed services.** Tax revenues in STP reached 14.2 percent of GDP in 2014, one of the lowest in the world, and three percentage points of GDP below the second lowest taxed country – Cabo Verde – and a full five percentage points of GDP below the average of the structural peers. The tax structure in STP relies heavily on taxation of goods and services, and is similar to the structure of comparator countries. A decline in revenues since 2016 has led to a decline in government expenditures and an increase in government arrears, resulting in an overall slowdown in the economy – since government spending is the main growth driver – which ultimately hurt tax collection. STP could increase its tax revenue by five percentage points of GDP by emulating the tax structure and reaching the collection efficiency of its structural peers. One key element to broadening the tax base in STP will be to move towards a Value Added Tax (VAT), and the Government is already taking steps to implement the VAT with support from the World Bank, International Monetary Fund (IMF) and the African Development Bank (AfDB).

**17. Budget credibility remains low, with significant variations between budget forecasts and execution.** There are significant variations between initial allocation and actual expenditures (more than 10 percent of budgeted expenditures) due to lack of predictability of external grants and optimistic domestic revenues projections.<sup>2</sup> The large difference between budget and actual expenditures underscores the lack of good planning and forecasting by the relevant departments on both the revenue and expenditure side. On the income side, estimates tend to be overly optimistic, and lack a proper technical assessment. Departments tend to work in silos and are reluctant to share and discuss their estimates. On the expenditure side, budget units are allowed to take several steps outside the electronic expenditure chain system prior to expenditure

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<sup>2</sup>Budget execution deteriorated across the board, when the overall budget execution rate fell from 75 percent in 2010 to 55 percent in 2016. Budget execution varied considerably by sector, but declined in almost all sectors



commitment without checking if cash is available to fund these expenditures. This makes it difficult for the Directorate of Treasury to gauge the timing and the amount of expenditures that are forthcoming. More regular and timely monitoring of budget execution could also help the authorities make the necessary in-year adjustments and budget revisions if necessary.

**18. Public Procurement in STP is inefficient, leading to relatively high costs for the public sector and delays in project execution.** In addition, independent review and oversight remains irregular. Procurement is regulated by a law from 2009, and has not been revised since. The Procurement Law (Law 8/2009 of August 26) enacted a Procurement Regulation and the creation of a Procurement supervisory body, the Procurement and Coordination and Supervision Office (COSSIL). The COSSIL is a body mandated to centralize procurement information, assist the decentralized procurement units, and ensure uniformity and quality across government procuring units. Limited resources and capacity constraints are negatively affecting the functions of COSSIL. Current legislation is only partially implemented, mainly due to the limited allocation of resources for the functioning of COSSIL. Furthermore, training has been limited in terms of its quality, frequency and scope and it is not conducive to the establishment of a critical mass of civil servants with necessary procurement knowledge and skills. As a result, the ability of the procurement practitioners to grow over time has also been limited.

**19. The STP procurement law, since it was enacted, has not been revised or updated to incorporate lessons learned, and has not adopted the latest international best practices.** The introduction of new concepts in the public procurement framework, such as sustainable procurement, framework contracts or e-Government Procurement (e-GP) could allow for the transition from a compliance system to a strategic development function. For instance, framework contracts will provide for efficiency and savings in the purchase of common goods and services required for the public administration, while the e-GP will introduce gains in terms of accessibility and transparency of public contracts, with positive impact expected with cost reductions, as demonstrated worldwide. This will be further enhanced if the public procurement practitioners and the oversight body are duly trained, information is accessible for increased transparency, and the private sector is aware of how to access public contracts. In order to sustain the reform, a clear roadmap (strategic and operational plan) will be prepared and adopted by and for the actors of the system.

**20. The 2014 Report on the Observance of Standards and Codes (ROSC) – Accounting and Auditing indicates that the accountancy profession is at an incipient stage of development.** The ROSC finds that there is low appreciation of the importance of financial reporting/accountability; a lack of data on the number of accountants and auditors in the country - it is estimated that about 1,480 technicians and 660 professional accountants are required to serve the country and raise standards; the accountancy profession is not organized and a number of people practicing as accountants and auditors are not qualified and are not monitored – which lowers the quality and reliability of financial reports; there is no stipulated qualification to be met by accountants and auditors in STP; the applicable reporting standards are outdated, implemented inconsistently, and are not enforced (no monitoring or sanctions). These weaknesses negatively impact on the quality of financial reports, and relevance of the accountancy profession and accountancy services negatively impact on accountability and the business environment. In addition, limited confidence in the capacity of local accountants means that many large companies rely on more expensive foreign accounting and auditing firms, which could be an entire market of business opportunities for local practitioners if they had the necessary skills and certifications/licenses. A decree was enacted in 2017 which stipulates the establishment, responsibilities and governance arrangements of a Professional Accountancy Organization (OTOCA) charged with promoting and overseeing the profession, including the process of



certifying/licensing and registering accountants and auditors, which is currently the responsibility of the Ministry of Finance.

**21. State Owned Enterprises (SOEs) face many challenges related to transparency, efficiency, and financial viability.** The legal and regulatory framework for SOEs is adequate, but it has not been fully implemented. Ownership, transparency and accountability and performance monitoring mechanisms are unclear and the MoF as owner of companies has not been proactive in providing the necessary oversight and monitoring of its companies. As a result, their service delivery remains poor while losses, debt and arrears have increased to critical levels in recent years – putting significant fiscal pressure on government. The law foresees a nonexecutive administrative board for each SOE that was not implemented. Consequently, SOEs operate without proper accountability mechanisms. The managing directors are appointed formally by the Council of Ministers for a three-year term. The chief financial officer nomination comes from the MoF, while the other managers' names are suggested by the overseeing ministry.

Systems for registering national statistical data and immovable property

**22. STP lacks some of the basic data required to inform economic and social policy.** Timely data is absent, particularly on poverty, inequality, socio-economic issues, and agriculture. The latest poverty and inequality data is seven years old and only two poverty surveys have been implemented in the last 25 years (in 2000 and 2010). Despite progress, the National Statistical Institute (*Instituto Nacional de Estatística* [INE]) is not able to produce reliable statistics on a regular basis, fill data gaps, nor improve data quality. There is only one INE staff with experience in household surveys, who is close to retirement. In general, staff at INE and other ministries have limited analytical capacity to interpret economic data. STP's lack of improvement in the World Bank's Statistical Capacity Indicator (score of 70 out of 100, the same as the Sub-Saharan Africa's average) is partly due to the lack of regular surveys to monitor key socio-economic indicators, an outdated base year for national accounts, and the inability to accurately report basic social statistics.

**23. Despite recent progress, the existing land and property registries are inefficient.** The General Directorate for Registries and Notaries - DGRN within the Ministry of Justice oversees the land registry (*Registo Predial*) and the property registry (*Registo de Propriedade*), among others. Despite recent improvements, the existing land and property registries overseen by DGRN are inefficient and outdated, which constrains its contribution to secure property rights that can be used as collateral to finance productive investments. Currently, the DGRN lacks the IT equipment and staff skills to fully digitize and modernize the existing property registries. As a result, the existing registry is paper-based and procedures for consultation and registration are performed manually. Mortgages are registered at the property registry. Existing land titles, pledges, and mortgage registries are paper-based and are performed manually, which forces officers to consult the existing paper books to process land transactions. In addition, land related information is kept paper-based in different entities, mainly at DGRN, Directorate of Tax Administration, Directorate of State Assets, and Directorate of Geographical and Cadastral Services, leading to potential data duplication, redundancy, high fragmentation; and in summary, lacking the basic required elements for data sharing. As a result, registering and consulting is inefficient and expensive, which undermines its value as collateral for bank credit. The Strategic Plan for Registries and Notaries 2017-2019, call for i) Legal reforms through the new Land Registry and Notary Codes (*Código do Registo Predial e do Notariado*) and ii) for the modernization and improvement of this public service.



24. **Although the STP regulatory framework protects women's socioeconomic rights and establishes that title deeds and property registration should include the declaration of both members of the couple, in practice there are many barriers to apply such regulations, especially in cases of the facto marital unions.** In fact, women's participation in socio-economic and political life has been very limited, especially in rural areas, except for women contractors who used to work in large agricultural enterprises. As a consequence, women are not regarded as eligible for land and housing rights, and this patriarchal tradition involves the authority of the spouse, the subordination of women and their economic dependence that is fed through a strong division of labor, between the female private/home work, and the men public/external and income generating work. In addition, little is known about the magnitude of the gender gap around socioeconomic inclusion and land tenure rights. This leads to a deep lack of understanding about women's rights, needs, progress and further policy development to reduce the gender gap. In this sense, there is a need to advance towards greater gender equality in topics related to economic inclusion and protection of women's land rights.

### C. Higher Level Objectives to which the Project Contributes

25. **The World Bank Group's (WBG) Country Partnership Strategy (CPS) for STP (Report 83144-ST) FY14-FY18 supports STP through the pillars of promoting macroeconomic stability and competitiveness, and in reducing vulnerability and strengthening human capacity.** The proposed project is aligned with both pillars and with the Performance and Learning Review under preparation. Key areas of the project are aligned with the Development Policy Operation (DPO) under preparation for both the DPO's first pillar which promotes growth-enabling reforms in the financial sector and business environment and the DPO's second pillar which supports reforms for fiscal resources and savings and improving the quality of expenditures. By stabilizing the financial system and promoting access to finance for the private sector as well as creating fiscal space, the project would help catalyze additional resources for development. The project is also aligned with the Government's National Development Plan (NDP 2017-2021) which aims to accelerate economic growth, reduce poverty and protect the environment. The NDP is a collection of nine aspirations, two pillars and five strategic objectives and the project will specifically support the two strategic objectives related to institutional and economic development. Additionally, the Government's goals for financial development are reflected in the 2016 Financial Sector Development Implementation Plan. The Project will also contribute to the realization of the Government's Public Financial Management Reform Plan and the National Strategic Plan for Registries and Notaries 2017-2019. In addition, the Project supports the WBG's twin goals of ending extreme poverty and boosting shared prosperity as the three project areas link collectively to contribute to a more inclusive and sustainable private sector driven growth model which will provide fiscal space for delivery of services to the poor and increase economic opportunities to the citizens of STP, of whom over two thirds live on less than US\$3.1 PPP/day/day (World Bank, 2017).

## II. PROJECT DEVELOPMENT OBJECTIVES

### A. PDO

26. To contribute to improved capacity of public institutions to: (i) supervise the banking system; (ii) promote access to finance; (iii) manage public finances; and, iv) produce national statistics.



## B. Project Beneficiaries

27. The project will be multi-sectoral in nature, supporting improved capacity building of staff at the Central Bank, Ministry of Finance, Ministry of Justice, the DGRN, the INE, and the COSSIL. Ultimately, project beneficiaries would include the users of financial services, taxpayers and recipients of public services. Additionally, the project is expected to benefit entrepreneurs, and particularly women, many of whom are involved in small business. Specifically, the project will integrate gender through targeted approaches and ensure women are aware of and able to fully exercise their property rights.

## C. PDO-Level Results Indicators

28. Key project outcomes include enhanced institutional capacity in financial sector policy and regulation, public financial management and fiscal planning, statistical capacity, and property registration. Improving institutional capacity in these areas will result in: (i) a more stable, competitive, and inclusive financial system capable of providing affordable financial services and products, a precondition for economic development and poverty reduction; (ii) increased revenue collection through the introduction of value added taxation, better revenue forecast, expenditure controls, and oversight of SOEs, which will improve the credibility, accountability and transparency of public finances; (iii) timely and quality statistics to inform policy making; and (iv) more transparent and efficient property registration, which increases its potential to be used as collateral for bank lending, through the design and implementation of the IT infrastructure towards a sustainable parcel based land administration system.

The PDO Indicators are:

- Improved capacity of BCSTP to promote financial stability as measured by the percentage of banks that corrected provisioning and capital shortfalls identified by AQR.
- Improved Capacity of BCSTP to promote financial inclusion by expanding percentage population coverage of the Credit Registry (of which women).
- Improved Capacity of Ministry of Finance to generate revenues as measured by Tax Revenues Collected as Percentage of GDP.
- Improved Capacity of the National Statistics Institute to produce national statistics as measured by the Overall Statistical Capacity Score (SCI).

## III. PROJECT DESCRIPTION

### A. Project Components and Approach

**29. The Project aims to improve financial soundness and access, strengthen public financial accountability and management, build statistical capacity, and improve the framework for registering property which are inter-linked and mutually reinforcing.** An inclusive financial system that can provide diverse and affordable financial services and products is an important precondition for greater diversification and private sector development, while a more stable financial system with robust supervision framework would reduce fiscal liabilities of dealing with distressed banks. Transparent and accurate fiscal accounts is an important condition for improving the credibility, accountability and transparency of public financial management while improved domestic revenue mobilization will provide a greater capacity for Government



to deliver needed services. A more credible and competitive public procurement landscape will contribute to lower fiscal costs and greater private sector opportunities. Accurate and timely national statistics are necessary to inform policy makers and development partners of trends and developments. Additionally, the project will integrate gender through targeted approaches to improve and measure access to finance for women and ensure women are aware of and able to fully exercise their property rights. Project capacity development interventions such as training will promote and track women's participation throughout. The project areas are linked as collectively they will contribute to a more inclusive and sustainable private sector driven growth model while providing fiscal space for delivery of services to the poor. Annex 5 provides a graphic depiction of the project's "theory of change" and the results chain, showing the link from activities to outputs to intermediate outcomes, and to final outcomes.

**30. For a successful implementation of the project's institutional capacity-building activities, the needs have been identified and presented in the project activities, below, considering the following three (3) levels:** (i) the enabling environment level; (ii) the organizational level; and (iii) the individual level. All in relation to the following four (4) fundamental themes: (i) institutional arrangements; (ii) leadership; (iii) knowledge; and (iv) accountability; four themes applicable to each one of the three levels mentioned above. Finally, the five (5) functional capabilities, as a foundation for the capacity development process construction: (i) the ability to mobilize stakeholders; (ii) the ability to assess a situation and define a vision; (iii) the ability to formulate policies and strategies; (iv) the ability to define a budget, manage it and implement it; and (v) the ability to carry out assessments.

**31. Additionally, the institutional arrangements for training will be carried out based on the ten (10) internationally recognized quality standards for the management of quality in the initial and continuous training plans.** These standards relate to the following:

- Identification of training needs;
- Formulation of learning objectives in terms of competencies and skills;
- Hiring competent trainers;
- Development of training content in line with the learning objectives targeted;
- Development of training strategies;
- Evaluation of the learning topics;
- Evaluation of the training activity or program;
- Establishment of a team responsible for the development & administration of training
- Maintaining of a continuous improvement system;
- Archiving of the participants' record.

**32. The Project will be implemented through four components:** (i) Financial Soundness and Access; (ii) Strengthening Budget Credibility, Tax Base, and SOE Governance; (iii) Property Registration and Statistical Development; and (iv) Project Implementation Support.



### **Component 1: Financial Soundness and Access (US\$4 million)**

33. Drawing on the 2016 Financial Sector Development Implementation Plan (FSDIP) and complementing the existing FIRST TA Projects on financial stability and inclusion as well as other donor initiatives, this component would aim to strengthen the Central Bank's capacity and systems in order to enhance financial sector soundness and increase access to financial services. Component 1 will be implemented by BCSTP as the lead technical institution.

#### ***Sub-Component 1.1: Promoting Financial Sector Soundness (US\$2 million)***

34. **To help BCSTP better understand existing risks and develop preventive measures**, this sub-component will finance an Asset Quality Review (AQR). A reputable international auditing firm will be retained to review the six commercial banks in STP. The AQR will determine possible shortfalls in NPL provisioning and capital levels, allowing BCSTP and banks to develop plans to improve asset quality (including reduce NPLs) and improve the overall soundness of the banking sector (e.g., through time-bound recapitalization plans). The AQR would also inform the design of additional technical assistance to enhance banking supervision in a manner that complements the IMF's existing support in this area.

35. **This sub-component will also strengthen BCSTP's supervisory and surveillance capacity by supporting the acquisition of a bank supervision application and the development of an online data center.** The banking supervision application will enhance the effectiveness of bank supervision by allowing online submission of supervisory returns by banks (as opposed to the current manual submission) as well as the automation of the supervisory process/workflow and risk analysis by BCSTP staff. The data center (*Central de Balanços*) will house financial statements of non-bank entities, expanding the scope of data available to BCSTP to identify macro financial risks. It will also inform the development and regular publication of a financial stability report.

#### ***Sub-Component 1.2: Upgrading of Credit Registry Platform (US\$750,000)***

36. **After improvements, the credit registry maintained by the Central Bank (*Central de Riscos de Crédito – CRC*) receives an increasing number of lender inquiries although it still has significant data quality constraints.** BCSTP has undertaken some enhancements (mostly related to database technical standards, disk storage, safety, real-time updates, information collected, and information provided to regulated entities). Notwithstanding this progress, there are many critical areas that require improvement, mostly related to implementation of: (a) disaster recovery sites and business continuity framework; (b) new data contribution modules and a set of data quality key performance indicators; and (c) enhancement of credit reports for lenders. Basic requirements for future enhancements include: (a) interconnection of credit registry data with data from microfinance institutions (capturing all cross-lending between banking and MFI sector); (b) interconnection with GUEnet platform and borrowers' balance sheet data; and (c) enhancement of borrowers' credit reporting, adding data related to payments of utilities, taxes and energy company bills.

#### ***Sub-Component 1.3 Moveable Asset Electronic Collateral Registry (US\$1.25 million)***

37. **There is currently no structured or holistic secured transaction system in STP which limits lending to MSMEs.** To address this, this sub-component will finance the introduction of a modern secured transactions law supported by a centralized electronic registration system. Such movable collateral registration would



serve two functions: (i) notify third parties of the existence of the security interest and (ii) establish the priority status of a security interest based on the date of registration. Establishing a moveable collateral registry will leverage the potential of the secured transactions law by increasing access to information on assets and expanding the range of collateral available to borrowers and lenders.

**38. As a first step, a legal framework diagnostic has already been carried out under the FIRST project.** The diagnostic sets out the current legal landscape in STP as well as the options for the introduction of the secured transactions legal regime based on the UNCITRAL Model Law on Secured Transactions (MLST). The diagnostic report has been shared with the Central Bank and Ministry of Justice and comments received which indicate broad support for this reform. Any legal reforms would also be harmonized with the existing legal framework in the country and would be integrated in the ongoing reform agenda being led by the Ministry of Justice. The Project will fund the development of a centralized electronic, web based registry for security interests in movable assets, in line with internationally accepted practices. Consideration will be given to the hosting model to best fit the scale and capacity of the economy of STP.

**39. Additionally, a market assessment will be carried out to create a roadmap to address financing needs of MSMEs, particularly women owned and operated businesses.** With the unique environment in STP, to support inclusive growth using a modernized suite of credit infrastructure, and catalyze inclusive growth, a market opportunity assessment will be undertaken. Drawing on and adding to existing research, this study will develop a holistic picture of SME financing from a demand and supply side perspective, delivering a roadmap for reform and informing targeted interventions tailored to the specific needs of businesses in STP.

## **Component 2: Strengthening Budget Credibility, Tax Base, and SOE Governance. (US\$4.5 million)**

40. Component 2 will be implemented by the Ministry of Finance. The overall objective of this component is to strengthen the capacity of the MoF to increase budget credibility, broaden the tax base and improve the governance and oversight of SOEs. Specifically, activities under this component support the objectives of the Government's PFM reform plan which enjoys broad political support and related analytics, and have been identified through several rounds of consultations with the authorities and other donors providing complementary support. Other selection criteria include relevance to the growth and poverty agenda. The component will be organized around the following sub-components.

### ***Sub-Component 2.1: Strengthened Budget Credibility (US\$1.95 million)***

41. The support under this sub-component would cover all facets of the public budget cycle from forecasting and budget estimates, to budget preparation, expenditure controls and the closing of Government accounts. Specifically, the project will support the following activities:

- **Macroeconomic Forecasting:** Technical assistance and training to strengthen the methodology and data for macroeconomic forecasting.
- **Revenue Forecasting:** Technical assistance to strengthen the methodology for macroeconomic forecasting.
- **Public Procurement Reform:** Technical support will be provided to update the Procurement Law, Implementing Regulations, Standard Procurement Documents and Procurement Manual as well as limited and targeted training.



- **Expenditure Controls and Cash Management:** Support will be provided to design/purchase an electronic interphase between Treasury and Central Bank to allow for electronic exchange of information, and software and hardware upgrading of the Datacenter which provides overall support to all government electronic PFM systems.
- **Debt Management:** The project will support the development of a simple in-house software solution to estimate debt service projections and a portfolio analysis function to produce reports for Debt Sustainability Analysis (DSA), Medium Term Debt Strategy (MTDS) and Annual Borrowing Plans.
- **Preparation of Consolidated Government Accounts:** This activity will support the finalization of a complete inventory of government assets and technical assistance to preparing the general accounts (*conta geral*) within three months of the end of the FY.

42. In addition to the PFM reform plan, support under this sub-component has been informed by the Bank Public Expenditure Review (PER) report, the DeMPA assessment, and the 2013 PEFA Assessment. Support proposed is also being coordinated with other donors, in particular the EU and the AfDB. Additionally, the AfDB is financing a new PEFA update (to start in late 2018) which would further inform future support activities and which would be conducted in close coordination with the World Bank team.

***Sub-Component 2.2: Broadened Tax Base through the Value Added Tax (US\$1.25 million)***

43. STP has room to increase domestic revenues by three to five percentage points of GDP by reforming tax policy and improving tax administration. A key priority for tax policy is the reform of tax on goods and services with the introduction of a value-added tax (VAT) which is being spearheaded by the MoF Tax Directorate. Drawing on the findings and recommendations of the PER report and complementing the TA provided by the IMF and planned support by the AfDB, this sub-component will support the roll out of the VAT through the following activities:

- **Support for the selection and training for additional Staff:** The tax department will need to increase their staff by 25 new members, and these will need to be trained on all aspects of VAT registration, filing, payment, refunds, compliance verification and interaction with taxpayers and businesses.
- **Support to setting up of Customer Centers (4 regional centers)** to receive tax payers and process VAT tax returns, provide guidance and information to taxpayers through finance of design lay out studies, IT equipment, and furniture.
- **Communication with Taxpayers:** This includes the preparation of a communications strategy, and various communication and guidance materials to explain the new VAT, how it works, who it applies to, how to calculate and pay, how to claim VAT refunds, and dissemination of such materials and advertisements through television, radio, mobile phones/SMS and printed media.
- **Tax audit, compliance and review:** This activity will support training and development of manuals and guidance material on risk based tax audits.



***Sub-Component 2.3: Strengthened SOE Governance (US\$1 million)***

44. This sub-component will build the capacity of the recently established SOE oversight unit in the MoF to implement the SOE Reform Plan which is being finalized with World Bank TA, with a focus to improve the monitoring of SOE governance, performance and reduce the fiscal risks associated with SOEs. Activities include:

- Development of an SOE Ownership Policy: This activity will support the development of an SOE policy, outlining the Government's objectives for state ownership and the main objectives for each SOE or sector.
- Technical and legal support to review and update the existing legal framework including associated implementing texts (regulations, decrees, manuals).
- Strengthened SOE monitoring, through the preparation of a simple database to facilitate the collection and analysis of all pertinent financial and operational information and the preparation of a comprehensive annual report on the entire SOE portfolio in STP, including a review of financial and operational performance, complete information on all transactions between SOEs and the state, including any state guarantees for SOE debt, arrears, and a comprehensive overview of corporate governance structures, including management and Board composition and remuneration.
- Performance Contracts: technical assistance for the preparation of performance contracts with a select number of SOEs, including in-depth company performance analysis and identification of institutional reforms.
- External Audits: this includes the financing of the first series of annual external financial audits for all fully state-owned companies, to be carried out by reputable audit firms. Subsequent annual audits will be financed by the SOEs themselves. The audit reports will be published.
- Strengthened institutional capacity of the newly established SOE unit, including training on company/financial analysis, development of guidelines and tools for improved monitoring and follow-up, and a long-term non-resident advisor to provide continuous technical support on a variety of outputs including the SOE policy, annual SOE report, Performance Agreements.

***Sub-Component 2.4: Strengthening Accounting and Auditing Standards (US\$300,000)***

45. The activities under this sub-component will draw on the 2014 Accounting and Auditing ROSC Report. They will be implemented by the Ministry of Finance General Inspectorate Unit in partnership with the recently established Accountancy Association (OTOCA). Activities supported will include the following:

- Update national financial reporting and accounting standards. This will start with technical assistance to present various options to government, including pros and cons and associated implementation requirements. This will be followed by support to a broad consultation process allowing government to take an informed decision on the best option given local conditions (for example, capacity constraints, regional integration concerns.).
- Develop guidelines for the implementation of the new accounting standards - covering the rules of the OCAM (National Accountancy Standards) and the chart of accounts of the Central Bank.



- Training in accounting and auditing standards. Facilitation of a series of training and training of trainers on accounting and auditing standards and guidelines. With the use of different forums and approaches to training, most of which should be practical and case study-based.
- Technical support to the development and implementation of a licensing and registration system to certify financial accountants and auditors, including the development of criteria and testing of candidates, and issuance of certificates and a registry.

### **Component 3: Property Registration and Statistical Development (US\$2 million)**

46. This component would support the systems, capacity, and information reporting abilities for property registration and the National Statistics Institute (INE) as follows:

#### ***Sub-Component 3.1: Reform and Modernization of Property and Land Registry (US\$500,000)***

47. As mentioned earlier, the Strategic Plan for Registries and Notaries 2017-2019, call for i) Legal reforms through the new Land Registry and Notary Codes (*Código do Registo Predial e do Notariado*); and ii) for the modernization and improvement of this public service.<sup>3</sup> The General Directorate of Registries and Notaries – DGRN in the Ministry of Justice is moving towards digitizing paper records and simplifying internal procedures. The registry's objective is to fully digitize all records and procedures, allowing for quick and effective searches on titles, which will provide greater clarity and security of title, and be more readily available for use as loan collateral.

48. The scope of the property registration modernization subcomponent includes:

- Technical advice on the development of the new Land Registry and Notary Codes;
- The modernization of the Property Registration for both parcels and vehicles, including the design of the Real Estate and Vehicle Registration Information Management System SIGIRA – *Sistema de Gestão de Imóveis e de Registo de Automóveis*; and the identification, classification and digitalization of all books, documents, titles and acts from the property registry, promoting the interoperability among the land registry, the cadaster and the property taxation, within the framework of the IT strategic plan;
- The identification of activities and processes that will enable the protection of women's existing land tenure rights<sup>4</sup>; and
- The identification of further steps to increase the number of public and private parcels record at the cadaster, notary and registry public systems, and the maintenance of such data, aiming to increase effectiveness at securing land tenure.<sup>5</sup>

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<sup>3</sup> Direcção Geral dos Registos e Notariado. *Plano Estratégico dos Registos e Notariado 2017-2019*. São Tomé e Príncipe, Outubro de 2016.

<sup>4</sup> The project will include appropriate strategies to mitigate and encourage knowledge and awareness of women, about their land rights. Accordingly, the project will not have land titling or land access activities and therefore the activities will not deal with overlapping land rights, claims or de facto situations.

<sup>5</sup> In STP, land tenure informality has several causes: i) a lack of a land administration system to maintain the information and support the land market; ii) prevalence of the informal land market, and without a functioning land administration system that is accessible, affordable and efficient, many land owners will simply buy and sell informally, allowing the property data to become out of date and therefore of less use to the government, public and private entities; iii) weak policies, procedures and institutions to facilitate the maintenance and updating of data on properties, owners, rights and mortgages; and iv) in some cases, inability of community



49. Accordingly, the property registration modernization subcomponent will finance land information management technology including equipment and software, consulting and training services, and media and public awareness services, including a public feedback mechanism.

***Sub-component 3.2: Statistical Capacity Building (US\$1.5 million)***

50. The statistical capacity building component will be implemented by INE. The support under this sub-component will build on and advance the work being conducted under the ongoing Bank Trust Funded STP Household Budget Survey (P159667) TA project. Activities to be supported under this sub-component include the following:

- Improving ICT and Statistical Infrastructure: The project will finance the needed upgrade of the ICT infrastructure to ensure efficient workflows for data collection, processing, analysis, dissemination and archiving. It will also support INE in its role of custodian of official statistics and the simplification of the flow of data from other sources and government agencies.
- Promotion of statistics: This includes a campaign to promote information, education and communication; and lecture series.
- Improving human resources technical capacity: This involves strengthening recruitment of and retention of qualified staff.
- Short-term capacity building: Training will be provided and will include on-the-job-trainings with shadow assignments, workshops, short-term courses, certifications. This training will be delivered both in STP and abroad.
- Development of talent for long term need: This involves selection of young graduates (in mathematics, economics and related fields) from the local university and supporting their advanced level courses in regional statistical schools.
- 2020 Household Budget Survey (HBS) and Analysis of 2017 HBS: The project will finance the next HBS (2020) to update poverty and welfare statistics in STP. Having used tablets to implement computer-assisted personal interviews (CAPI) in HBS 2017, INE will continue to use this technology to improve data quality.
- Data Dissemination: The project will support the development of data access and information policies and dissemination practices, especially the dissemination of micro-data by financing: (i) enhancement of INE website to include a micro-data portal access in line with open-data principles; (ii) technical assistance and some trainings on micro-data anonymization; and (iii) the improvement of internet access at the INE, (iv) annual production and distribution of statistical abstracts.
- Enterprise Census: STP needs an enterprise census. The project will finance an Enterprise Census to inform the current situation of business operating in the country.
- National Accounts Technical Assistance: This activity will include Technical Assistance to; (a) migrate to System of National Accounts (SNA) 2008 (from SNA 1993); (b) change the base year from 2008 to a more recent year; and (c) identify and implement the missing surveys to migrate to SNA 2008.
- Supporting INE's office improvements: This activity includes office improvements to ensure that INE provides adequate working space for its staff by providing modern working equipment and other goods.

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members to pay fees or taxes linked to property registration.



#### **Component 4: Project Implementation Support (US\$1.5 million)**

51. The project would finance staff of the project implementation unit (PIU) in AFAP (*Agência Fiduciária de Administração de Projectos*) in charge of coordination, procurement, and financial management of the project. It would also support capacity building to enhance the capabilities of the PIU, particularly in relation to the management of a high number of relatively small TA contracts. A Project Steering Committee (PSC) will be established to coordinate the work of the PIU and the technical beneficiary agencies (BCSTP, MoF, INE, DGRN, COSSIL). The PIU will coordinate implementation of project activities<sup>6</sup>.

*Table 1: Notional cost by component (US\$, millions)*

#### **B. Project Cost and Financing**

Project Cost and Financing		Notional cost (US\$ million)		
No.	Component			
1	Financial Soundness and Access	4.00		
1.1	Promoting Financial Sector Soundness	2.00		
1.2	Upgrading of Credit Registry Platform	0.75		
1.3	Moveable Asset Electronic Collateral Registry	1.25		
2	Strengthening Budget Credibility, Tax Base, and SOE Governance	4.50		
2.1	Strengthened Budget Credibility	1.95		
2.2	Broadened tax base through VAT	1.25		
2.3	Strengthened SOE Governance	1.00		
2.4	Strengthened Auditing and Accounting Standards	0.30		
3	Property Registration and Statistical Development	2.00		
3.1	Reform & Modernization of Property and Land Registry	0.50		
3.2	Statistical Capacity Building	1.50		
4	Project Implementation Support	1.50		
	Total	12.00		
Project Components	Project cost (US\$ million)	IBRD or IDA Financing	Trust Funds	Counterpart Funding
Total Costs	12	IDA		
Total Project Costs	12			
Front End Fees				
Total Financing Required	12			

<sup>6</sup> A Project Preparation Advance (PPA) of US\$1.3 million in place to support priority project preparation activities which include: (i) the Asset Quality Review for the banking sector; (ii) support to the selection process of the VAT staff and specifications for the VAT customer service centers; (iii) support to INE for the analysis of the recent household survey data and development of the consumer price index; (iv) consultant to support the finalization of the project operations manual.



### C. Lessons Learned and Reflected in the Project Design

52. **Bank research<sup>7</sup> shows that institution building in low capacity environments is a long, complex and non-linear process** that affects planning and can undermine traditional “institutional-building engineering solutions”. Yet some success stories show patterns that can inform policy makers and reform efforts in such environments. The first lesson is that institution building must focus on a building block strategy that focuses on immediate needs/results and then build on these for medium and longer-term objectives. Constant evidence based learning should then be used to adjust and sustain these efforts. And, staff and clients must be provided with the right incentives and essentially hold a stake in the institution’s success. For development partners, this means that programming must follow genuine client priorities, have a long-term perspective, and continuously build knowledge of a complex and evolving political economy environment and be nimble in their support, willing to adjust their programming to take advantage of opportunities and momentum when it arrives.

53. **In a fragile and complex small-islands state context, attention to political economy drivers is key to ensure that the project is country-fit and adapts to the changing environment.** Social cohesion between communities, elite capture, connectivity issues, and technical capacity are key factors leading to complex political economy balance. It is important to build consensus and analyze non-technical bottlenecks such as sensitive governance reforms to inform design, adapt project, and build ownership. For low-income countries and fragile states where capacity is limited, it is important to define modest and realistic PDOs, to not automatically use PEFA as indicators, and provide hands-on supervision and TA. In those environments, PDOs of public sector reform should focus on laying out the basis. The full implementation of systems and related behavior changes take time, seven years on average. Simple, adaptable, and tailored off-the-shelf solutions are preferable in a low-capacity environment. It is important to consider the information and communication technology readiness of the Government and country. Finally, the reform momentum which tends to be strong at the design phase needs to be sustained during implementation.

54. **In Comoros<sup>8</sup>, an ambitious PFM reform agenda might have brought about a new set of problems if attention was not paid to ensuring prior review and clarification of the legal framework.** Moreover, to translate intentions into concrete implementation, the capacity of the administration to carry out and follow through on reforms was so low that hands-on support by the Bank and donor community was key. The Project benefitted from: (a) implementation of the project alongside DPO for mutual reinforcing; (b) limited and modest set of objectives and deliberately lean program with only two core components; (c) short operation with limited funding; and (d) flexibility, with precise criteria for allocation to allow for any needed modifications. Nevertheless, while the Project was attentive to both the scope of the operation and lessons learned, the project failed, at inception, to use a consistent and logical approach for its two components. In addition, the costs and implementation time of IFMIS implementation were severely underestimated. On average, an IFMIS implementation project requires seven years.<sup>9</sup>

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<sup>7</sup> The following paragraph draws heavily on the World Bank publication *Institutions Taking Root: Building State Capacity in Challenging Contexts* (2014)

<sup>8</sup> Comoros – Economic Governance Technical Assistance Project (P102376) – Implementation Completion and Results Report – Report # ICR00004178.

<sup>9</sup> Hashim, Ali. 2014. *A Handbook on Financial Management Information Systems for Government: A Practitioners Guide for Setting Reform Priorities, Systems Design, and Implementation (Based on a compilation of experiences in World Bank-financed projects)* World Bank.



55. **With regards to Financial Sector Development, the project considers lessons from other successful experiences, including in Africa region (Ghana) with regards to the development of a robust secured transactions regime and a moveable asset collateral registry.** A key lesson in that experience is the importance of harmonizing the secured transaction regime with the overall legal framework (such as civil and commercial codes) and the importance of outreach to both financial institutions and users of financial services in order to raise awareness of the new collateral registry. This project is also being implemented in parallel with other initiatives in lusophone Africa (Mozambique, Angola, Cape Verde) for financial infrastructure development (covering credit registries as well as collateral registries) which share similar legal regimes and which would allow for cross-fertilization and peer learning. Additionally, the project is drawing on the Bank's global experience in the design, development, and implementation of AQRs for the banking system, including from small island states in the Caribbean region. Applicable lessons include the importance of building counterpart (Central Bank) capacity throughout this process to ensure ownership of the AQR results as well as commitment to undertake the AQR recommendations. This would also provide the basis for the Central Bank to undertake such exercises in the future.

56. **In regard to systems development, lessons from Cape Verde and LAC region include: (i) improvement of land administration systems is a long-term process and involves gradual changes in the legal and institutional frameworks, demanding a constant monitoring of such changes to understand their implications for advancing the reform program and project implementation.** This lesson is important since the outcome of processes to strengthen and/or consolidate the legal framework is beyond a project's control; (ii) promoting adequate inter-institutional coordination requires strong leadership and clear understanding of the role and responsibilities of key land agencies; (iii) ensuring broad community support for informal land tenure regularization, through strong socialization and awareness campaigns, and active involvement of the community throughout the whole process; and (iv) promoting gender equity in property rights by supporting gender-sensitive legislation, the issuance of titles and property registration jointly to husband and wife, as well as to female-headed households, and women's land rights awareness campaigns. The consultation and participation framework should rely on existing structures and organizations, consultations should adequately reflect sociocultural values and perceptions of beneficiaries, and these processes require differentiated approaches for women and ethnic community engagement. A final lesson learned from around the world is the importance of building a land administration system to maintain the information from such systematic campaigns and support the land market. Without a functioning land administration system that is accessible, affordable and efficient, many land owners will simply buy and sell informally, allowing the property data to become out of date and therefore of less use to the government, public and private entities. To create a land administration system requires not just information systems, but also policies, procedures and institutions to facilitate the maintenance and updating of the data on properties, owners, rights, etc. and activities to encourage the active participation of owners in this process.

## IV. IMPLEMENTATION

### A. Institutional and Implementation Arrangements

57. **The Ministry of Finance, Trade, and Blue Economy will be the responsible Government counterpart for this Project.** The Ministry will draw on the Fiduciary Agency for Project Administration (*Agência Fiduciária de Administração do Projetos – AFAP*), which has implemented numerous investment projects since being constituted in 2004. AFAP is currently implementing World Bank projects including STP Power Sector Recovery Project (P157096), STP Quality Education for All (P150828), and Household Budget Survey (P159667).



**58. AFAP will be responsible for implementing the IDA project with full fiduciary responsibility.** Its financial management capacity is adequate to meet the minimum requirements of the Bank. Having implemented complex IDA-financed projects, AFAP has extensive experience with Bank procurement rules and procedures, which would help the implementation of the project. To carry out its responsibilities and effectively implement the various components of the project, AFAP will receive training on the Bank's requirements, recruit additional staff, and work with stakeholders. AFAP has already appointed a dedicated focal point for the project who joined all the project preparation meetings. Focal points for each of the beneficiary agencies of the project (Central Bank, Ministry of Finance, Ministry of Justice, DGRN, INE, COSSIL) have been appointed. AFAP will undertake the PIU role focusing on fiduciary tasks, project facilitation, and coordination. The appointed technical focal points will take the lead in technical review and supervision of support activities benefiting their agency. This should greatly facilitate project implementation. To ensure high level coordination and supervision of the project, a Committee for Reforms housed in the MoF will serve as the Project Steering Committee (PSC) established to provide policy guidance and oversight. The PSC will be chaired by the MoF and will comprise of representatives from the Ministry of Justice and the Central Bank.

## **B. Results Monitoring and Evaluation**

**59. The project monitoring and evaluation system will be the responsibility of AFAP with the inputs of the project beneficiary agencies.** Based on the agreed results framework, the AFAP project technical advisor will track results on a quarterly basis working closely with the technical focal points of the different beneficiary institutions. The periodic Bank implementation missions will review the progress towards the results, identify any lags, and agree on measures to ensure the project is on track to achieving its objectives. The project M&E indicators have been developed to reflect the impact of the improved capacity for institutions' performance (for PDO level indicators) as well as the capacity support being delivered and used (for Intermediate Outcome indicators).

## **C. Sustainability**

**60. Strong political and administrative ownership will contribute to ensuring sustainability of the reforms supported by the Project.** The project will ensure sustainability of its activities by strengthening the capacity of core institutions to improve the delivery on their basic mandate. For each activity supported by the project, its criticality to the core mandate of each institution was assessed and confirmed by the team, as well as its alignment with priority reforms. In addition, solutions that would build or maximize domestic institutional capacity and ownership were chosen, such as for example the activities related to IFMIS systems where the project will focus on reducing the dependence on outside technical support for minor maintenance and use, all the while focusing on improving the use and functionality of current systems and tailoring any off the shelf solutions, which is a clear priority for the Government. When international consultants are used, they will be required to work alongside relevant local staff to try to help build their capacity. Finally, this operation complements several other Bank projects, including a DPO series which supports a number of critical financial sector, business environment, PFM policy reforms and various trust funds supporting public investment management, financial sector development, business environment reforms, and the household survey.



## **D. Role of Partners**

61. **The role of development partners is critical in a highly donor dependent country such as STP.** Dialogue amongst partners in STP has been excellent, and the team has engaged with the main partners in an open and collaborative manner during project preparation, with a view to focus Bank support on critical core gaps and in areas where the bank can bring the greatest value added. As a result, partners and government are fully aware of and in agreement with the proposed activities. A donor coordination structure exists in STP and the Bank is committed to continually engaging with partners during the implementation of the operation, to maximize the impact of activities that complement other donors' interventions in related areas. Such coordination is already taking place, for example through the technical and quality control support of the European Union-funded PEFA. The Bank will continue to communicate with government coordinating bodies and with donors in every supervision and support mission.

62. **The choice of components and activities complements ongoing World Bank Group and development partners' assistance.** With World Bank's technical advice, the African Development Bank is supporting the BCSTP in developing its payments systems, including upgrades to the national payment switch, Visa/MasterCard certification, mobile payments, bill payments, and payment of government taxes. The IMF has supported analytical work on macro-financial linkages, including stress tests of the banking sector, to help assess the extent of financial vulnerabilities. The IMF is also providing technical assistance on risk-based supervision and Basel II compliance through an intermittent advisor. The European Union has helped the Government in developing an implementation strategy for the IFMIS during 2016-2019, which guides the modules to be developed, the required linkages, sequencing, and scheduling.

## **V. KEY RISKS**

### **A. Overall Risk Rating and Explanation of Key Risks**

**The overall risk rating for the project is Substantial.**

63. **Political risks are Substantial:** Given the strong government commitment to the reforms supported by the project, outlined in the national PFM reform strategy, the financial sector development implementation, the strategic plan for registries and notaries and other documents, the political opposition to reforms is likely to be low to moderate. However, some areas are known to be politically complex, for example SOE reforms and financial sector stability reforms, and may create some antibodies from entrenched political actors. The upcoming election later in 2018 may result in a transitional period that may delay important decision making, in particular related to tax policy and SOE reforms. To mitigate this risk, a high-level project steering committee will be put in place, which includes key high-level decision makers and core technical leaders. The project will also engage in continuous policy dialogue, supported by the complementary DPO operation, with key senior officials to ensure continued political level commitment to the project's package of institutional building support.

64. **Macroeconomic risk is Moderate.** Economic growth is weak and highly susceptible to shocks. Additionally, high public debt limits the Government's ability to respond to unforeseen events. This risk is mitigated by the macroeconomic reform program undertaken by the Government with support from its international development partners.



**65. Stakeholder Risks are Substantial:** The main risks to the improvement of the overall financial accounting and auditing environment in STP are related to the sustainability of the semi-autonomous regulatory institution (OTOCA), its legitimacy and technical capacity to effectively regulate local accountants and auditors through a reliable certification process. To counter these risks, the project has agreed on a sequencing of activities that would not compromise the process of updating the accounting standards in STP. Government has agreed to ensure full and continuous presence in the process, including the initial installment of OTOCA, establishment of a rigorous certification process of accountants, and in the short term take the lead in the updating of the accounting standards, to be led by the Department of Accounting. The process of vetting/authorization and certification of accountants is an ongoing process that will take time. Other stakeholder risks relate to the SOE reform agenda, which is politically complex. Increasing transparency and performance monitoring may be threatening to some entrenched groups, and setting up boards may be resisted by SOE management. However, there is broad agreement between the World Bank and the Government, as well as within the Government, on the necessary reforms. Significant technical support has already been provided by the Bank to inform the reform options with strong involvement of the national counterparts. However, as with the political risks outlined above, stakeholder risks relate to the ability in the past of the large SOEs to ignore, block or reverse reforms.

**66. Institutional Capacity for Implementation and Sustainability Risks are rated High.** STP suffers from severe capacity constraints and this will be considered as the project is implemented. The Bank has also had some success in improving capacity in key agencies in STP such as the Central Bank and the One Stop Shop for business registration (GUE) and these experiences will also be built for the project institutional capacity building approach. Specifically, the project will design, sequence and monitor all capacity building interventions to ensure institutional ownership, absorption, and sustainability beyond project life. The project will consider the lessons learned from past capacity building interventions, especially in fragile, small island settings. All activities proposed would be in response to clearly articulated and Government-owned priorities. The project will also deliver support in a sequenced and prioritized manner to reflect limited absorption capacity. All advisory services will be undertaken with a view to transfer knowledge and build skills while minimizing long-term dependency on outside consultants. Training will be focused on the job. Any systems delivered will be done in a holistic fashion with training, maintenance, and integration planned from the outset. Institutional development is also about behavioral changes and changes in incentives and therefore the political economy of institutions and the governance aspects will also inform sequencing and delivery of the project support activities. The project will develop and closely monitor institutional development indicators and adjust as needed periodically. Finally, project interventions will build and complement recent or ongoing World Bank and other donor initiatives and will be grounded in sound analytical and technical work. An important lesson from the Institutions Taking Root stock take is that delivering concrete and measurable results will generate legitimacy at the same time, allowing successful institutions to develop internal efficiency and create the external constituencies needed to secure political support for continued and more complex reforms. Building a network of technical and political leaders to sustain a successful reform trajectory will be essential, drawing on civil society and private sector support where possible. The activities to be supported have been selected with these lessons in mind. Importantly, however, there are no clear predictors of success in weak and fluid institutional settings. The project implementation plan will pay careful attention to signals of reform commitment or lack thereof and will ensure continuous adjustments to project activities if/when necessary to achieve and build on concrete results. Annex 4 elaborates on the non-technical drivers of PFM reforms which has informed the project's long-term institutional building approach not only for PFM related activities but the other activities as well.



**67. Technical Design of Project Risks are Substantial:** The limited technical capacity of some implementing institutions will likely pose a risk to the successful implementation of the project. The capacity of the recently established SOE unit to proactively lead the reform process and engage the targeted SOEs to undertake agreed reforms in a timely manner is uncertain. Low technical capacity and a lack of proactivity on the part of MoF has let SOEs themselves set the pace for reforms in the past. The SOE unit will receive the necessary technical assistance through targeted and long term ongoing support. There are also technical risks associated with the roll out of VAT, which is a complex process that requires strong technical skills and leadership. Again, timely external technical assistance can mitigate some of the pure technical limitations.

**68. Fiduciary Risks are Moderate:** The PIU (AFAP) has some experience with World Bank-financed projects and is currently implementing three projects, but it is not yet clear if it (together with the line ministries) has the capacity to implement a comprehensive capacity-building program across various sectors. The existence of qualified technical assistance providers that serve the STP market is also uncertain. Activities would have to be sequenced. Given the long lead times for preparation of the activities, the project should have a long implementation period and is expected to have low disbursements at the outset, which called for significant investment during the preparation phase which is being undertaken under the Project Preparation Advance (PPA).

## VI. APPRAISAL SUMMARY

### A. Economic Analysis

Project's development impact

**69. The proposed project is expected to improve financial soundness and access, strengthen public financial management, improve the transparency and efficiency of the property registry system, and develop statistical capacity.** A stable and inclusive financial system that provides affordable financial services is a precondition for national development, reducing poverty, and enhancing shared prosperity. Transparent and accurate fiscal accounts is important for improving the credibility, accountability, and transparency in the collection and use of public resources. Accurate and timely national statistics are necessary to inform policy makers and development partners, and the building blocks for measuring poverty and inequality. The project is also expected to support implementation of the Bank's program in STP, which may be affected by weak institutional capacity.

Rationale for public sector financing

**70. Financial development is constrained by market failures, particularly information asymmetry, costly enforcement and restricted risk pooling and participation.** Given the high levels of NPLs and high-risk perception in STP, public interventions are justified to ensure financial stability and encourage access to finance by those left outside the formal system. Other activities under the project will support provision of public goods (property registry and national statistics) and governance and management of public institutions.



Value added of Bank's support

**71. The Bank's expertise in developing institutional capacity will help the Government in the performance of its functions.** The approach to building sustainable institutional capacity in STP through the current project has been informed by prior bank experience in the country and recent bank analysis on institutional capacity building (Institutions Taking Root, 2014). A light political economy assessment was also carried out using the recent Political Drivers of PFM Reforms analytical framework (Verena et al 2017). The analysis is included as Annex 4. In sum, the approach chosen consists in properly understanding the drivers for and against specific reforms, and to build the Bank-financed project around reforms that enjoy a critical mass of buy-in and support from the Government and elite, even when such reforms are second best solutions.

## **B. Technical**

**72. The main technical design issue is the availability of sufficient technical assistance providers and capacity of the project implementation unit and line ministries.** There is also a likely need to sequence reforms in a manner that the Government can best absorb. Given the long lead times for preparation of these technical assistance activities, it is likely that the project will need a long implementation period with the most critical activities to be supported first. At the same time, critical activities across components can proceed in parallel given the different agencies involved in the different components.

## **C. Financial Management**

**73. AFAP established under the Ministry of Finance, Trade, and Blue Economy, will have overall fiduciary responsibility for implementation of this proposed project.** AFAP was established in 2003 to handle the fiduciary matters of the Social Sector Support Project (P075979), it has a good track record in the implementation of the Bank-financed education, power sector, telecommunications, and social protection projects. The recent review of AFAP's Financial Management (FM) arrangements concluded that it continues to maintain acceptable FM arrangements for the implementation of the ongoing projects. AFAP's financial manager, reporting to the agency coordinator, will have overall responsibility for project FM matters. The project funds, expenditures, and resources will be accounted for using the existing automated accounting software and the basis of accounting will be cash basis. Disbursement of IDA will be done on transactions basis. The proposed project will make use of advances and direct payment methods for disbursements. However, special commitments and reimbursement will also be available for the project. The implementing agency will prepare a quarterly unaudited interim financial reports (IFRs) and provide such reports to the Bank within 45 days of the end of each calendar quarter. The project financial statements will be audited by the independent auditor in accordance with International Standards on Auditing (ISA) as issued by the International Auditing and Assurance Standards Board (IAASB). The overall conclusion of the Financial Management Assessment is that the project's FM arrangements have an overall residual FM risk rating of Moderate, which satisfy the Bank's minimum requirements under FM policy and procedures for the Bank investment project financing operations.



#### **D. Procurement**

**74. Procurement procedures.** Procurement under the project will be carried out in accordance with the World Bank's "Procurement Regulations for IPF Borrowers" (Procurement Regulations) dated July 2016 and revised in November 2017 under the New Procurement Framework (NPF), and the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated July 1, 2016, and other provisions stipulated in the Financing Agreement.

**75. Procurement arrangements.** The project will be implemented by AFAP, which will include fiduciary aspects of the project, including procurement activities. A recent capacity assessment concluded that the current organization and structure of AFAP is adequate for the efficient implementation of Bank operations in STP. The core team includes a Project Coordinator, with responsibility for the day to day management of AFAP and with authority to sign contracts in the name of the beneficiaries of the projects; Procurement and Financial Management Specialists and assistants, with the responsibility of ensuring that the fiduciary requirements of the Bank are met satisfactorily, as well as Technical specialists (*Assessores Técnicos*) of the areas of projects being implemented, such as Energy and Education, who ensure smooth linkages with the beneficiary agencies and are responsible for leading the design of the technical content of the various project activities.

**76. PPSD Summary.** The Borrower has prepared the Project Procurement Strategy for Development (PPSD), with the support and guidance from the Bank. The project will support the institutional capacity building of several public finance-related institutions, and the complexity of the project, and its procurement activities, comes from the large number of contracts, most of them of low-value amount. Furthermore, some interventions are specialized and will require the approach of international market. As much as practicable, similar equipment required for different institutions were combined to reduce the transaction costs of several smaller procurement and to benefit from economy of scale. The procurement of Collateral Registry Software Vendor for the Central Bank of STP (BCSTP) (estimated at US\$450,000) and the Supply of hardware and software components for BCSTP disaster/recovery infrastructure (secondary site) (estimated at US\$300,000) will be done through open competition with international market approach (Request for Bids), considering the limited, even inexistent, of competition in the local market. Open competition through establishment of a short list, Quality and Cost based selection (QCBS) method, will be used to select consultants for (i) C.R.C Data contribution consolidation and exploitation (Mod I & II) (BCSTP) (estimated at US\$350,000), and (ii) Preparation of Procurement Law, implementing Regulations, Standard Procurement Documents and Procurement Manual (COSSIL) (estimated at US\$210,000).

**77. Procurement capacity.** Procurement activities will be carried out by AFAP, which has been handling fiduciary matters of Bank-funded project since its establishment in 2003, which includes social sector, education and telecommunication projects. Currently, it is supporting the implementation of Quality Education for All Project, Power Sector Recovery Project, and Household Budget Survey. AFAP has therefore adequate capacity to handle procurement activities under this project. Considering that AFAP will be implementing additional projects in the near future, it will need to reinforce its capacity in order to provide adequate support to all projects by recruiting additional staff. Specific procedures for the project will be detailed in the Project Operations Manual of the project, which will be prepared and adopted by project effectiveness.



78. The **procurement risk** associated with the project in view of the risks identified, including the complexity of large number of TA contracts and the multiplicity of projects handled by AFAP is **Substantial**.

## E. Social (including Safeguards)

### Gender

79. **The support to be provided under the two sub-components for credit and collateral registry should directly benefit women entrepreneurs given that women-based businesses normally have a disproportionate share of moveable assets compared to their male counterparts.** The PDO indicator for credit registry includes a specific gender disaggregated target for percentage of adult women covered. Additionally, an application has been made under the Women Entrepreneurship Finance Initiative (We-Fi) for US\$400,000 that would complement the project to undertake the following activities:

- Define targeted segment of women who can benefit from movable asset-based lending.
- Undertake an analysis of the existing credit registry usage by financial institutions and women SME clients.
- Conduct quantitative and qualitative research for the defined segment to understand: (a) available assets that could be used as movable collateral and willingness of owners to give them as such; (b) customary laws; (c) if current assets will cover the 100-200 percent level of collateral requirement; d) risk area of the financial institution and their current risk policies and provisioning requirements by the BCSTP to inform product design; (e) who will be doing valuation of the assets and which principle of depreciation can be used.
- Share results with recommendations on how to increase usage of existing credit infrastructure (both through credit registry upgrade dissemination and through enhancements to the collateral registry along with communication/dissemination campaigns) to benefit more women entrepreneurs.
- Using the evidence, work with BCSTP and a nominated financial institution to design an asset based lending product and regulatory regime conducive for increased asset-based lending for female entrepreneurs.

80. **The project will also finance activities and processes that will enable the protection of women's land tenure rights, including a gender approach in the Land Registry and Notary codes.** Under the current STP family code, title deeds and property registration should include the declaration of both members of the couple. The focus is in the ongoing reform of the family code, whereby it is important to maintain the protection of women's assets, even in cases of facto marital unions. The gender focus is based on the fact that in many cases, women do not have the necessary documents or evidence to prove them as land rights holders, and in other cases, women are unaware of their rights to land. A final difficulty is the lack of formal marriages which may impede their right to property as a spouse. As a result, the Property registry subcomponent will include the following activities:

- Facilitate a legal framework for joint titling and registration of property rights for both members of a couple, whenever possible.



- Campaigns for socialization and dissemination of land rights gender aspects, including appropriate strategies to mitigate and encourage knowledge and awareness of women of their land rights. As part of the general public awareness campaign, messages will be targeted at both men and women to increase women's participation in land titling and registration.
- Data on registration of rights will be collected in a gender disaggregated manner and reported as part of the regular M&E of the Project.

**81. All training activities under this project will include both males and females and gender disaggregated training data will be monitored and reported throughout project implementation.** This will also allow the project to proactively adopt and promote gender targeted promotion and delivery for training to ensure good outreach to both men and women. Finally, the next household survey would explore to include gender-specific questions that would allow deeper understanding of gender issues, and this can be tracked in subsequent survey. The project will continue to draw on the Bank's Gender Innovation Lab expertise to continue to inform and advise on the delivery and assessment of gender focused activities taking into account lessons from other experiences and projects.

#### **F. Environment (including Safeguards)**

82. The project is designed to support the Central Bank, Ministry of Finance, National Statistics Institute, the General Directorate for Registries and Notaries to improve their institutional capacity in the area of financial sector policy and regulation, public financial management and fiscal planning, statistical capacity, and property registration. As such, all project activities are of a technical assistance nature and the project does not trigger any safeguards policies. The project is classified as Category C for Environmental Assessment (EA) purposes as no adverse environmental or social impacts are foreseen.

83. The Project will help address climate change and disaster risks. With regards to climate change mitigation, the proposed Project will contribute to the conservation of critical habitats by avoiding individual property registration in restrictive or protected areas, such as national parks and nature reserves, and partial reserves, including forest reserves in accordance with the special law on forest, following articles 6 and 7 of Law 3 of 1991, that creates legal institutional framework for regulating land ownership (*Lei nº 3/91 Cria quadro jurídico institucional regulador da Propriedade Fundiária*). In addition, project activities will support the digitalization of property registry records in coordination with the Directorate of Geographical and Cadastral Services, entity mapped to the Ministry of Infrastructure and Natural Resources, therefore minimizing use of paper resources and other materials for record-keeping purposes.

#### **G. Other Safeguard Policies (if applicable)**

Not applicable.

#### **H. World Bank Grievance Redress**

Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's



Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).



## VII. RESULTS FRAMEWORK AND MONITORING

### Results Framework

COUNTRY : Sao Tome and Principe

Sao Tome and Principe: Institutional Capacity Building Project

#### Project Development Objectives

To contribute to improved capacity of public institutions to: i) supervise the banking system; ii) promote access to finance; iii) manage public finances; and, iv) produce national statistics.

#### Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
<b>Name:</b> Improved capacity of BCSTP to promote financial stability as measured by the percentage of banks that corrected provisioning and capital shortfalls identified by AQR		Percentage	0.00	80.00	Annual	BCSTP	AFAP

**Description:** The Asset Quality Review (AQR) of the Banking System would take stock of banks' asset classification and provisioning practices, and recommend necessary adjustments to ensure compliance with BCSTP guidelines. The indicator would measure the percentage of banks who have complied with the recommendations of the AQR relating to loan classification and capital increases as monitored by the BCSTP.



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
<b>Name:</b> Improved Capacity of BCSTP to promote financial inclusion by expanding percentage population coverage of the Credit Registry		Percentage	11.90	25.00	Annual	BCSTP	BCSTP
of which women		Percentage	4.10	10.00	Annual	BCSTP	AFAP
<b>Description:</b> The BCSTP maintains a credit registry that is expected to collect all borrower information in the banking system. The improvements in the percentage of adult population covered are expected to come as a direct result of the improved data quality, reporting, and verification and through the parallel work on the Asset Quality Review exercise, balance sheet registry and supervisory software as well as the secured transaction/collateral registry reform.							
<b>Name:</b> Improved Capacity of Ministry of Finance to generate revenues as measured by Tax Revenues Collected as Percentage of GDP		Percentage	13.00	15.50	Annual	MoF Tax Office	AFAP
<b>Description:</b> The indicator measures total annual tax revenues as a percentage of GDP.							
<b>Name:</b> Improved Capacity of the National Statistics Institute to produce national statistics as measured by the Overall Statistical Capacity		Percentage	70.00	75.00	Annual	datatopics.worldbank.org/statistical capacity	World Bank



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Score (SCI)							
<p><b>Description:</b> The World Bank's Statistical Capacity Score (SCI) is a composite score assessing the capacity of a country's statistical system. It is based on a diagnostic framework assessing the following areas: methodology; data sources; and periodicity and timeliness. Countries are scored against 25 criteria in these areas, using publicly available information and/or country input. The overall SCI score is then calculated as a simple average of all three area scores on a scale of 0 to 100. The SCI is an accepted international standard to measure statistical capacity. The number of relevant surveys measures directly the progress in filling data gaps.</p>							

### Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
<b>Name:</b> Average lag between end of a quarter and availability of banking sector information for risk based supervision		Days	0.00	50.00	Annual	BCSTP	AFAP
<p><b>Description:</b> The indicator measures the improved quality and timeliness of data from the banking sector to the BCSTP to enable risk based supervision (baseline data not available as information not yet monitored)</p>							
<b>Name:</b> Doing Business Getting Credit Strength of Legal Rights Index		Number	0.00	6.00	Annual	World Bank Doing Business Report	World Bank Doing Business Report
<p><b>Description:</b> The indicator draws from the Doing Business Getting Credit Strength of Legal Rights Index which award a point for any reform that promotes getting credit according to the Doing Business Methodology. The project support to secured transactions and collateral registry will contribute to this improved score.</p>							



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
<b>Name:</b> Difference between projected and actual public revenues collected		Percentage	20.00	10.00	Annual	MoF	AFAP
Description: Indicator measures difference between projected revenues and actual revenues based on annual public budget and report							
<b>Name:</b> Difference between projected and actual public expenditures		Percentage	20.00	10.00	Annual	MoF	AFAP
Description: Indicator measures difference projected revenues and actual expenditures based on annual public budget and report							
<b>Name:</b> Tax Revenue Contributors Registered		Number	0.00	3000.00	Annual	MoF Tax Department	AFAP
Description: Indicator based on tax returns submitted to tax department which indicate VAT payments							
<b>Name:</b> Public procurement practitioners trained in the new framework		Number	0.00	40.00	Annual	COSSIL	AFAP
of which women		Percentage	0.00	25.00			
Description: Training for 10 staff of the public procurement authority (COSSIL ) and Training to 30 staff of procuring units of the government departments (UGELs )							



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
<b>Name:</b> All fully owned SOEs have a functional Board		Number	0.00	4.00	Annual	MoF	AFAP
Description: Indicator measures the presence of a Board with sufficient qualifications for each of the four fully owned SOEs							
<b>Name:</b> SOEs audited annually by independent institution and reports published		Number	0.00	8.00	Annual	MoF	AFAP
Description: Number of independent and published audits for all enterprises with state ownership (whether majority or minority)							
<b>Name:</b> Number of certified accountants and auditors trained on new standards		Number	0.00	100.00	Annual	MoF	AFAP
Description: This indicator will report on the number of accountants and auditors trained in accounting and auditing standards and guidelines.							
<b>Name:</b> Number of Real Estate and Vehicle Registries in the new Information Management System SIGIRA		Number	0.00	73260.00	Annual	MoJ/DGRN	AFAP
Real Estate Registries		Number	0.00	53109.00	Annual	DGRN at MoJ	AFAP



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Of which are women registered (Percentage)		Number	0.00	35.00			
Vehicle Registries		Number	0.00	20151.00			
Description: This indicator will monitor the number of real estate and vehicle registries which are digitized into the new SIGIRA system.							
<b>Name:</b> Number of new household surveys/census micro-datasets available		Number	0.00	3.00	Annual	INE	INE
Description: Following capacity building activities at INE on survey preparation, implementation and dissemination, this indicator will monitor the number of household surveys/census micro datasets available.							
<b>Name:</b> Number of participants in short term statistics/demography training for whom scholarships may be awarded		Number	0.00	25.00	Annual	INE	AFAP
of which women participants		Number	0.00	5.00	Annual	INE	AFAP
For whom a scholarship is awarded		Number	0.00	5.00	Annual	INE	AFAP



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
For whom a scholarship is awarded (women)		Number	0.00	2.00	Annual	INE	AFAP
Description: Number of participants in short term statistics/demography training who may be awarded scholarships							



## Target Values

### Project Development Objective Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Improved capacity of BCSTP to promote financial stability as measured by the percentage of banks that corrected provisioning and capital shortfalls identified by AQR	0.00	0.00	20.00	40.00	60.00	80.00	80.00
Improved Capacity of BCSTP to promote financial inclusion by expanding percentage population coverage of the Credit Registry	11.90	13.00	14.50	18.00	22.50	25.00	25.00
of which women	4.10	4.90	5.40	6.90	8.80	10.00	10.00
Improved Capacity of Ministry of Finance to generate revenues as measured by Tax Revenues Collected as Percentage of GDP	13.00	14.00	14.50	15.00	15.50	15.50	15.50
Improved Capacity of the National Statistics Institute to produce national statistics as measured by the Overall Statistical Capacity Score (SCI)	70.00	70.50	72.00	74.00	74.50	75.00	75.00


**Intermediate Results Indicators**

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Average lag between end of a quarter and availability of banking sector information for risk based supervision	0.00	0.00	0.00	60.00	60.00	50.00	50.00
Doing Business Getting Credit Strength of Legal Rights Index	0.00	0.00	0.00	2.00	4.00	6.00	6.00
Difference between projected and actual public revenues collected	20.00	18.00	16.00	14.00	12.00	10.00	10.00
Difference between projected and actual public expenditures	20.00	18.00	16.00	14.00	12.00	10.00	10.00
Tax Revenue Contributors Registered	0.00	500.00	1000.00	1500.00	2000.00	3000.00	3000.00
Public procurement practitioners trained in the new framework	0.00	10.00	20.00	30.00	40.00	40.00	40.00
of which women	0.00	25.00	25.00	25.00	25.00	25.00	25.00
All fully owned SOEs have a functional Board	0.00	0.00	1.00	2.00	3.00	4.00	4.00
SOEs audited annually by independent institution and reports published	0.00	1.00	3.00	5.00	8.00	8.00	8.00
Number of certified accountants and auditors trained on new standards	0.00	0.00	0.00	25.00	50.00	100.00	100.00



Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Number of Real Estate and Vehicle Registries in the new Information Management System SIGIRA	0.00	0.00	0.00	21978.00	51282.00	73260.00	73260.00
Real Estate Registries	0.00	0.00	0.00	15933.00	37176.00	53109.00	53109.00
Of which are women registered (Percentage)	0.00	0.00	0.00	20.00	30.00	35.00	35.00
Vehicle Registries	0.00	0.00	0.00	6045.00	14106.00	20151.00	20151.00
Number of new household surveys/census micro-datasets available	0.00	0.00	0.00	1.00	2.00	3.00	3.00
Number of participants in short term statistics/demography training for whom scholarships may be awarded	0.00	0.00	5.00	10.00	15.00	25.00	25.00
of which women participants	0.00	0.00	1.00	3.00	5.00	5.00	5.00
For whom a scholarship is awarded	0.00	0.00	0.00	2.00	3.00	5.00	5.00
For whom a scholarship is awarded (women)	0.00	0.00	0.00	1.00	2.00	2.00	2.00



## ANNEX 1: DETAILED PROJECT DESCRIPTION

### COUNTRY: Sao Tome and Principe Sao Tome and Principe: Institutional Capacity Building Project

1. The Project will be implemented through four components: (i) Financial Soundness and Access; (ii) Strengthening Budget Credibility, Tax Base, and SOE Governance; (iii) Property Registration and Statistical Development; and (iv) Project Implementation Support.

#### **Component 1: Financial Soundness and Access (US\$4 million)**

2. Component 1 will be implemented by the Banco Central de São Tomé e Príncipe (BCSTP) as the lead technical institution.

#### ***Sub-Component 1.1: Promoting Financial Sector Soundness. (US\$2 million)***

3. **The high asset impairment in the banking system has threatened the stability of the financial sector and limited the availability of credit to the private sector.** Non-performing loans (NPLs) as a percent of total gross loans were 23.9 percent in Q3 2017. Four banks – including the largest bank in the system with market share of around 50 percent - have NPLs ranging from 24 to 41 percent. Provisions as share of past due loans increased to 79 percent, but should be increased further to provide additional buffers against expected losses. The sector also underwent some stress following the failure of Banco Equador in 2016 (the third bank to fail in STP since 2010).

4. **Recognizing the risks in the financial sector, the Government initiated a program of legal and regulatory reforms.** With support from FIRST TA and IMF, the Government is strengthening the resolution framework and building staff capacity to promptly identify and deal with weak financial institutions in a way that protects depositors and safeguards the stability of the financial system. In addition, BCSTP is building capacity on risk-based supervision and Basel II compliance through an intermittent advisor provided by the IMF. Nonetheless, the Central Bank still faces constraints in conducting effective and comprehensive oversight of the financial system (including on-site supervision) due to limited data and systems as well as personnel.

5. **To help BCSTP better understand existing risks and develop preventive measures,** this sub-component will finance an AQR. A reputable international auditing firm will be retained to review the six commercial banks in STP. The AQR will take stock of banks' asset classification and provisioning practices, identify deviations from BCSTP's guidelines and international norms, and recommend necessary adjustment to ensure compliance. More importantly, it will determine possible shortfalls in NPL provisioning and capital levels, allowing BCSTP and banks to develop plans to improve asset quality (including reduce NPLs) and improve the overall soundness of the banking sector (e.g., through time-bound recapitalization plans). The AQR will also inform the design of additional technical assistance to enhance banking supervision in a manner that complements the IMF's existing support in this area.



**6. This sub-component will also strengthen BCSTP's supervisory and surveillance capacity by supporting the acquisition of a bank supervision application and the development of an online data center.** The banking supervision application will enhance the effectiveness of bank supervision by allowing online submission of supervisory returns by banks (as opposed to the current manual submission) as well as the automation of supervisory process/workflow and risk analysis by BCSTP staff. BCSTP has already identified possible off the shelf applications, including one currently used by more than 12 central banks who are members of the Southern African Development Community (SADC). The application would be customized to meet the needs of BCSTP. Training to BCSTP supervisory and IT staff will be provided to ensure there is in-house capacity to operate the application. The data center (*Central de Balanços*) will house financial statements of non-bank entities, expanding the scope of data available to BCSTP to identify macro financial risks. It will also inform the development and regular publishing of a financial stability report. The data center will have a multi-purpose use, including for tax purposes, compilation of national accounts, and macro-financial analysis and surveillance by BCSTP. BCSTP has already developed the data center concept with support from Bank of Portugal, which operates a similar center.

***Sub-Component 1.2: Upgrading of Credit Registry Platform (US\$750,000)***

**7. Information reliability and completeness is considered a basic requirement in the set-up of any financial service, and includes value added services such as scoring procedures, based on information from external sources.** An efficient, sound and comprehensive credit reporting platform is a basic premise for the development of the financial sector, as it enhances the transparency of the market and allows the operators to efficiently perform their institutional roles. In particular, regulated entities can monitor, mitigate or avoid credit risk and adverse selection, while supervisors have access to detailed data for prudential purposes.

**8. After improvements, the credit registry maintained by the central bank (Central de Riscos de Crédito – CRC) maintained by BCSTP receives an increasing number of lender inquiries although it still has significant data quality constraints.** The credit registry maintained by BCSTP (Central de Riscos de Crédito – CRC) receives few lender inquiries and has significant data quality constraints. BCSTP has undertaken some enhancements (mostly related to database technical standards, disk storage, safety, real-time updates, information collected, and information provided to regulated entities). Notwithstanding, there are critical areas that require improvement, mostly related to implementation of: a) disaster recovery sites and business continuity framework; b) new data contribution modules and a set of data quality key performance indicators; and c) enhancement of credit reports for lenders. Basic requirements for future enhancements include: a) interconnection of credit registry data with data from microfinance institutions (capturing all cross-lending between banking and MFI sector); b) interconnection with GUEnet platform and borrowers' balance sheet data; and c) enhancement of borrowers' credit reporting, adding data related to payments of utilities, taxes and energy company bills. The project would finance upgrades of the credit registry identified by a diagnostic of existing information gaps. This would include measures to both increase the security of the system and improve the process, functions, reports and resources of the credit information system. A second phase (beyond the current planned activities) would include support to expand the credit registry coverage to include other providers, such as utilities and telecom companies.



**9. The Gap Analysis carried out in 2015 highlights the degree to which BCSTP has committed itself to the upgrade of the credit reporting platform over the last two years.** The activities to be supported by the project can be classified into four main lines of intervention (modules): i) Module 1: Matching and Contribution; ii) Module 2: Enhanced Credit Reporting; iii) Module 3: D/R and business continuity – IT recovery infrastructure; and iv) Module 4: D/R and business continuity – D/R plan and Business Continuity Plan (organizational procedures).

***Sub-component 1.3: Moveable Asset Electronic Collateral Registry (US\$1.25 million)***

**10. The Project will finance the introduction of a modern secured transactions law supported by a centralized electronic registration system.** Such movable collateral registration would serve two functions: (i) notify third parties of the existence of the security interest and (ii) establish the priority status of a security interest based on the date of registration. Establishing a moveable collateral registry will leverage the potential of the secured transactions law by increasing access to information on assets and expanding the range of collateral available to borrowers and lenders. The Project will fund the development of a centralized electronic, web based registry for security interests in moveable assets, in line with international accepted practices. Consideration will be given to the hosting model to best fit the scale and capacity of the economy of STP.

**11. As a first step, a legal framework diagnostic has already been carried out under the FIRST project.** The diagnostic sets out the current legal landscape in STP as well as the options for the introduction of the secured transactions legal regime based on the UNCITRAL Model Law on Secured Transactions (MLST). The diagnostic report has been shared with the Central Bank and Ministry of Justice and comments received indicate broad support for this reform. Follow-up technical discussions are planned in the coming period to further develop the recommendations for the legal and regulatory reforms required to enable the moveable asset electronic registry. Any legal reforms would also be harmonized with the existing legal framework in the country and would be integrated in the ongoing reform agenda being led by the Ministry of Justice.

**12. Additionally, a market assessment will be carried out to create a roadmap to address financing needs of MSMEs.** With the unique environment in STP, to support inclusive growth using a modernized suite of credit infrastructure, and catalyze inclusive growth, a market opportunity assessment will be undertaken. Drawing on and adding to existing research, this study will develop a holistic picture of SME financing from a demand and supply side perspective, delivering a roadmap for reform and informing targeted interventions tailored to the specific needs of businesses in STP.

**Component 2: Strengthening Budget Credibility, Tax Base, and SOE Governance (US\$4.5 million)**

**13. Component 2 will be implemented by the Ministry of Finance.** The overall objective of this component is to strengthen the capacity of the MOF to increase budget credibility, broaden the tax base and improve the governance of SOEs. Activities under this component support the objectives of the Government's PFM reform plan and have been identified through several rounds of consultations with the authorities. The component will be organized around the following sub-components.



**Sub-Component 2.1: Strengthened Budget Credibility (US\$1.95 million).**

14. The aim is to improve the orderliness, realism and controls throughout the entire budget cycle from forecasting and budget estimates, to budget preparation, expenditure controls and closing of the government accounts. This is supported by the following activities:

- *Macroeconomic forecasting:* technical assistance and training to strengthen the methodology and data for macroeconomic forecasting. This includes exposing the budget and planning units to various macroeconomic forecasting models and training on how to use the models, selection of variables and data collection.
- *Revenue forecasting:* Revenue projections are consistently overambitious, leading to over-programming, overspending and arrears build-up. This activity will improve the realism of revenue forecasting through (i) training in various methods for revenue forecasting and support to the use of a revenue forecast model and (ii) validation of forecasts in a technical committee including budget and tax departments.
- *Public Procurement Reform:* An update of the public procurement legal and operational environment will take place. Technical support will be provided to update the Procurement Law, Implementing Regulations, Standard Procurement Documents and Procurement Manual. 1. Activities to be supported include: Revision of public procurement law (“Lei nº 8/2009 que Aprova o Regulamento de Licitação e Contratações Públicas”, dated 26 August 2009); Adoption of implementing Regulations (at least 4); Update the Procurement Manual; Update Standard Procurement Documents (SPDs); Develop and implement the Public Procurement Website (including laws and regulations, SPDs, procurement plans, business opportunities, contract awards, complaint resolutions); Prepare and adopt a strategic and operational plan for the period 2019-2023; and deliver targeted procurement training to the public and private sectors. Sustainable procurement (including green procurement such as energy efficient equipment, renewable energy, etc.) requirement will be one of the features in the new/revised procurement framework.
- *Expenditure controls and cash management:* poor cash planning and management is an important contributor to arrears buildup. This is in large part due to weaknesses in the Government’s electronic expenditure management and payments system (SAFE-e) such as the lack of an electronic interphase between Treasury and the Central Bank, which necessitates parallel manual processing of payments and reconciliations – causing delays and errors. Also, the entire payment chain is replicated on paper in addition to being processed (only partly) through SAFE-e. Support will be provided to design/purchase an electronic interphase between Treasury and Central Bank to allow for electronic exchange of information, and software and hardware upgrading of the Datacenter which provides overall support to all government electronic PFM systems. Various options will be explored, including Application Programming Interphase (API) software which enable the sharing of information between incompatible systems including Enterprise Service Programs – some of which are open source (like WSO2 enterprise integrator), and which allow several systems to exchange information. Technical assistance will be provided to review and map out the current payment processing procedures with a view to consolidate



and integrate them fully into the electronic system. Finally, the cash planning process will be strengthened through the improvement of the monthly, quarterly and annual cash plans.

- *Debt Management:* poor debt management has led to late payments and additional fees. Government urgently needs a debt management software, and past efforts have not succeeded for various reasons. Many off-the-shelf software solutions exist, but these are relatively complex and expensive to purchase and maintain. In addition, STP's debt portfolio is relatively small (40+ active loans). The short-term option preferred by government is the development of a simple in-house software solution to estimate debt service projections and a portfolio analysis function to produce reports for Debt Sustainability Analysis (DSA), Medium Term Debt Strategy (MTDS) and Annual Borrowing Plans.
- Preparation of consolidated government accounts: The end of the budget cycle (for MoF) involves the preparation of the Government general accounts. Currently, this process is relatively slow. Also, the Government accounts are incomplete due to the lack of a complete asset inventory. This activity will support the finalization of a complete inventory of government assets and technical assistance to preparing the *conta geral* (general account) within three months of the end of the FY.

***Sub-component 2.2: Broadened Tax Base through Value Added Tax (US\$1.25 million).***

15. STP has room to increase domestic revenues by three to five percentage points of GDP by reforming tax policy and improving tax administration. A key priority for tax policy is the reform of tax on goods and services with the introduction of a value-added tax (VAT). This sub-component will support the roll out of the VAT through the following activities:

- Support for the selection and training for additional staff. The tax department will need to increase their staff by 25 new members, and these will need to be trained on all aspects of VAT registration, filing, payment, refunds, compliance verification and interaction with taxpayers and businesses. Training will be done through targeted training courses delivered in STP and on-the-job training. Recruitment costs will include development and administration of competence test as part of selection processes.
- Setting up of customer centers (4 regional centers) to receive tax payers and process VAT tax returns, provide guidance and information to taxpayers. The customer centers will provide support to taxpayers/clients for issues related to Registration for VAT, filing of periodic VAT returns, VAT Declaration, processing of VAT refunds, VAT invoicing, and information on how to do proper record keeping and filing, etc. Design layout advice will be provided as well as basic office equipment, including chairs, cabinets, computers, software, etc.
- Communication with taxpayers. This includes the preparation of a communications strategy, and various communication and guidance materials to explain the new VAT, how it works, who it applies to, how to calculate and pay, how to claim VAT refunds, and dissemination of such materials and advertisements through television, radio, mobile phones/SMS and printed media. VAT FAQ/guidance documents including a comprehensive manual will also be produced for use in customer centers.



- **Tax audit, compliance and review:** A low compliance environment such as STP will require effective and targeted audits and controls. This activity will support training and development of manuals and guidance material on risk based tax audits.

***Sub-Component 2.3: Strengthened SOE Governance (US\$1 million):***

16. This sub-component will build the capacity of the recently established SOE oversight unit to implement the SOE Reform Plan which is being finalized with World Bank support, with a focus on improving the monitoring of SOE governance, performance and reducing the fiscal risks associated with SOEs. Activities include:

- **Technical and legal support to review and update the existing legal framework** including associated implementing texts (regulations, decrees, manuals, etc). This activity will provide technical support to carry out a comprehensive review and update of the SOE related laws and related implementing legislation, which may include regulations, decrees, circulars, guidelines, codes of conducts, etc.
- ***Development of an SOE Ownership Policy:*** This activity will support the development of an SOE policy, outlining the Government's objectives for state ownership and the main objectives for each SOE or sector. The policy will outline the Government's expectations for reporting, financial and operational performance, and monitoring and transparency of SOEs, board nomination processes, as well as remuneration principles. Having such a public statement of expectations for SOEs can help government think through its own objectives for their SOE sector, and can help performance monitoring and accountability of SOEs.
- **Strengthened SOE monitoring** through the preparation of a simple database to facilitate the collection and analysis of all pertinent financial and operational information and the preparation of an annual SOE report. A first version of the database will be prepared in excel format, to be tested and adjusted, and eventually may be developed into a web-based tool/software. Data needs and reporting requirements and responsibilities will be clearly defined. A comprehensive annual report on the entire SOE portfolio in STP will be prepared in line with best international practice, including a review of financial and operational performance, complete information on all transactions between SOEs and the state, including any state guarantees for SOE debt, arrears, and a comprehensive overview of corporate governance structures, including management and board composition and remuneration.
- ***Performance contracts:*** technical assistance for the preparation of performance contracts with a select number of SOEs. The process of preparing Performance contracts may include in-depth company reviews, and the contracts may include deep structural and institutional reforms in addition to financial and operational targets and KPIs, including for public services, costing of public service obligations, etc. The performance contracts will be independently monitored on an annual basis.
- **External Audits:** this includes the financing of the first series of annual external financial audits for all fully state-owned companies, to be carried out by reputable audit firms. Subsequent annual audits will be financed by the SOEs themselves and are expected to be published.



- Strengthened institutional capacity of the newly established SOE unit. This will include the preparation of a training program for technical staff and other relevant stakeholders on company/financial analysis, and the development of practical guidelines and tools for improved monitoring and follow-up including simple excel based tools for portfolio managers. A long-term non-resident advisor will provide continuous technical support on a variety of outputs including the SOE policy, annual SOE report, Performance Agreements, the preparation of a training program, drafting of TORs, quality control of technical studies, etc.

***Sub-Component 2.4: Strengthening Accounting and Auditing Standards (US\$300,000)***

17. The activities under this sub-component will draw on the 2014 ROSC and will focus on the updating of the national financial report and accounting standards and technical advice to develop criteria and a system for a licensing and registration system for accountants and auditors. This may include support to the incipient national professional accounting association (OTOCA) in their mandate to set standards and certify local accountants, depending on their proactivity in becoming operational. For the moment, this role continues to be played by the department of public accounting in the MoF. The activities included in this project are as follows:

- Update national financial reporting and accounting standards. This will start with technical assistance to present various options to government, including pros and cons and associated implementation requirements. This will be followed by support to a broad consultation process allowing government to take an informed decision on the best option given local conditions (ie capacity constraints, regional integration concerns, etc.). On the basis of their decision, a new standard accounting and auditing framework will be prepared and an operational roll-out plan and guidelines for the new chart of accounts will be prepared and implemented.
- Develop guidelines for the implementation of the new accounting standards - covering the rules of the OCAM (National Accountancy Standards) and the chart of accounts of the Central Bank.
- Training in accounting and auditing standards. Facilitation of a series of training and training of trainers in accounting and auditing standards and guidelines, with the use of different forums and approaches to training, most of which should be practical and case study-based.
- Technical support to the development and implementation of a licensing and registration system to certify financial accountants and auditors, including the development of criteria and testing of candidates, and issuance of certificates and a registry. Once OTOCA's membership and board is in place, a future project phase would support a twinning partnership to provide long term institutional development for OTOCA.

**Component 3: Property Registration and Statistical Capacity**

18. This component would support the systems, capacity, and information reporting abilities for property registration and the National Statistics Institute (INE) as follows:



### ***Sub-Component 3.1: Reform and Modernization of Property and Land Registry***

19. The leading agency of the implementation of the sub-component is the General Directorate of Registries and Notaries - DGRN (Ministry of Justice, Public Administration and Human Rights), with the collaboration of the Directorate of Tax Administration (Ministry of Finance, Commerce and Blue Economy); the Directorate of State Assets (Ministry of Finance, Commerce and Blue Economy); and the Directorate of Geographical and Cadastral Services (Ministry of Infrastructure and Natural Resources.)

20. Despite recent improvements, the existing land and property registries are inefficient and outdated, which constrains its contribution to secure property rights that can be used as collateral to finance productive investments. The DGRN within the Ministry of Justice oversees the land registry (*Registro Predial*) and the property registry (*Registro de Propriedade*), among others. Mortgages are registered at the property registry. Existing land titles, pledges, and mortgage registries are paper-based and are performed manually, whereby officers consult the existing paper books to process land transactions. As a result, registering and consulting is inefficient and expensive, which undermines its value as collateral for bank credit.<sup>10</sup>

21. The solutions identified in the Strategic Plan for Registries and Notaries 2017-2019, calls for i) Legal reforms through the new Land Registry and Notary Codes (*Código do Registro Predial e do Notariado*) and ii) for the modernization and improvement of this public service.<sup>11</sup> The DGRN is moving towards digitizing paper records and simplifying internal procedures. The Project will support the registry's objectives to: i) design a database as the basic infrastructure towards a parcel based land administration system that brings together (virtually and institutionally) the ownership and rights data (registry), with the person's registry and the physical parcel data (cadaster), and ii) fully digitize all records and procedures into the designed database, allowing for quick and effective searches on titles, which will provide greater clarity and security of title, and be more readily available for use as loan collateral.

22. The property registration modernization will finance land information management technology including equipment and software, consulting and training services, and media and public awareness services. Activities under this subcomponent are: a) Design and implementation of the Real Estate and Vehicle Registration Information Management System SIGIRA – *Sistema de Gestão de Imóveis e de Registo de Automóveis*, the design should privilege a unique cadaster-register IT system and unique identification number - ID that is centralized and integrated, avoiding data duplication and minimizing the number of data transactions, in order to have an efficient approach. This activity includes the digitization and classification of land titles and concessions (*direitos reais de superfície*), mortgages, and pledges paper records, promoting interoperability among the land registry, the cadaster and the property taxation, under the framework of the IT strategic plan; b) Support the implementation of the new Land Registry and Notary Codes; c) Revision of current registration procedures aiming to increase effectiveness at securing land tenure; and d) Protection of women's land tenure rights. The following table contains a detailed description of activities:

<sup>10</sup> A Public Registries Law regulates publicity of real estate and automobile mortgages. Publicity is performed by a paper-based public registry, which requires submission and analysis of a security agreement, as well as further formalities, such as notarization of signatures, for movables, and execution of public deeds (*Escritura Pública*) for real estate.

<sup>11</sup> Direção Geral dos Registos e Notariado. *Plano Estratégico dos Registos e Notariado 2017-2019*. São Tomé e Príncipe, Outubro de 2016.



**Table 1.1: Property Registration Activities**

Activities		Activities' description
a) Digitization and classification of land titles, mortgages, and pledges paper records, promoting interoperability among the land registry, the cadaster and the property taxation, under the framework of the IT strategic plan	a.1. Design of the Real Estate and Vehicle Registration Information Management System SIGIRA – Sistema de Gestão de Imóveis e de Registo de Automóveis.	Software. Identification of all books, documents and acts to be digitized from cadastre, registry and land taxation.
		Software. Identification of the process and flowchart of each type of the property registration acts, includes the inputs and outputs from/to cadastre and land taxation.
		Software. Identification of variables / fields from cadastre, registry and land taxation to be included in SIGIRA. Including gender disaggregated data.
		Software development, including certification and digital signature.
		Development of property tax interface for the certification of the fiscal number.
		Interface development for the production of statistical data.
		Hardware. Acquisition of server and computer equipment.
	a.2. Implementation of the Real Estate and Vehicle Registration Information Management System SIGIRA – Sistema de Gestão de Imóveis e de Registo de Automóveis.	Digitization, indexing and metadata.
		Training of civil servants on the Real Estate and Vehicle Registration Information Management System SIGIRA – Sistema de Gestão de Imóveis e de Registo de Automóveis.
		Campaign of public awareness and socialization of the Real Estate and Vehicle Registration Information Management System SIGIRA – Sistema de Gestão de Imóveis e de Registo de Automóveis.
b) Support the implementation of new Land Registry and Notary Codes.		Training of civil servants from the General Directorate of Registry and Notary /DGRN
c) Revision of current registration procedures aiming to increase effectiveness at securing land tenure.		Development of manual of procedures of property registry (external advice).
d) Protection of women's land tenure rights.		Campaigns for socialization and dissemination of land rights gender aspects.

**23. Citizen and stakeholders' engagement.** Once the paper records of the property registry are digitalized into the new Information Management System SIGIRA, citizens will have easier access to parcel information, and property registration certificates, increasing transparency and social accountability, while engaging public and private stakeholders. The project will also support the establishment of a public feedback mechanism for citizens to enable improvement in the property registry system and handle any issues that arise as a result of registration.



24. The project will also finance activities and processes that will enable the **protection of women's land tenure rights**, including: (i) the gender approach in the Land Registry and Notary codes; (ii) the inclusion of gender variables in the new information system SIGIRA to register women's property rights, allowing the capture and analysis of gender disaggregated data; (iii) the digitalization and record of joint titling (deeds); (iv) the monitoring of women's property registration; and (v) women's awareness campaigns regarding their property rights. Under the current STP family code, title deeds and property registration should include the declaration of both members of the couple.

25. The conformation of an **Interinstitutional Property Coordination Committee** will be supported, with the aim to technically coordinate the activities of this subcomponent, under the leadership of the DGRN (Ministry of Justice, Public Administration and Human Rights), with the collaboration of the Directorate of Tax Administration (Ministry of Finance, Commerce and Blue Economy); the Directorate of State Assets (Ministry of Finance, Commerce and Blue Economy); the Directorate of Geographical and Cadastral Services (Ministry of Infrastructure and Natural Resources); and other entities as needed.

26. The Project will help address climate change and disaster risks through mitigation. With regards to climate change mitigation, the proposed Project will contribute to the conservation of critical habitats by avoiding individual property registration in restrictive or protected areas, such as national parks and nature reserves, and partial reserves, including forest reserves in accordance with the special law on forest, following articles 6 and 7 of Law 3 of 1991, that creates legal institutional framework for regulating land ownership (*Lei nº 3/91 Cria quadro jurídico institucional regulador da Propriedade Fundiária*). In addition, project activities will support the digitalization of property registry records in coordination with the Directorate of Geographical and Cadastral Services, entity mapped to the Ministry of Infrastructure and Natural Resources.

27. Further efforts, to be developed once all the activities of the subcomponent are achieved, should include the establishment of a one-stop-shop model, to provide land taxation, cadaster, notary and registry services, in a joint manner, regardless of how many entities participate. Within this context, a good design of the Real Estate and Vehicle Registration Information Management System SIGIRA – *Sistema de Gestão de Imóveis e de Registo de Automóveis*, that interoperates with the cadaster and land taxation forms the basis for future actions to reduce land tenure informality and to facilitate citizens' access to land taxation, cadastral, notary and registry services. This could be considered under a future support phase.

### ***Sub-component 3.2: Statistical Capacity Building (US\$1.5 million)***

28. This sub- component aims to strengthen the capacity of the National Institute for Statistics (INE) to produce and disseminate official statistics. It is designed based on three activities: (i) Statistics Promotion and Human Resource Development and Training; (ii) Data Collection and Dissemination; and (iii) Improving INE's physical capital. These activities incorporate priorities identified through a series of discussions with INE management, as well as observations made during project preparation, which includes a tour of the INE offices.

29. The Statistical Development component builds on the ongoing household survey, financed by the World Bank, which also provides technical assistance and provides short term capacity building of INE staff. The proposed project would complement and be a natural continuation of this work, but would focus on providing capacity building for long term needs.



30. The project will support promotion of statistics, improve ICT and Statistical infrastructure and build capacity in the National Institute for Statistics (INE) as follows:

**31. Promotion of statistics:** This includes a campaign to promote information, education and communication; and lecture series. All statistical information to be produced must be disseminated widely to policy makers, international organizations, academics and the general public. INE plans to develop a distribution strategy for information, education and communication to improve the visibility of the INE and develop statistical culture in the country. This includes:

- Media (TV and radio) campaign to explain the importance of statistics, the role of INE and promote use of statistical information.
- Training of journalists on dissemination of statistical information. INE already had one training session on this with support from Paris 21 and this proved to be very useful, so INE has requested a few more sessions of this training.
- There is no doubt about the importance of public (including main stakeholders) awareness of statistics (their use and availability). A celebration each year of the African Statistics Day is one way to improve awareness and INE has celebrated this event in recent years. The proposed activities (TV shows, radio slots and training of journalists) will complement this event to expand outreach.

**32. Improving ICT and Statistical Infrastructure:** The availability of timely and quality statistics requires the technical set up to collect, process and disseminate data. Following an assessment of the existing infrastructure and communication technologies at INE, the project will finance the needed upgrade of the ICT infrastructure to ensure efficient workflows for data collection, processing, analysis, dissemination and archiving. It will also support INE in its role of custodian of official statistics and the simplification of the flow of data from other sources and government agencies. Main activities will be:

- Improve ICT infrastructure as identified in the needs assessment. This includes purchase of computers, printers, photocopiers, scanners, TV/Monitor for videoconference, UPS, and accessories)
- Acquisition of Software: Statistical software, Corel Draw X8 Enterprise.

**33. Improving human resources technical capacity:** This involves strengthening recruitment of and retention of qualified staff. Currently, INE does not have either a Statistician or a Demographer, and STP has only a couple of statisticians nationwide. A detailed training needs assessment is required to ensure that (a) INE's workforce can meet required skills; and (b) contribute to an engaged workforce by creating opportunities for career development. The following key human resources development needs for INE, both in the short term and long term were identified.

**34. Short-term capacity building:** Training will provide and will include on-the-job-trainings with shadow assignments, workshops, short-term courses, certifications. This training will be delivered both in STP and abroad and will include the following:

- Training on multi-topic Household Surveys: This will involve training on the entire process of conducting a survey, from preparation through implementation to dissemination. This is very



important because currently there is only one INE staff with experience in household surveys, and is one year away from retirement.

- Training on basic data analysis: Currently, INE staff do not have sufficient knowledge to analyze and interpret economic data. The same is true for staff who are responsible for statistics in other ministries/agencies: Ministries of Health, Education, Labor, Agriculture, Justice, and the Central Bank. This training will be received by both INE staff and statistics staff in these six entities.
- Training on the basics of poverty measurement and analysis: This would provide some basic knowledge on this subject.
- English language course for INE staff: This would facilitate work on World Bank-financed projects, particularly for staff using World Bank procurement and finance systems (STEP and Client Connection).
- Women will participate in short-term trainings.

**35. Development of talent for long term needs:** This involves selection of young graduates (in mathematics, economics and related fields) from the local university and supporting them in regional statistical schools. A scholarship program will sponsor three candidates during the course of the project: two Statisticians and one Demographer. INE already has an agreement with *Ecole Nationale de la Statistique et de l'Analyse Economique* (ENSAE) of Dakar (Senegal) for this training. The additional two statisticians will complement this effort. INE proposes to train the Demographer at *Institut de Formation et de Recherche Démographiques* (IFORD) in Yaounde (Cameroon), which is considered the best relevant school in the region. Recipients of study scholarships funded by the project will be required to sign an obligation to return to STP upon completion of training and work with INE for a specified minimum number of years depending on the length of the program. Training for long-term needs will include at least one female. It may help to clarify what the project will do and what it will not in terms of human resource development. The project will not provide technical assistance related to new salary scales as this issue goes beyond one institution (INE). However, together with INE and the Ministry of Finance, Trade and the Blue Economy, the team will try to have an incentive mechanism to attract and retain qualified staff. This includes some of the short-term training programs for existing staff as well as scholarships for future staff. Experience from other countries will be drawn as appropriate to STP.

36. The project will also provide support to generate, process and disseminate data products and services, including: (i) a household budget survey and an enterprise census; (ii) analytical products; and (iii) data compilation frameworks such as the system of national accounts, all through the provision of technical advisory services and the acquisition of goods. The proposed activities include the following:

**37. 2020 Household Budget Survey (HBS) and Analysis of 2017 HBS:** In STP, data for measuring and monitoring poverty and other welfare indicators are collected using household budget surveys (HBS). Following implementation of HBS 2000 and HBS 2010, a new household survey is being conducted in 2017. HBS 2017 is financed through the World Bank Recipient Executed Trust Fund (RETF) from the Trust Fund for Statistical Capacity Building (TFSCB). This included the cost of survey preparation (including cost of survey experts), data collection and report preparation. This new project will be a natural continuation of this work. Specifically, the project will finance the next HBS (2020) to update poverty and welfare statistics in STP. Having used tablets to implement computer-assisted personal interviews (CAPI) in HBS 2017, INE



will continue to use this technology to improve data quality. Additionally, the Project preparation advance (PPA) will be used to conduct data analysis once the data is ready for analysis. This will allow to fully achieve the third and final PDO level indicator under the existing Trust Fund- the production of statistical abstract featuring key findings from the survey, including updated poverty statistics and clearly documented methodology- and will naturally inform the 2020 HBS design which will be financed under the new Project.

**38. Data Dissemination:** Open access to anonymized data is key to enable evidence-based policy making and social accountability. It also helps statistics producers to justify budget allocations, which is essential for the sustainability of the project. The project will support the development of data access and information policies and dissemination practices, especially the dissemination of micro-data by financing: (i) enhancement of INE website to include a micro-data portal access in line with open-data principles; (ii) technical assistance and some trainings on micro-data anonymization; and (iii) the improvement of internet access at the INE, (iv) annual production and distribution of statistical abstracts.

**39. Enterprise Census:** STP needs an enterprise census. This will inform the current situation of business operating in the country.

**40. National Accounts Technical Assistance:** This activity will include technical Assistance to: (a) migrate to System of National Accounts (SNA) 2008 (from SNA 1993); (b) change the base year from 2008 to a more recent year; (c) identify and implement the missing surveys to migrate to SNA 2008. Specifically, it will improve capacity inside INE to assess the country's System of National Accounts data to identify priority areas for strengthening the system in line with current standards. The national accounts are currently compiled using the outdated SNA 1993 that needs to be updated. INE is planning an upgrade of the National Accounts system to the 2008 system. This component will support activities for the development of capacities to prepare a roadmap for updating National Accounts in STP.

41. Finally, this subcomponent will finance office improvements to ensure that INE provides adequate working space for its staff by providing modern working equipment and other goods but excluding any works. Office improvements include to repair, organize and equip library in order to have more organized statistical documents (students and other researchers visit the INE for research work), to renovate the entire INE building (painting, re-wiring) and equip it with a few air conditioners. This activity also proposes to purchase two vehicles to facilitate INE's work. One of the big cost items when doing a field survey is the cost of transport (renting vehicles). For an entity that conducts surveys regularly, using its own vehicles for field work will be more cost effective over time compared to renting vehicles each time a survey is conducted.

42. In preparing the sub-component on Statistical Capacity Building, several discussions were held with INE about details of the activities and associated costs. The proposed US\$1.5 million for this sub-component of the project seems sufficient for the proposed activities. The project will finance analysis of the 2017 household survey data only (data collection for the survey has already been completed – funded through a RETF project). Experience from the 2017 survey shows that the same survey can be repeated in 2020 for about US\$500,000 (note that one advantage of STP's small size is that household surveys are relatively cheaper than the typical case in other countries – mainly because costs of fieldwork are significantly low, due to relative proximity to survey areas). Similarly, the amount allocated for a business



census seems sufficient (funding for a business survey has been secured from a separate source). The budget will not cover actual GDP rebasing (or any survey in this regard), but will rather finance technical assistance for ground work to assess what is needed for rebasing and prepare a plan for rebasing. This plan will then be used when STP secures separate funds for actual rebasing.

**Component 4: Project Implementation Support (US\$1.5 million)**

43. The project would finance staff of the project implementation unit (PIU) in AFAP in charge of coordination, procurement, and financial management of the project. It would also support capacity building to enhance the capabilities of the PIU, particularly in relation to the management of a high number of relatively small TA contracts. A Project Steering Committee (PSC) will be established to coordinate the work of the PIU and the technical beneficiary agencies (BCSTP, MoF, INE). The PIU will coordinate implementation of project activities.



## **ANNEX 2: IMPLEMENTATION ARRANGEMENTS**

**COUNTRY: Sao Tome and Principe**

**Sao Tome and Principe: Institutional Capacity Building Project**

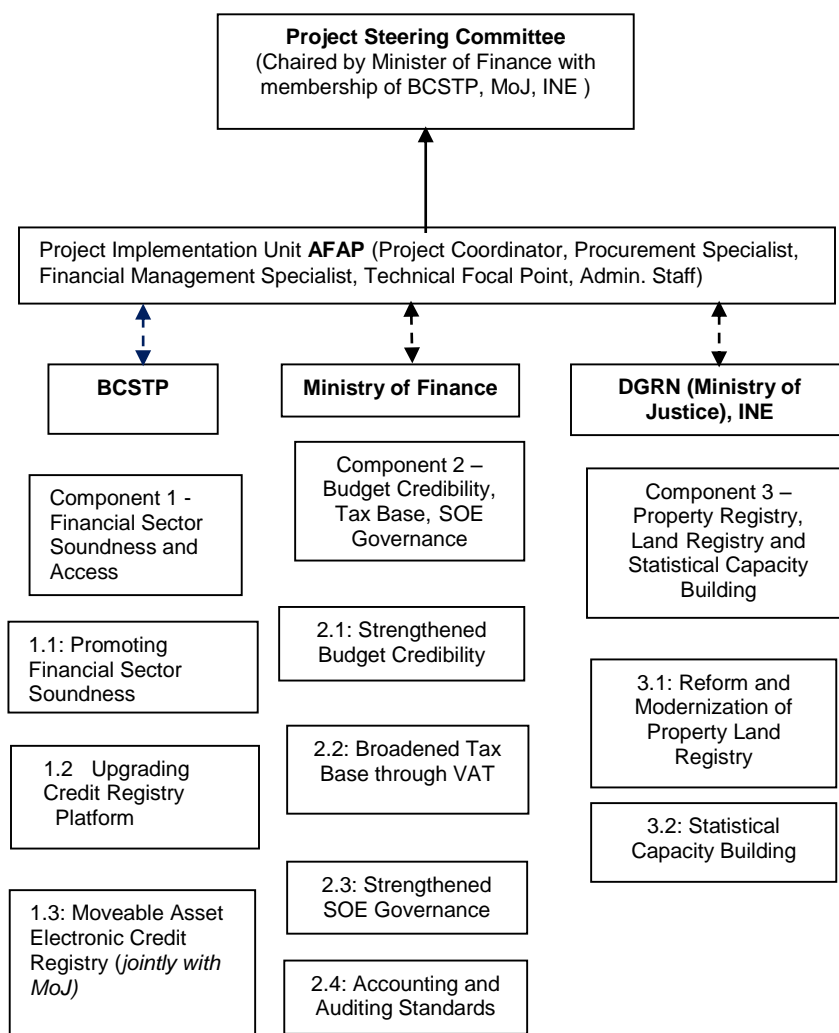
### **Project Institutional and Implementation Arrangements**

**1. The project will be implemented by AFAP (*Agência Fiduciária de Administração de Projectos*) as the Project Implementation Unit (PIU) for the Project.** AFAP will be responsible for implementing the IDA project with full fiduciary responsibility. The AFAP team has a proven record in the implementation of Bank operations. A recent capacity assessment concluded that current organization and structure of AFAP is adequate for the efficient implementation of Bank operations in STP. The core team includes a Project Coordinator, with responsibility for the day to day management of AFAP and with authority to sign contracts in the name of the beneficiaries of the projects; Procurement and Financial Management Specialists and assistants, with the responsibility of ensuring that the fiduciary requirements of the Bank are met satisfactorily, as well as Technical specialists (*Assessores Técnicos*) of the areas of projects being implemented, such as Energy and Education, who ensure smooth linkages with the beneficiary agencies and are responsible for leading the design of the technical content of the various project activities.

**2. In order to carry out its responsibilities and effectively implement the various components of the project, AFAP will work with several stakeholders.** AFAP has already appointed a dedicated focal point for the project and focal points for each of the beneficiary agencies of the project (Central Bank, Ministry of Finance, Ministry of Justice, DGRN) will be assigned. AFAP undertakes the PIU role focusing on fiduciary tasks, project facilitation, and coordination and the technical focal points who will take the lead in technical review and supervision of support activities for their respective agencies. This should greatly facilitate project preparation and implementation. In order to ensure high level coordination and supervision of the project, a Committee for Reforms housed in the MoF will serve as the Project Steering Committee (PSC) established to provide policy guidance and oversight. The PSC will be chaired by the Minister of Finance and will comprise of representatives from the Ministry of Justice and the Central Bank.



**Figure 2.1: Organigram for Implementation Arrangements**



## Financial Management and Disbursement

**3. A Financial Management Assessment was carried out in accordance with Directives and Policy for Investment Project Financing (IPF), and the Financial Management Manual for World Bank Investment Project Financing Operations issued on February 10, 2010 and last revised on February 10, 2017.** The objective of this assessment was to determine whether the proposed implementing agency, AFAP, has acceptable FM arrangements for the implementation of the proposed ICBP. The arrangements are considered acceptable if the entity's planning, budgeting, accounting, internal controls, funds flow, financial reporting, and auditing arrangements (a) are capable of correctly and completely recording all transactions and balances related to the project; (b) facilitate the preparation of regular, timely, and reliable financial statements; (c) safeguard the project's assets; and (d) are subject to auditing



arrangements acceptable to the Bank. The overall conclusion of the Financial Management Assessment is that the project's FM arrangements have an overall residual FM risk rating of Moderate, which satisfy the Bank's minimum FM requirements under Bank Policy and Directive for Investment Project Financing.

**4. FM Risk Assessment and Mitigation.** The Bank's principal concern is to ensure that project funds are used economically and efficiently for the intended purpose. Assessment of the risks that the project funds will not be appropriately used is an important part of the Financial Management Assessment work. The risk features comprise two elements (a) the risk associated to the project as a whole (inherent risk), and (b) the risk linked to a weak control environment with regard to the project implementation (control risk). The content of these risks is described in the table below.

### Risks and Mitigating Measures

Risk factors/Description of Risk	Risk Rating	Risk Mitigating Measures Incorporated into the Project Design	Conditions of Negotiations, Board or Effectiveness (Yes or No)	Residual Risk Rating
<b>Inherent Risk:</b>				
<b>Country level:</b> The country faces human resource constraints; outdated legal framework on budgeting, internal and external auditing functions; limited coverage of IFMIS and Single Treasury Account.	S	The STP Government is committed to implementing reforms of the country's PFMs with support of the development partners. These include: implementation of IFMIS, Single Treasury Account, and capacity building to key PFM institution. The Bank will support PFM reform initiatives through this proposed project, which includes supporting accounting profession in STP.  The ring-fencing of the project under AFAP will mitigate these weaknesses.	No	S
<b>Entity level:</b> AFAP has experience in handling FM matters of Bank-financed project, however the fact that AFAP is handling several projects poses a risk as this could jeopardize its ability to perform well for all projects	M	The project implementing agency, AFAP, has a track record in the implementation of the Bank-financed education, power sector, telecommunications, and social protection projects, and will have overall responsibility of the project FM. The AFAP FM capacity will be assessed during preparation of new operations	No	M



<b>Risk factors/Description of Risk</b>	<b>Risk Rating</b>	<b>Risk Mitigating Measures Incorporated into the Project Design</b>	<b>Conditions of Negotiations, Board or Effectiveness (Yes or No)</b>	<b>Residual Risk Rating</b>
		and implementation support of ongoing operations and recommendation for adjustment will be made if needs arise.		
<b>Project level:</b> The resources of the project may not be used for the purpose intended.	M	This is a simple project with only one spending unit and the project implementing agency will comply with key internal controls as set out in the draft FM procedures manual. AFAP will make use of existing accounting software to account for funds, expenditures, and resources of the project. The Bank will provide necessary implementation support on project FM matters.	No	M
<b>Control Risk:</b>				
<b>Budgeting:</b> Weak budgetary execution and control leading to budgetary overrun or inappropriate use of project funds.	M	The FM procedures manual will spell out the budgeting and budgetary control arrangements to ensure appropriate budgetary oversight. The IFRs will include comparison of planned and actual project expenditures.	No	M
<b>Accounting:</b> Project funds, expenditures, and resources are not properly recorded since AFAP is accounting for other projects and may be confused in handling record of the project transactions	S	AFAP will make use of the automated accounting package to account for project funds, expenditures and resources, which is currently in use by the ongoing operation. In so doing the accounting package will be customized for separate recording of project transactions and production of financial reports.	No	M



<b>Risk factors/Description of Risk</b>	<b>Risk Rating</b>	<b>Risk Mitigating Measures Incorporated into the Project Design</b>	<b>Conditions of Negotiations, Board or Effectiveness (Yes or No)</b>	<b>Residual Risk Rating</b>
<b>Internal control:</b> Noncompliance with key internal control procedures due to weak internal control environment and oversight mechanisms in the country.	S	Financial and administrative procedures to be employed by AFAP in project implementation are documented in the existing draft FM Procedures Manual. This draft is being revised to ensure that specific aspects of the project activities are appropriately addressed by it. AFAP will finalize the revision of the manual within two months after the project effective date.  Bank's regular FM implementation support through desk reviews and field visits will make appropriate recommendations to improve project FM environment.	No	M
<b>Funds flow:</b> Delay in implementation of project activities due to lack of knowledge of Bank's disbursements procedures.	L	Disbursements of project will be handled by AFAP financial manager capable of adequately performing his duties. The project finance staff are familiar with the Bank's disbursement procedures.	No	L
<b>Financial reporting:</b> The implementing agency may not able to produce the financial reports in a timely manner as required to monitor and effectively manage the project	M	IFR and annual financial statements formats and contents will be discussed and agreed with AFAP. The formats will be similar to those in use for ongoing operations.  AFAP will use the automated accounting package that will enable the efficient and timely generation of financial information.	No	M



<b>Risk factors/Description of Risk</b>	<b>Risk Rating</b>	<b>Risk Mitigating Measures Incorporated into the Project Design</b>	<b>Conditions of Negotiations, Board or Effectiveness (Yes or No)</b>	<b>Residual Risk Rating</b>
<b>Auditing:</b> Delays in submission of audit reports or delays in implementing the recommendations of the Management Letter.	M	AFAP has been submitting audit reports of ongoing projects on time. An independent external audit firm will be hired by the project to ensure compliance with the audit submission timelines set out in the financing agreement. The Bank will monitor audit submission compliance and ensure implementation of Management Letter recommendations.	No	M
<b>Governance and Accountability:</b> Possibility of corrupt practices including bribes, abuse of administrative and political positions, mis-procurement and misuse of funds and so on, are a critical issue.	S	Robust FM arrangements (including a comprehensive annual audit of project accounts, Bank FM supervision including review of transactions and asset verification) designed to mitigate the fiduciary risks in addition to AFAPs' overall internal control systems.	No	S
<b>OVERALL FM RISK</b>	M			Moderate

Note: IFMIS = Integrated Financial Management System; S = Substantial; M = Moderate; L = Low.

**5. Financial Management Action Plan.** To establish an acceptable control environment and to mitigate FM risks, the following measures should be taken by the due dates as indicated in the Financial Management Action Plan.

#### Financial Management Action Plan Due Dates

<b>Number</b>	<b>Action</b>	<b>Responsibility</b>	<b>Completion Date</b>
1	Revise and finalize the draft FM procedures manual acceptable in form and substance to the Bank.	AFAP	Within two months after effectiveness
2	Customize the accounting software to maintain separate records and ledger accounts for the proposed project.	AFAP	Within 2 months after effectiveness
3	Appointment of project external auditors	AFAP	Not later than 4 months after effectiveness



## **FM arrangements**

6. **Budgeting.** AFAP will prepare the annual budget based on the Annual Work Plans (AWPs) agreed with all implementing entities. Planned activities for the various components and implementing agencies have been discussed and finalized. These budgets contain details of objectives, expected outcomes, and performance indicators. It is expected that from this four-year plan, the budget will be extracted from the AWPs for the components so that activities can be specifically implemented and monitored. AFAP will also be responsible for producing variance analysis reports comparing planned with actual expenditures on a quarterly basis. The periodic variance analysis will enable the timely identification of deviations from the budget. These quarterly variance analysis reports will be part of the IFRs that will be submitted to the World Bank on a quarterly basis. The budget preparation and monitoring of budget execution is described in the existing draft Financial Procedures Manual, and formats for annual budget and monitoring reports are included as annexes.

7. **Staffing.** AFAP will be responsible for fiduciary aspects of the project. The overall responsibility of project FM matters rest with AFAP financial manager reporting to the coordinator and supported by an accountant and financial assistant. The AFAP finance team has experience in handling FM and Disbursement matters of Bank-financed operations and is capable of performing its duties and responsibilities. The FM staffing arrangements seems to be adequate for implementation of the three ongoing projects and this proposed operation. However, the AFAP FM capacity should however be revisited during the preparation of upcoming pipeline projects or during implementation support missions to assess if there is a need for additional finance staff to balance the workload.

8. **Accounting.** The AFAP will account for funds, expenditures, and resources of the proposed project using the existing accounting software. This accounting software is adequate as it can produce reliable financial reports required to monitor and manage effectively the progress of the project. The accounting software will be customized to maintain separate records and ledger accounts for the proposed project and allow preparation of financial reports required to monitor and manage effectively the project.

9. **Internal Control.** The General Inspectorate of Finance (*IGF-Inspeção Geral das Finanças*) would normally conduct internal audit reviews of the activities of this operation as its mandate is to carry out internal audit reviews of the entire government entities. However, the project activities may not be subject to internal audit review by IGF due to its limited capacity and some constraints on their work program. For the purpose of this project that does not imply any significant FM risk, alternative measures such as regular supervision through desk review and field visits (that include expenditures and asset reviews) should be carried out by the Bank to ensure that the implementing agency is maintaining adequate systems of internal controls and key procedures are complied with. The finance and administrative procedures to be employed by the agency in the implementation of the project are documented in the existing draft FM Procedures Manual. This manual covers the following aspects: institutional arrangements, budget and budgetary control, disbursement procedures and banking arrangements; receipt of goods and payment of invoices, internal control procedures, accounting system and transaction records, reporting requirements, and audit arrangements. This draft manual is being revised and it will be finalized within two months after the project effective date and will be part of the Project Operations Manual.



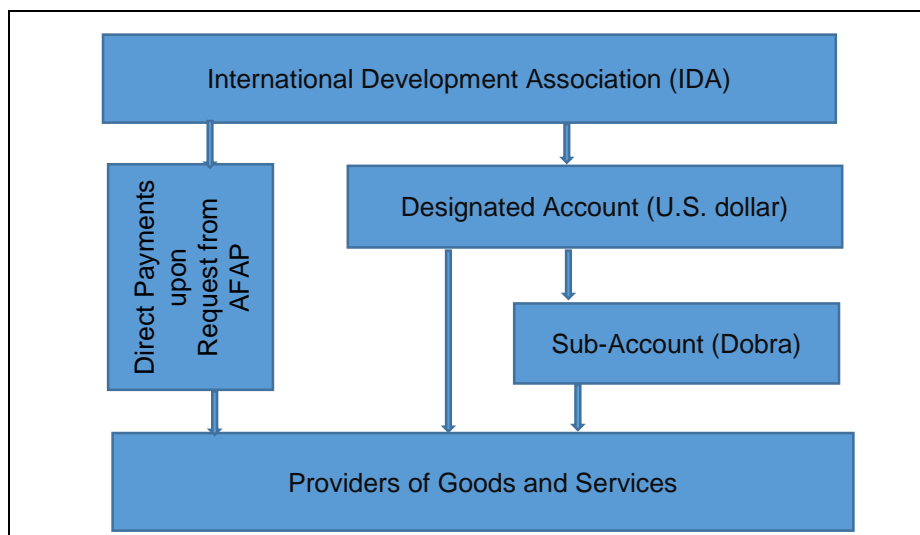
10. **Financial Reporting.** AFAP is producing regular quarterly progress reports for the ongoing projects and these includes financial reports. For the proposed project, this agency will produce and submit to the Bank IFRs within 45 days after the end of the calendar quarter. The content of these reports should at a minimum include: (i) a statement showing for the period and cumulatively actual and planned receipts and payments by main income and expenditures categories (comparing budget and actual expenditures); (ii) beginning and ending cash balances of the project.

11. **The AFAP will also produce annual project financial statements in accordance with Cash Basis International Public Sector Accounting (IPSAS), which will at a minimum include:** (i) a statement of sources and uses of funds/cash receipts and payments which recognizes all cash receipts, cash payments, and cash balances controlled by the entity for this project and separately identifies all payments by third parties on behalf of the agency; (ii) the accounting policies adopted and explanatory notes. The explanatory notes should be presented in a systematic manner with items on statement of cash receipts and payments being cross referenced to any related information in the notes. Examples of this information include a summary of fixed assets by category of assets; and (iii) a management assertion that IDA funds have been expended in accordance with the intended purposes as specified in the relevant Bank legal agreement.

#### ***Funds Flow and Disbursement Arrangements***

12. To facilitate the implementation of the project activities, AFAP will establish and maintain a segregated Designated Account (DA) to receive advances from IDA, in U.S. dollars at commercial bank under terms and conditions acceptable to the Bank. In addition, a sub-account will be established and maintained at same commercial bank for the DA to facilitate payments in local currency. Funds in the DA and sub-account will be used to finance the projects eligible expenditure in accordance with Financing Agreement and the Disbursement Letter and Financial Information. The figure below depicts the funds flow mechanism for the project activities to be financed under the traditional disbursement methods.

**Figure 2.2: Funds Flow Mechanism**





**13. Disbursement arrangements.** Disbursement of IDA funds will be done on a transaction basis. An initial advance up to the ceiling of the DA (to be indicated in the Disbursement Letter) and representing four months forecasted project expenditures payable through the DA will be made into the DA. The project will have the option to move to report-based disbursement once the FM system and the project's forecasting capacity have been assessed as satisfactory for that disbursement procedure. Once in report-based disbursement procedures, quarterly IFRs will be acceptable as the basis for disbursements. These reports will include a cash forecast for the ensuing two periods.

**14. At the effectiveness of the project, an initial advance will be made into a project DA to be maintained by the AFAP.** The advances will be used for eligible project expenditures financed by IDA in sufficient amount to execute project activities. Subsequent advances will be made upon receiving applications supported with statements of expenditures reporting on the use of previous advances for eligible expenditures. The option of disbursing the funds through direct payments from IDA for payments above the threshold to be indicated in the Disbursement Letter will be available. Options for the use of special commitments and reimbursements will also be available. The Disbursement Guidelines for Investment Project Financing (issued in February 2017) provides guidance on disbursement arrangements for financing provided or administered by the World Bank. The World Bank will issue the Disbursement Letter that will specify additional instructions for withdrawal of the proceeds of the Credit.

**15. Auditing.** The project will be audited annually by independent auditors acceptable to the Bank. The project financial statements will be audited in accordance with International Standards on Auditing as issued by the International Auditing and Assurance Standards Board (IAASB) within the International Federation of Accountants (IFAC). The audit report together with Management Letter will be submitted to IDA within six months after the financial year-end; that is June 30th of each following year. The costs incurred for the audit will be financed under the project. The auditors will be required to express a single opinion on the project financial statements. In addition, a detailed Management Letter containing the auditor's assessment of the internal controls, accounting system, and compliance with financial covenants in the Financing Agreement, suggestions for improvement, and management's response to the auditor's Management Letter will be prepared and submitted to the World Bank.

**16. Effectiveness condition.** The FM Procedures Manual is included in the Project Operations Manual (POM). The preparation and development of the POM is a condition of effectiveness for this project.

**17. Dated covenants.** Customize the accounting software to maintain separate records and ledger accounts for the proposed project and finalize the revision of the FM Procedures Manual within two months after the project effective date. Appointment of external auditors should be finalized within four months after the project effective.

**18. Implementation Support Plan.** The project will be supervised using a risk-based approach. The FM supervision will be carried out by the World Bank FM specialist. Supervision will focus on the status of the FM system to verify whether the AFAP continues to maintain acceptable project FM arrangements and provide support where needed. The FM supervision missions will also include a review of quarterly progress reports and audit reports and follow up on material accountability issues by engaging with the task team leader (TTL), client, and/or auditors. Based on the assessment, the Project FM current risk is Moderate and field visit supervision will be conducted once during the fiscal year and adjusted when the need arises.



### *Conclusion of the assessment*

**19. The Financial Management Assessment of the project's FM arrangements has an overall residual FM risk rating of Moderate**, which satisfies the Bank's minimum FM requirements under Bank Policy and Directive for Investment Project Financing.

### **Procurement**

**20. Applicable procedures.** The Borrowers will carry out procurement under the proposed project in accordance with the World Bank's "Procurement Regulations for IPF Borrowers" (Procurement Regulations) dated July 2016 and revised in November 2017 under the New Procurement Framework (NPF), and the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated July 1, 2016, and other provisions stipulated in the Financing Agreements.

**21. Procurement strategy.** The Borrower has prepared the Project Procurement Strategy for Development (PPSD), with the support and guidance from the Bank. The project will support the institutional capacity building of several public finance-related institutions, and the complexity of the project, and its procurement activities, comes from the large number of contracts, most of them of low-value amount. Furthermore, some interventions are specialized and will require the approach of international market. As much as possible, similar equipment required for different institutions were combined in order to reduce the transaction costs of several smaller procurement and to benefit from economy of scale.

**22. Procurement arrangements.** The project will be implemented by the AFAP, which will include fiduciary aspects of the project, including procurement activities.

**23. Procedures for selection of consultants.** Open competition through establishment of a short list, Quality and Cost based selection (QCBS) method, will be used to select consultants for (i) C.R.C Data contribution consolidation and exploitation (Mod I & II) (BCSTP) (estimated at US\$350,000), and (ii) Preparation of Procurement Law, implementing Regulations, Standard Procurement Documents and Procurement Manual (COSSIL) (estimated at US\$210,000). Least Cost Selection (LCS) will be used to select Contract for the Financial Audit of 4 fully state owed SOEs (estimated at US\$200,000). The Consultant's Qualification Based Selection (CQS) will be the method to select (i) Technical assistance to revise the Legal framework of the State Owner Enterprise (SOE) (estimated at US\$200,000) and (ii) Prepare and Adopt the COSSIL Strategic and Operational Plan 2019-2023 (estimated at US\$70,000). For the audit of the first year (2018), the contract with the AFAP auditor will be amended to accommodate the audit of this ICB Project (Direct Selection, estimated at US\$10,000). The project will require a significant number of individual consultants, which will be recruited using the Individual Consultants selection method (i.e. Recruitment of non-resident technical advisor to support the SOE unit estimated at US\$150,000; Design of macroeconomic forecasting models estimated at US\$100,000; Technical assistance to improve the National Accounts System (INE) estimated at US\$100,000; TA for identification of SAFEe software solutions estimated at US\$100,000 among other IC contracts).



**24. Procedures for procurement of goods and non-consulting services.** The procurement of Collateral Registry Software Vendor for the Central Bank of STP (BCSTP) (estimated at US\$450,000) and the Supply of hardware and software components for BCSTP disaster/recovery infrastructure (secondary site) (estimated at US\$300,000) will be done through open competition with international market approach (Request for Bids), considering the limited, even inexistent, of competition in the local market. The same method, but with national market approach, will be used to procure computer equipment for Debt Unit, INE, Ministry of Justice and VAT (including VAT server) (estimated at US\$250,000) and Communications and Awareness Vendor (BCSTP) (estimated at US\$250,000). Smaller value goods contracts, including the purchase of vehicles, not exceeding US\$200,000 per contract, will be procured using the request for quotations (RFQ) method when these goods are readily available and enough suppliers exist to ensure effective competition. A non-consulting services, Design of Property and Vehicle Registry Management System (estimated at US\$230,000), will be procured through open competition with international market approach, due to limited capacity in-country.

**25. The Procurement Plan** will be managed through the World Bank's tracking system, STEP.

**26. Review by the World Bank of procurement decisions.** The Table below indicates the initial Procurement Plan for the Project. All activities estimated to cost below these amounts shall be treated as post review and will be reviewed by the World Bank during the Implementation Support Mission under a post procurement review exercise. Direct Contracting/Single Source Selection will be subject to prior review only for contracts estimated to cost more than the amounts indicated in the Table. The World Bank may, from time to time, review the amounts, based on the performance of the implementing agencies.

**I. Goods and non-consulting services**

**1. Prior review Threshold:** Procurement Decisions subject to Prior Review by the Bank as stated in clause 3.4 to 3.8 and Annex II of the Procurement Regulations dated July 2016 and revised in November 2017.

	Selection Method	Prior Review Threshold	Comments
<b>1.</b>	Competitive Methods and approved Direct Selection (Works)	\$5,000,000	None
<b>2.</b>	Competitive Methods and approved Direct Selection (Goods)	\$1,500,000	None

**2. Procurement Packages with Methods and Time Schedule (first 18 months):**

1	2	3	4	5	6
Ref No	Description of Assignment	Estimated Expenditure (US\$)	Selection Method	Review by Bank (Prior/Post)	Expected Bid-Opening Date
1.	Supply of 5 vehicles - VAT (3) and INE (2)	200,000	RQ	Post	July 16, 2018



2.	Supply of computers equipment for Debt Unit, INE, Ministry of Justice and VAT (including VAT server)	250,000	Open-National (RFB)	Post	August 23, 2018
3.	Acquisition of software for informatization of inventory of Government Assets	25,000	RQ	Post	September 25, 2018
4.	Supply of materials and furniture for the refurbishment of VAT rooms	200.000	RQ	Post	August 17, 2018
5.	Collateral Registry Software Vendor (BCSTP)	450,000	open international (RFB)	Post	July 19, 2019
6.	Hardware (incorporating networking equipment and PCs for relevant outpost offices) for collateral registry (BCSTP)	150,000	RQ	Post	July 26, 2019
7.	Communications and Awareness Vendor (BCSTP)	250,000	Open national (RFB)	Post	November 15, 2019
8.	Design of Property and Vehicle Registry Management System	230,000	Open International (RFB)	Post	August 25, 2018
9.	IT equipment for the COSSIL Website	10,000	RQ	Post	January 15, 2019
10.	Outreach and dissemination of the revised Procurement Framework and instruments for COSSIL	15,000	RQ	Post	April 15, 2019
11.	Supply of hardware and software components for BCSTP disaster/recovery infrastructure (secondary site)	300,000	Open international (RFB)	Post	January 2019



## II. Selection of Consultants

- 3. Prior Review Threshold:** Selection decisions subject to Prior Review by Banks as stated in clause 3.4 to 3.8 and Annex II of the Procurement Regulations dated July 2016 and revised in November 2017.

	Selection Method	Prior Review Threshold	Comments
1.	Competitive Methods (Firms)	\$500,000	None
2.	Single Source (Firms)	\$500,000	None
3.	Competitive Methods (Individuals)	\$200,000	None
4.	Single Source (Individuals)	\$200,000	None

- 4. Short list comprising entirely of national consultants:** Short list of consultants for services, estimated to cost less than \$100,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of Section B (Thresholds) of Bank Guidance "Thresholds for procurement approaches and methods by country".

### 5. Consultancy Assignments with Selection Methods and Time Schedule (first 18 months):

1 Ref No	2 Description of Assignment	3 Estimated Expenditure (US\$)	4 Selection Method	5 Review by Bank (Prior/Post)	6 Expected Proposals Submission Date
1.	Project Audit	10,000	DC	Post	October 25, 2018
2.	Communication strategy for VAT implementation	40,000	IC	Post	November 14, 2018
3.	Design of macroeconomic forecasting models	100,000	IC	Post	March 5, 2019
4.	Technical assistance to develop the manual of procedures of Property registry	40,000	IC	Post	March 15, 2019
5.	Technical assistance to revise the Legal	100,000	CQS	Prior	December 15, 2018



	framework of the State Owner Enterprise (SOE)				
6.	Recruitment of non-resident technical advisor to support the SOE unit	150,000	IC	Post	September 1, 2018
7.	Technical assistance for the preparation of a Performance Contract with one SOE	70,000	IC	Post	15 February 2019
8.	Contract for the Financial Audit of 4 fully state owned SOEs	200,000	LCS	Prior	15 March 2019
9.	Technical assistance to improve the National Accounts System (INE)	100,000	IC	Post	November 15, 2018
10.	Preparation of Procurement Law, implementing Regulations, Standard Procurement Documents and Procurement Manual (COSSIL)	210,000	QCBS	Prior	December 1, 2018
11.	Design and activate the Public Procurement Website (COSSIL)	30,000	IC	Prior	November 1, 2018
12.	Prepare and Adopt the COSSIL Strategic and Operational Plan 2019-2023	70,000	CQS	Prior	November 15, 2018



13.	T.A. for conception of the software for electronic inventory of Government Assets	25,000	IC	Post	November 1, 2018
14.	T.A. for identification of SAFEe software solutions	100,000	IC	Post	November 15, 2019
15.	C.R.C Data contribution consolidation and exploitation (Mod I & II) (BCSTP)	350,000	QCBS	Post	September 21, 2018
16.	T.A. for analysis, design, documentation, installation, simulation, acceptance tests, procedures (Mod III – disaster recovery and business continuity)	40,000	IC	Post	March 15, 2019
17.	T.A. and training to Central Bank (specific on banking activity: process mapping, business impact analysis, business continuity plan, escalation procedures, call tree, training) (Mod IV)	40,000	IC	Post	October 15, 2019



### III. Implementing Agency Building Capacities with Time Schedule

1	2	3	4	5	6
Ref No	Expected outcome	Estimated Cost (US\$)	Estimated duration	Started Date	Comments
1.	Training of civil servants on the Real Estate and Vehicle Registration Management System	47,000	2 weeks	August, 2018	
2.	Training on multi-topic Household surveys	30,000	2 weeks	January, 2019	
3.	Training on basic data analysis	20,000	1,5 weeks	January, 2019	
4.	Training on the basics of poverty measurement and analysis	30,000	3 weeks	February, 2019	
5.	Training of procurement agents	115,000		October 2018	Over 3 years
6.	Training on SAFEe for DiTei Staff	100,000		November, 2018	

**27. Assessment of National Procedures.** A Procurement Law (Law 8/2009 of August 26) enacted a Procurement Regulation and the creation of a Procurement supervisory body, the Procurement and Coordination and Supervision Office (COSSIL). The COSSIL is a body mandated to centralize procurement information, assist the decentralized procurement units, and ensure uniformity and quality across government procuring units. However, the STP procurement law, since it was enacted, has not been revised or updated to incorporate lessons learned or adopt the latest international best practices.

**28. Limited resources and capacity constraints are negatively affecting the functions of the supervisory body.** Despite the procurement law, limited progress has been achieved with its implementation, mainly due to the limited allocation of resources for the functioning of COSSIL, since its inception to date. Furthermore, the training delivered to public servants appears to have been limited in terms of its quality, frequency and scope and is not conducive to the establishment of a critical cadet in procurement. As a result, the ability for the country or of the procurement practitioners to grow over time has also been limited.

**29. Country's Regulations are generally consistent with international best practice for the following reasons:** (a) there is adequate advertising in national media; (b) the procurement is generally open to eligible firms from any country; (c) contracts documents have an appropriate allocation of responsibilities, risks, and liabilities; (d) it requires publication of contract award information in local newspapers of wide circulation; (e) the national regulations do not preclude the World Bank from its rights to review procurement documentation and activities under the financing; (f) there is an acceptable complaints mechanism; and (g) maintenance of records of the procurement process.



**30. However, the request for bids/request for proposals document shall require that bidders/proposers submitting bids/proposals present a signed acceptance at the time of bidding,** to be incorporated in any resulting contracts, confirming application of, and compliance with, the World Bank's Anti-Corruption Guidelines, including without limitation to the World Bank's right to sanction and the Bank's inspection and audit rights.

**31. With the incorporation of the above provision, the Santomean Procurement Regulation will be acceptable to be used under those procurements not subject to the World Bank's Prior Review,** as the thresholds indicated in Table or any updates indicated by the World Bank in the Procurement Plan.

### **Environmental and Social (including safeguards)**

**32. Gender. The support to be provided under the two sub-components for credit and collateral registry should directly benefit women entrepreneurs given that women-based businesses normally have a disproportionate share of moveable assets compared to their male counterparts.** Towards that end, gender disaggregated indicators will be developed and tracked throughout the project lifetime. Additionally, an application has been made under the Women Entrepreneurship Finance Initiative (We-Fi) for US\$400,000 that would complement the project and support the following activities:

- Define target segment of women who can benefit from movable asset based lending.
- Undertake an analysis of the existing credit registry usage by financial institutions and women SME clients.
- Conduct quantitative and qualitative research for the defined segment to understand a) available assets that could be used as movable collateral and willingness of owners to give them as such; b) customary laws; c) if current assets will cover the 100-200 percent level of collateral requirement; d) risk area of the financial institution and their current risk policies and provisioning requirements by the BCSTP to inform product design; e) who will be doing valuation of the assets and which principle of depreciation can be used.
- Share results with recommendations on how to increase usage of existing credit infrastructure (both through credit registry upgrade dissemination and through enhancements to the collateral registry along with communication/dissemination campaigns) to benefit more women entrepreneurs.
- Using the evidence, work with BCSTP and a nominated financial institution to design an asset based lending product and regulatory regime conducive for increased asset based lending (ABL) for female entrepreneurs.
- The design and implementation of the Real Estate and Vehicle Registration Information Management System SIGIRA – *Sistema de Gestão de Imóveis e de Registo de Automóveis*, will include variables to register women's property rights, allowing the capture and analysis of gender disaggregated data.

Should the proposal be approved, these complementary activities will enhance the project's gender impact for this sub-component.

**33. The project will also finance activities and processes that will enable the protection of women's land tenure rights, including a gender approach in the Land Registry and Notary codes.** Under the current STP family code, title deeds and property registration should include the declaration of both members of the couple. The focus in the ongoing reform of the family code, whereby it is important to maintain the protection



of women's assets, even in cases of facto marital unions. The gender focus is based on the fact that in many cases, women do not have the necessary documents or evidence to prove them as land rights holders, and in other cases, women are unaware of their rights to land. A final difficulty is the lack of formal marriages which may impede their right to property as a spouse. Recording women's rights at the property registry will enable them to break the property barrier, providing proof of ownership, which facilitates leveraging property as collateral. Therefore, the Property registry subcomponent will include the following activities:

- Facilitate a legal framework for joint titling and registration of property rights for both members of a couple, whenever possible.
- Campaigns for socialization and dissemination of land rights gender aspects, including appropriate strategies to mitigate and encourage knowledge and awareness of women of their land rights. As part of the general public awareness campaign, messages will be targeted at both men and women to increase women's participation in land titling and registration.

**34. All training activities under this project will include both males and females and gender disaggregated training data will be monitored and reported throughout project implementation.** This will also allow the project to proactively adopt and promote gender targeted promotion and delivery for training to ensure good outreach to both men and women. Finally, the next household survey would include gender-specific questions that would allow deeper understanding of gender issues, and this can be tracked in a subsequent survey. The project will continue to draw on the Bank's Gender Innovation Lab expertise to continue to inform and advise on the delivery and assessment of gender focused activities taking into account lessons from other experiences and projects.

35. The project is designed to support the Central Bank, Ministry of Finance, National Statistics Institute, the General Directorate for Registries and Notaries to improve their institutional capacity in the area of financial sector policy and regulation, public financial management and fiscal planning, statistical capacity, and property registration. The project is expected to have no adverse environmental and social impacts and no environmental safeguards policies are triggered.

## **Monitoring and Evaluation**

36. The project monitoring and evaluation system will be the responsibility of AFAP with the inputs of the project beneficiary agencies. Based on the agreed results framework, the AFAP project technical focal point will track results on a quarterly basis and will work closely with the technical focal points for the different beneficiary institutions. The periodic Bank implementation missions will review the progress towards the results, identify any lags, and agree on measures to ensure the project is on track to achieving its objectives. The project M&E indicators have been developed to reflect the impact of the improved capacity for institutions' performance (for PDO level indicators) as well as the capacity support being delivered and used (for Intermediate Outcome indicators).



### ANNEX 3: IMPLEMENTATION SUPPORT PLAN

**COUNTRY:** Sao Tome and Principe

**Sao Tome and Principe: Institutional Capacity Building Project**

#### Strategy and Approach for Implementation Support

1. The implementation support plan (ISP) focuses attention on the actions required to facilitate better risk management, better results and increased institutional development while ensuring compliance with the project's Legal Agreements to meet World Bank's fiduciary obligations.
2. The TTL and specialists responsible for each component are based at World Bank Group headquarters and in the field. Initially (at least until the midterm review), they will undertake supervision missions at least two times a year, but more frequently in the first year of the project. The frequency of missions thereafter will be determined considering the development of the project. While the current reform agenda enjoys broad political support, the political economy landscape could shift rapidly. As a result, an update of the political economy assessment will be carried out at mid-term review, and necessary adjustments made.
3. Overall project oversight will be ensured by frequent supervision missions and coordination with the PIU and implementing agencies. Technical missions by technical experts can be carried out more frequently based on the needs of the client counterparts. Supervision of fiduciary aspects of the project will be carried out semiannually. Regular supervision by the Task Team Leader and World Bank experts will focus on these areas:
  - a. **Technical:** The implementation support team for the supervision of the project will be composed of World Bank experts and consultants who will review and oversee the implementation of the components. They will also ensure that the implemented activities are aligned with the PDO of the project and agreed annual work plans. The project experts will also adjust the design and the procurement plan as required and will review the progress towards the achievement of the targets included in the M&E framework.
  - b. **Procurement:** Implementation support will include (i) support to AFAP, which has experience in implementing Bank-financed projects; (ii) improving PIU's proficiency and efficiency in contract management in line with World Bank Procurement Regulations by providing hands-on coaching as needed through periodic supervision missions, (iii) reviewing procurement documents and providing timely feedback to the PIU, (iv) providing detailed guidance on the World Bank's Procurement Regulations to the PIU, and (v) monitoring procurement progress against the detailed Procurement Plan.
  - c. **Financial management:** Implementation support will include (i) working alongside the FM Specialist of the PIU; (ii) ensuring PIU's capacity to manage flow of funds and accounting procedures in line with World Bank Financial Management Guidelines by providing hands-on coaching as needed to the PIU through periodic supervision missions; (iii) reviewing



the FMS of the chosen implementing agencies, including but not limited to, accounting, reporting, and internal controls; and (iv) reviewing submitted reports and providing timely feedback to the PIU.

- d. **Client relationship management:** The TTLs will (i) coordinate World Bank supervision to ensure consistent project implementation, as specified in the legal documents (that is, Financing Agreement, Project Operations Manual) and (ii) meet regularly with the client, to gauge project progress in achieving the PDO and address implementation roadblocks as they may arise.

4. Implementation support needs will be carried out using the annual supervision budget allocated to the project and expenses will be in compliance with the World Bank regulations related to the supervision of lending projects. The TTLs will be accountable for the management of the annual budget allocation for the project.

#### *Implementation Support Plan (ISP)*

5. **The ISP approach entails close monitoring of the Project's technical design and implementation aspects, governance and fiduciary issues.** Given the overall design and scope of the project, a multi-disciplinary team comprised of technical specialists, along with fiduciary specialists will be needed to support project implementation.

### **Implementation Support Plan and Resource Requirements**

**Table 3.1. Implementation Support Plan**

Time	Focus	Skills Needed	Resource Estimate	Partner Role
0–12 months	<ul style="list-style-type: none"> <li>Project effectiveness and implementation start-up</li> <li>Initial support missions conducted</li> <li>Review of progress made in year 1</li> </ul>	Please see table 3.2	120,000	Admin and logistical support
12–48 months	<ul style="list-style-type: none"> <li>Implementation of planned activities/review of annual work plans and budgets, and cross-checking links between planning, budgeting, and results</li> <li>Conducting of Implementation Support Missions (ISMs)</li> </ul>	Please see table 3.2	240,000	Admin and logistical support



	<ul style="list-style-type: none"> <li>• M&amp;E of ongoing activities</li> <li>• Midterm review conducted in year 3</li> </ul>			
49–60 months	<ul style="list-style-type: none"> <li>• Implementation of planned activities/review of annual work plans and budgets</li> <li>• Conducting of ISM missions</li> <li>• M&amp;E of ongoing activities</li> <li>• Project completion and ICR preparation</li> </ul>	Please see table 3.2	240,000	<i>Admin and logistical support</i>

**Table 3.2. Resource Requirements**

<b>Skills Needed</b>	<b>Number of Staff Weeks</b>	<b>Number of Trips</b>	<b>Comments</b>
Financial sector specialist and task team lead	10	Minimum 2 per year	<i>Overall supervision and implementation support</i>
Public sector specialist and co-task team lead	10	Minimum 2 per year	<i>Overall supervision and implementation support</i>
Statistics specialist and co-task team lead	6	Minimum 2 per year	<i>Overall supervision and implementation support</i>
Financial Sector stability specialist	4	<i>Minimum 1 per year</i>	<i>Will provide technical support in the implementation of component 1</i>
Credit Registry Specialist	3	<i>Minimum 1 per year</i>	<i>Will provide technical support in the implementation of component 1</i>
Secured Transaction and Collateral Registry Specialist	4	<i>Minimum 1 per year</i>	<i>Will provide technical support in the implementation of component 1</i>
Governance, Budget specialist	6	<i>Minimum 1 per year</i>	<i>Will provide technical support for component 2</i>
Property Registry specialist	4	<i>Minimum 1 per year</i>	<i>Will provide technical support in the implementation of component 3</i>
Fiduciary specialists (FM and procurement)	6	<i>Minimum 2 per year</i>	<i>Will support supervision as well as procurement and accounting activities in component 2</i>



#### ANNEX 4: NON-TECHNICAL DRIVERS OF PFM REFORMS AND CORRECTIVE ACTIONS

1. In addressing the dynamics of poor governance and accountability, combined with ineffective institutions, as a means for poverty reduction and inequality avoidance in STP, a brief evaluation of the macro-environmental factors was carried out, using the environmental scanning techniques of strategic management, including political, economic, social and technological (PEST) factors, for understanding the business position and development potential of the ICBP in STP, and determining the necessary actions needed, which would result in satisfactory project implementation and institutional strengthening.

2. The focus of this exercise was on identifying the political economy drivers – also described as non-technical factors influencing PFM reforms implementation, with a view to inform the project design and management of risks. Thus, the political economy drivers that have constrained the efficiency of previous reforms were identified, along with corrective actions that would challenge the constraints and create a favorable implementation environment for the reforms and the implementation of the activities of the Institutional Capacity Building project. Some very useful inputs were found and used from the “Institutions Taking Root” – New Frontiers of Social Policy, WB 2014. The findings and potential corrective/mitigating actions are presented in the table below.

Political economy drivers	Corrective actions
<p>Weak engagement with the previous or ongoing reforms:</p> <ul style="list-style-type: none"> <li>Government officials were not willing to implement the reforms;</li> <li>Only decorative reforms were privileged.</li> </ul>	<p>Support activities that increase civil society engagement and strengthens accountability to the public. This includes dissemination to the public of the project’s activities and its expected results and support to improved reporting of budgetary information, including on SOEs;</p> <p>Development of creative mechanisms for shaping public agencies’ internal culture, through a tri-dimensional institutional capacity-building strategy, based on the:</p> <ul style="list-style-type: none"> <li>“Weberian” element of intensive capacity, helping the public institutions to define and act according to their mandate;</li> <li>“Tocquevillian” element of extensive capacity, helping the public institutions to deliver on societal needs and successfully navigate the sociopolitical context;</li> <li>“Batetesian” element of avoidance of an inefficient state that fails to monopolize power, discouraging investment and economic growth, resulting in lack of development.</li> </ul>
<p>Resistance to external best practice solutions country from outside external partners.</p>	<p>Significant consultation with authorities and technical agencies/institutions – including presentation and discussion of several options to address functional problems.</p> <p>Ensure institutional efficiency during WB project implementation, persuading politically powerful groups about the benefits that the project could generate for them;</p> <p>Accompany Government officials and staff in their own efforts to reorient institutions, such as by financing already agreed reforms (<i>Plano de Ações de Reforma das Finanças Públicas</i>).</p>



	Persuade the elites about the long-term and predictable involvement of the WB in the country's reforms.
<p>Political pressure during budget preparation and/or execution</p> <ul style="list-style-type: none"> <li>• Unreliable budgets (ie consistently overambitious revenue targets);</li> <li>• Budget execution impacted by political factors;</li> <li>• Budget overruns decided by the governments to cover urgent needs.</li> </ul>	<p>Mitigators:</p> <ul style="list-style-type: none"> <li>• Broaden engagement with additional stakeholders, such as central bank, universities, parliamentary commissions.</li> <li>• Sensitization of Government officials and the Finance commission of the Parliament about the importance to respect the organic laws for budget preparation and execution.</li> </ul>
<p>Nature of the political party system</p> <ul style="list-style-type: none"> <li>• High degree of clientelism</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of Vertical and Horizontal Accountability.</li> </ul>
<p>Training Plans</p> <ul style="list-style-type: none"> <li>• Training priorities influenced by political interventions.</li> </ul>	<p>Mitigators:</p> <ul style="list-style-type: none"> <li>• Implementation of competency-based training programs, including standard testing of beneficiaries.</li> </ul>
<p>Sources of financing</p> <ul style="list-style-type: none"> <li>• High dependence on external financing.</li> </ul>	<p>Mitigators.</p> <p>Stimulate:</p> <ul style="list-style-type: none"> <li>• economic growth;</li> <li>• transparency in the use of resources;</li> <li>• improvement in revenue collection;</li> <li>• better debt management;</li> <li>• improvement in SOEs performance and profitability.</li> </ul>
<p>Poor coordination and monitored use of external funds</p> <ul style="list-style-type: none"> <li>• External financing from partners has been increasing indebtedness with no visible results for the citizen, which has been discrediting their role.</li> </ul>	<p>The WB project will help the Government to:</p> <ul style="list-style-type: none"> <li>• Elaborate new strategies for better debt management;</li> <li>• Focus on results delivery, in order to generate legitimacy and to secure political support;</li> <li>• Seek strong elite commitment to the capacity building arrangements and measurable functional improvements and results.</li> </ul>
<b>Sociopolitical Context</b>	
<p>External partners' objectives were not fully and consistently aligned with elite incentives</p>	<p>The project preparation team with the help of the CMU will:</p> <ul style="list-style-type: none"> <li>• seek elite support that would be motivated by project's development objectives, IDA resources and technical advice;</li> <li>• coordinate and integrate aid programs, engaging the dialogue with other external partners;</li> </ul>



	<ul style="list-style-type: none"> <li>• mobilize informal institutions and actors to reinforce reforms and remove spoilers or roadblocks to implementation.</li> </ul>
The politico-economic landscape was not always favorable for locking in reforms.	<p>The WB PFM support will:</p> <ul style="list-style-type: none"> <li>• be part of a debt management and efficient use of resources program, seen as necessary by political leaders to prevent from further economic fragility that would stimulate economic growth;</li> <li>• mobilize a wide range of domestic and external stakeholders and engage clients in frequent dialogue to: disseminate information about programs and their results; get feedback to adjust interventions; and promote trust in the institution;</li> <li>• prioritize the legal underpinnings of SOE governance, including laying the foundations of a specialized overseen unit and transparent and conservative management practices, combined with business plans that would improve SOEs' performance and solvability, as well as the services provided to the population that would further legitimate these reforms.</li> </ul>
Explicit support from the political elite has been limited, because the PFM reforms could run contrary to their interests, since they would increase transparency, diminish misuse of funds, corruption and clientelism.	<p>The project team will:</p> <ul style="list-style-type: none"> <li>• stimulate the awareness of the Government and the finance commission of the Parliament about the importance of budget reliability, transparency in budget execution, and the creation of local capacity through competency-based training programs and the benefits from the use of International Public-Sector Accounting Standards &amp; International Financial Reporting Standards (IPSAS &amp; IFRS);</li> <li>• shield critical areas from frequent political interference by parsing functions and supporting the use of best practices in PFM and in the SOE governance arrangements and oversight;</li> <li>• help in the identification and engagement with short-term tangible results in the SOE reforms that would increase client satisfaction and enhance their broader legitimacy and acceptance by the elite and the population.</li> </ul>
<b>Implementation and Institutional Arrangements</b>	
Weak reform and/or capacity building design.	<p>Strategic choices will be made during project preparation for:</p> <ul style="list-style-type: none"> <li>• clearly targeted and implementable goals;</li> </ul>



	<ul style="list-style-type: none"> <li>• ways to neutralize spoilers;</li> <li>• effective use of change management;</li> <li>• constant messaging of priorities.</li> </ul>
<p>Low Institutional and technical Capacity:</p> <ul style="list-style-type: none"> <li>• institutional capacity</li> <li>• project implementation capacity</li> <li>• work flow organization</li> <li>• communication</li> </ul> <p>The entity that would implement the project seems to have overall satisfactory experience with the implementation of WB projects, but in the case of the PFM component B, the challenges are different, since the activities would be implemented by an existing ad hoc unit within the MEF, accompanying the ongoing PFM reforms. This unit is relatively unstructured and not fully operational.</p> <p>The oversight unit of the state-owned enterprises (SOEs) involved in this component does not have a great exposure to implementing projects financed with external funds.</p>	<p>The PFM activities would enable the MEF and the PCU to perform in a satisfactory manner using elements (some of them identified by Grindle in 1997), such as the:</p> <ul style="list-style-type: none"> <li>• development of an organizational sense of mission;</li> <li>• engagement of competent and flexible managers who are problem-solving and teamwork oriented;</li> <li>• development of clearly defined performance expectations;</li> <li>• the full PCU empowerment to implement the project's activities by the MEF and the Prime Minister;</li> <li>• Concentration of the institutional development, initially to the MEF and other high performing entities, with highly technical and specialized functions;</li> <li>• Limitation of the volume of activities, focusing on "good-fit" approaches and be able to better monitor outputs and accountability;</li> <li>• The three dimensions of success (results, legitimacy, and durability) of the implementing unit within MEF would be reinforced to improve its legitimacy that mainly depends on its results. Thus, it is more likely to be resilient and in turn to have a greater opportunity to earn more legitimacy and achieve better results in the future.</li> <li>• The planned activities for the improvement of SOEs' good corporate governance and oversight arrangements should be results based, in order to stimulate the three dimensions of success (mentioned in the bullet point, above);</li> <li>• The institutional arrangements for the implication of the "Subnúcleo para área de reformas estruturais" of the "Comité de Implementação e Monitoramento de Políticas Económicas (CIMPE)" in the SOE reforms will be clarified during WB project's preparation.</li> </ul>
Weak capacity-building arrangements	<p>During project preparation, the WB team will:</p> <ul style="list-style-type: none"> <li>• Evaluate the formalization of the structure and the implementation capacity of the "Subnúcleo para área de reformas estruturais" of the Comité de Implementação e Monitoramento de Políticas Económicas (CIMPE);</li> </ul>



	<ul style="list-style-type: none"><li>• clarify the links between change - capacity-building and training and</li><li>• identify the PFM component's activities and adapt their implementation arrangements in close consultation with local-level stakeholders.</li></ul>
Weak PFM training strategy	<p>The WB team will:</p> <ul style="list-style-type: none"><li>• Sensitize the Government on the benefits of the competency-based training plans;</li><li>• Propose a TA for the elaboration of a competency-based PFM training strategy.</li></ul>



ANNEX 5: PROJECT RESULTS CHAIN

