



Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 15-Mar-2021 | Report No: PIDISDSA30077

**BASIC INFORMATION****A. Basic Project Data**

Country Sao Tome and Principe	Project ID P174153	Project Name Sao Tome and Principe: Institutional Capacity Building Project - AF	Parent Project ID (if any) P162129
Parent Project Name Sao Tome and Principe: Institutional Capacity Building Project	Region AFRICA EAST	Estimated Appraisal Date 01-Apr-2021	Estimated Board Date 06-Jul-2021
Practice Area (Lead) Finance, Competitiveness and Innovation	Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance, Trade and Blue Economy	Implementing Agency Central Bank, Ministry of Justice, National Statistics Agency

Proposed Development Objective(s) Parent

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

Financial Soundness and Access
Strengthening Budget Credibility, Tax Base and SOE Governance
Property Registration and Statistical Development
Project Implementation Support

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

Total Project Cost	7.00
Total Financing	7.00
of which IBRD/IDA	7.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**



International Development Association (IDA)	7.00
IDA Grant	7.00

Environmental Assessment Category

C-Not Required

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

Sao Tome and Principe (STP) is a low middle-income and small-island country that faces challenges typical of small states and has been severely impacted by the COVID-19 pandemic. The country consists of two main islands in the Gulf of Guinea with a surface area of 1,001 km². STP is a multiparty democracy and a unitary state, and its total population is approximately 215,000 people, with 42.6 percent of the population at or below the age of 14. In 2018, the country’s per capita gross national income was estimated at US\$3,430 in purchasing power parity (PPP), and its per capita GDP was US\$2,043. As of 2018, two-thirds of the population lived in poverty according to national poverty methodology, including 34.4 percent living on less than US\$ 1.90 in PPP 2011 per person per day. STP’s development challenges are typical of small island nations, including high fixed cost of public goods limiting effective investments in human development and geographic isolation and small market size as an obstacle to dynamic, competitive markets. The COVID-19 pandemic has impacted STP directly. With 2,057 cases (955 per 100,000 inhabitants) and 32 deaths as of March 12, 2021, the COVID-19 outbreak in STP is among the worst in Africa on a per capita basis and has stretched the capacity of country’s limited health system.

The pandemic has generated widespread income and employment losses across the population, with the majority of families living on lower earnings¹. The main transmission channel is through a decline in employment, in part due to decreasing revenues in the tourism sector due to the closure of borders, which is an important sector in the Sao Tomean economy. The island nation’s economy has also been hit as tourism, one of the critical drivers of the economy, came to a sudden halt. The expected result is a deep recession in 2020 and a large fiscal and external financing need which will have to be met through grants or concessionary funds due to STP’s already high debt burden. Indeed, the COVID-19 High Frequency Household survey collected in July 2020 showed significant reductions in employment and household income. Disruptions to trade, including exports of cocoa and imports of fuel, food and other essential items are a risk, as is a potential fall in remittances. Overall, STP’s economy is expected to contract by 6.5 percent in 2020. Monetary flexibility is limited given that the currency is pegged to the Euro. Potential tightening of credit conditions, weaker growth and the diversion of expenditures to fight the outbreak are likely to cut into government revenues and governments’ ability to invest to meet education, health and gender goals.

¹ Analysis based on the 2019 Poverty Assessment Report.



One of the immediate relief measures adopted by the government in response to COVID-19 is a scale-up of the Social Protection (SP) Program. Specifically, the current Vulnerable Family Program (VFP) will be increased from current 2,600 beneficiaries to 4,500 beneficiaries over the coming 18 months. At the same time the government has instituted a Shock Response Program that would be implemented for nine months to ensure food consumption stabilization for directly affected households and indirectly affected households. The program would be rapidly expanded and cover 16,000 households. The World Bank is processing an Additional Financing for the ongoing Social Protection Program² to meet these emergency disbursement needs. In addition to the health sector response, the government has announced a series of economic measures including increased flexibility to repay loans and tax relief, a credit line for hotels and restaurants in the tourism sector and firms in the Agricultural and Processing sectors so they can maintain workers in their payroll, unemployment payments for redundant workers in the Tourism sector, a 30 percent reduction in the salaries of staff of institutes and public companies, as well as frequent cash transfers for current beneficiaries of the social protection Vulnerable Family Program. The Central Bank has also announced a six-month bank loan moratorium to help borrowers who are unable to repay their loans. The World Bank has approved an Emergency Development Policy Operation to support the government's crisis response, complementing the approved COVID-19 Response Health Operation.

Sectoral and Institutional Context

In recent COVID-19 responses both regionally and globally, digital payment systems have played a critical role in social protection programs, enabling smooth disbursement of payments through enhanced agent networks, digital payments and robust infrastructure. Digital payment systems allow a more efficient, transparent and accountable way to deliver payments to social protection beneficiaries and ensure enforcement of social distancing measures. Payment systems comprise the infrastructure for transfer, clearing and settlement of funds and securities. Daily operations are supported by integrated networks, technological platforms, and by institutional and market arrangements. Safe and efficient payment systems are a key enabler to rapid disbursement of Government Payments, in particular, a well-designed system can support delivery of emergency social protection payments through digital channels.

Currently, the financial infrastructure of STP is underdeveloped and unreliable to support digital financial services. Core payment systems infrastructure includes SICOI (for check clearing), and SPAUT/Dobra24 (switch for cards, automated teller machines (ATM), and points of sale (POS)). SWIFT is used by only three banks together with BCSTP. Pending the planned introduction of the real time gross settlement (RTGS), large value transactions are settled through SIBANC (BCSTP's accounting platform). The current status of the payment infrastructure coupled with limited access to telecom and online channels constrains access to payment services— particularly in rural areas and on the island of Príncipe, including the payment and collection of taxes, the payment of utility bills, wages and pensions, and disbursement of welfare benefits. Due to unreliability of the infrastructure, BCSTP and banks' employees spend considerable time manually resolving system errors, which discourages the use of bank cards and other electronic means in STP. Although Sao Tome has a 62 percent mobile telephone penetration rate and a 31.9 percent mobile internet penetration rate (according to the Global System for Mobile Communications), consumption is still low and mostly focused on pre-paid services. Strengthening the financial infrastructure, in particular, the payment systems, will help deliver social benefits and build resilience for the vulnerable population.

As highlighted earlier, digital payments are critical for the effective delivery of the scaled up social protection

² Additional Financing - STP: Social Protection COVID-19 Response (P174539), approved on March 3, 2021.



payments in the context of social distancing and would also promote greater financial inclusion. At the moment, transfers are made to beneficiaries at the BISTP (the largest bank in Sao Tome both by assets and deposits, etc.) for which beneficiaries have to personally cash out the payments in the ATMs – requiring travel, queuing, risk of theft and increased costs since sometimes the ATMs are not functional and require the beneficiaries to wait or comeback another day to withdraw the cash. Also, the limited branch network outside the capital can result in lengthy journeys. Given the planned scale-up of social protection program in an environment of enforced social distancing, there is need to upgrade the payments systems infrastructure in STP to enable the digital transfer of social payments. The scale-up support to the Central Bank under Component 1 of the proposed Additional Financing (AF) will respond to the COVID-19 crisis by enhancing and modernizing the payments system infrastructure through the financing of the Core Banking System to enable digital payments. It should be noted that based on current timelines, the systems to enable digital delivery for social payments can be in place over an 18 month period. The scale-up will also finance public awareness and communication campaigns to inform and educate consumer on digital financial services, and promote consumer protection and awareness. Beyond the impact on delivery of social protection (and other government) payments, a modern payments systems would promote greater financial inclusion through digital financial services. Digital financial services can also help close the significant gender gap currently observed in financial access between men and women³. Hence, these investments will facilitate delivery of social protection payments and enable digital payments, therefore contributing to a resilient recovery after the crisis.

C. Proposed Development Objective(s)

Original PDO

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.

Current PDO

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.

³ According to the BCSTP/AFI 2018 Financial Survey, 39 percent of the population had access to a bank account. However, only 15 percent of women had access to an account.



Key Results

Key project outcomes at the parent project level 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) 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 as follows and will not be changed with additional financing:

- 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
- 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

D. Project Description

Following the government's request letter dated July 14, 2020 the proposed additional financing (AF) is designed to support the government's response to COVID-19 using digital payments for the social protection scale-up and promote financial inclusion as well as fund the expected financing gap of some project activities. The AF is requested to cover an expected financing gap in the amount of US\$4 million and to finance an additional scale-up of activities with the Central Bank of Sao Tome and Principe (BCSTP) to contribute to payment systems modernization under Component 1, budgeted in the amount of US\$3 million as part of the COVID-19 response. In parallel with the AF, the Institutional Capacity Building Project (ICBP) would be restructured to update the results framework (RF) and extend the closing date from June 30, 2023 to December 31, 2024. The project development objective (PDO), implementation arrangements, safeguards category, and safeguards policies remain unchanged. The expected financing gap is due to a number of consultancy contracts costing more than originally envisaged as a result of mainly expanding the scope of work as well as to cover the cost of the PIU services for an additional year. The proposed scale-up activities will support mainly the resilience dimension of the COVID-19 response by contributing to upgrading the payments systems infrastructure in STP, and therefore facilitating the eventual delivery of social protection payments through digital channels and promoting financial inclusion through digital financial services.

The total budget for the financing gap is estimated in the amount of US\$4 million. The financing gap covers five major internationally tendered consultancy contracts and one more year of the PIU services costs as a result of the project's extension. The financing gap of the consultancy contracts is mainly attributable to an expansion in activities / terms of reference, due to evolving circumstances during project implementation. In particular, the following contracts are expected to be funded with additional financing: (i) Asset quality review, (ii) Credit registry update, (iii) Banking Supervision System Development, (iv) VAT System Development, (v) Property Registry Systems Development and (vi) PIU support.



The scale-up part of the additional financing will finance the payments systems modernization activity, budgeted in the amount of US\$3 million. This will be added as a new sub-component of Component 1 on improving financial sector soundness and access. It will finance the following: (i) the Core Banking System (CBS); (ii) communication and public awareness campaigns on payments products and digital finance services. This activity is essential to enable the modernization and enhancement of the National Payment Systems. The front-end online authorizations switching (ATM, POS, ecommerce, mobile payments, etc.) and clearing performed by the national switch and its member banks necessitates an efficient back-end settlement capability, which is what the CBS will provide. In addition to this critical backbone function to enable a smooth functioning of the national switch and digital payments, the CBS will help to automate, modernize, and overhaul the current systems in place. The World Bank has been liaising closely with the AfDB on the support to the BCSTP. Additionally, the same team at the BCSTP is working on both the WB and AfDB supported projects, which would also allow for seamless coordination on the client side.

E. Implementation

Institutional and Implementation Arrangements

The Project Development Objective of the project remains unchanged. As part of the additional financing, it is proposed to restructure the project to (i) extend the closing date from June 30, 2023, to December 31, 2024 to allow for the completion of activities added with scale up activity; and (ii) update the Results Framework to reflect the scale up in activities and other changes including introducing new indicator that reflect the addition of the payment systems modernization activity. The implementation arrangements of the project will be maintained. BCSTP, which is already one of the implementing agencies of the project will be responsible for the implementation of new payment systems modernization subcomponent and Agência Fudiciária de Administração de Projectos (AFAP) will maintain its role as fiduciary agency of the project (PIU). The Project Steering Committee was established to coordinate the work of the PIU and the technical beneficiary agencies (BCSTP, Ministry of Finance, National Statistics Agency, General Directorate of Registries and Notary Services, and Procurement and Coordination and Supervision Office).

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

Technical assistance will be provided to the central bank and line ministries located in the city of Sao Tome.

G. Environmental and Social Safeguards Specialists on the Team

Richard Everett, Social Specialist

Bruno Alberto Nhancale, Environmental Specialist

Camilla Gandini, Social Specialist

Cyrille Valence Ngouana Kengne, Environmental Specialist

Nadia Henriqueta Gabriel Tembe Bilale, Environmental Specialist

Santiago Estanislao Olmos, Social Specialist



SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Performance Standards for Private Sector Activities OP/BP 4.03	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The proposed AF will be a scale-up, which entails software development and communication campaigns, which are the type of activities already being supported under the parent project. The team has identified limited safeguards issues and risks related to COVID-19 specific considerations, which include community transmission of COVID-19 in project offices and facilities supported under the additional financing. These include surveys, as well as training and dissemination activities such as those related to expansion of the credit registry coverage to include other providers that could entail exposure to COVID-19 risks. The AF also entails low to moderate risks relating to sexual exploitation and abuse/sexual harassment (SEA/SH, primarily related to potential sexual harassment at the workplace), labor, social inclusion and stakeholder engagement. Similar to the parent Project, the Environmental Assessment (EA) category is expected to remain C as no safeguard policies were triggered under the parent project, no environmental and social assessment was required at preparation and the PIU did not hire environmental and social specialists under the project.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

The AF will not finance any activities that are expected to result in potential adverse environmental impacts on human



populations or environmentally important areas including wetlands, forests, grasslands, and other natural habitats, and will not trigger new safeguard policies.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

N/A

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

To address the above mentioned limited risks related to community transmission of COVID-19 and moderate risks relating to SEA/SH, a rapid social safeguards screening or assessments will be conducted to identify and assess risks relating to SEA/SH, labor, social inclusion and stakeholder engagement (including evaluating the status of GRM implementation). The social safeguards screening or rapid assessments of activities that will be financed with the proposed AF will take into account risks and approaches in place at the time of AF preparation, tailored to operating in the COVID-19 context, including risks and mitigation measures applicable to SEA/SH, labor, social inclusion and stakeholder engagement. Relevant mitigation measures will be included in the Project Implementation Manual (PIM) to ensure their effective implementation and supervision. The integration of the measures in the PIM, and the designation of a social specialist by the PIU (AFAP), will be required to ensure their timely implementation before the start of any activities that with potential social risks.

From environmental management risk perspective, this risk is being managed in accordance with appropriate health measures and policies of the Borrower as provided in the AFAP and BCSTP COVID-19 contingency plans. Besides filling in an environmental screening sheet of the AF activities, no further environmental assessment action will be required. The environmental screening sheet will cover the risk of exposure to COVID-19 with associated occupational health and safety issues. AFAP and BCSTP have in place and will continue to implement their COVID-19 contingency plans for the AF activities to manage this risk in accordance with appropriate sanitary and health measures and policies. AFAP's facilities sanitation protocol will be implemented; measures include daily disinfection of all facilities and workspaces, the supply of advanced hand sanitizer to staff and contractors/consultants, and enforcement of office exit and entry protocols.

The PIU (AFAP) has developed a grievance redress mechanism, which will be fully operationalized and implemented for the purposes of the project.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Key stakeholders include: The General Directorate of Registries and Notary Services (DGRN); the National Statistics Agency (INE), Ministry of Finance (MoF), Central Bank of Sao Tome and Principe (BCSTP), BISTP (International Bank of Sao Tome) and Agência Fiduciária de Administração de Projectos (AFAP). The Project Steering Committee was established to coordinate the work of the PIU and the technical beneficiary agencies (BCSTP, MoF, INE). Rapid social safeguards screening or assessments will be conducted to identify and assess risks relating to SEA/SH, labor, social inclusion and stakeholder engagement (including evaluating the status of GRM implementation). Social safeguards assessment reports will be consulted upon and disclosed, and the relevant mitigation measures will be integrated into the PIM and implemented prior to the commencement of any project activities.

B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)



C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)

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APPROVAL

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