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# Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 30-Jul-2024 | Report No: PIDIA00857

Public Disclosure Authorized

## BASIC INFORMATION

### A. Basic Project Data

| Project Beneficiary(ies) | Region | Operation ID | Operation Name |
|---|---|---|---|
| Sao Tome and Principe | EASTERN AND SOUTHERN AFRICA | P506269 | Safeguarding Access to Fiscal and Educational Resources Project |
| **Financing Instrument** | **Estimated Appraisal Date** | **Estimated Approval Date** | **Practice Area (Lead)** |
| Investment Project Financing (IPF) | 01-Jul-2024 | 30-Jul-2024 | Energy & Extractives |
| **Borrower(s)** | **Implementing Agency** | | |
| Democratic Republic of Sao Tome and Principe | Ministry of Infrastructure and Natural Resources, Ministry of Planning and Finance, Fiduciary Agency for Project Administration | | |

Proposed Development Objective(s)

The Project Development Objective (PDO) are to support continued access to education and contribute to addressing sources of fiscal pressure emanating from the energy sector in Sao Tome and Principe.

**Components**

Component 1: Emergency financing to ensure continued access to quality education
Component 2: Technical assistance to support the Recipient's fiscal stabilization program
Component 3: Project management

## PROJECT FINANCING DATA (US$, Millions)

### Maximizing Finance for Development

**Is this an MFD-Enabling Project (MFD-EP)?** No

**Is this project Private Capital Enabling (PCE)?** No

### SUMMARY

| | |
|---|---|
| **Total Operation Cost** | **24.00** |
| **Total Financing** | **24.00** |

| | |
|---|---|
| **of which IBRD/IDA** | **24.00** |
| **Financing Gap** | **0.00** |

**DETAILS**

**World Bank Group Financing**

| | |
|---|---|
| International Development Association (IDA) | 24.00 |
| IDA Grant | 24.00 |

Environmental And Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

## B. Introduction and Context

1. **The Safeguarding Access to Fiscal and Educational Resources (SAFER) Project is an emergency operation to enable continued delivery of education services**, which otherwise face potential disruption in the face of a fiscal crisis. It also helps address underlying sources of fiscal pressure, which emanates from the energy sector, by supporting the Government of São Tomé and Príncipe's (GoSTP) electricity sector reform agenda. As part of the World Bank's support to the GoSTP, the project is an important element in the government's energy sector transition plan and reduces the risk of a rollback by serving as a bridge between the recurrent fiscal crisis and medium-term measures towards fiscal stability. It builds on and leverages past and ongoing IDA-financed investment and policy engagements in São Tomé and Príncipe (STP) aimed at strengthening service delivery in the education sector, improving the performance of the energy sector, and improving macroeconomic stability.

### Country Context

2. **STP is a country of untapped natural wealth.** It is a small island nation of 215,000 people, situated in the Gulf of Guinea. Its striking volcanic landscape is home to virgin rainforests and rich biodiversity, and a large exclusive economic zone, about 160 times larger than the archipelago, is a marine biodiversity hotspot and supports high numbers of unique species. STP has a young, increasingly educated population, half under 18 years of age. As of 2017, the most recent poverty data available, almost 45 percent of the population was living on less than US$3.65 per day (in 2017 PPP terms), the international poverty line used for Lower Middle-Income Countries (LMICs). This includes the 15.3 percent of the population living on less than US$2.15 per day (2017 PPP terms). Moreover, the population faces challenges from changing climate conditions, the socio-economic impact from COVID-19, and escalating food and fuel costs.

3. **STP faces an acute macroeconomic and fiscal crisis:** weak growth, high inflation, and depleted foreign exchange reserves—in part due to a decline in ODA and soaring fuel import costs. Historically, growth has largely been fuelled by external financing (of which most was concessional loans and grants), accounting for an estimated 6.2 percent of GDP

and 95 percent of capital expenditures in 2023. A recent declining trend in external financing, weak domestic revenue mobilization, despite the recent Value Added Tax introduction, successive external shocks, and a recurrent energy crisis have led to severe macro-economic imbalances, with a 2023 domestic primary fiscal deficit of 1.7 percent of GDP. Inflation is elevated, estimated at 19.2 percent in April 2024 due to high food prices, despite tightening monetary policies. The economy is estimated to have contracted by 0.5 percent in 2023 (2022: 0.2 percent growth). The contraction is due to an aggravated fuel shortage and energy crisis that halted economic activities for two weeks in June 2023 and delays in the disbursement of external financing. There is also a significant financing gap, estimated at around US$70 million over 2024-2025, which is hampering the conclusion of a requested International Monetary Fund (IMF) program—a new 40-month arrangement under the Extended Credit Facility of about SDR 14.8 million (equivalent to US$20 million). Weak institutional capacity has impacted the implementation pace of critical reforms to strengthen the macro-fiscal situation, particularly in the energy sector.

4. **The energy sector is a key driver of fiscal deficits and debt contributing significantly to recurring fiscal crisis.** Universal access to electricity (SDG7)—a critical factor for effective service delivery and economic growth—is within reach in STP, with an access rate of 84 percent, but the sector weighs heavily on the state budget. High fuel-related import demand and associated costs related to electricity production have triggered a fiscal crisis—contributing to the stock of public debt, currently estimated at 84.3 percent of GDP (2023), depleting foreign reserves, and limiting public resources available for service delivery and investments.

5. **Due in part to its small size, STP fares better than the average for Sub-Saharan African (SSA) countries on some infrastructure and social indicators.** The Human Development Indicator (HDI) increased from 0.45 in 1990 to 0.63 in 2019. Near universal prenatal care has led to steep declines in maternal mortality rates. Stunting prevalence among children under five years of age has decreased, from 18.8 percent in 2012 to 10 percent in 2022. There has also been significant progress in increasing access to basic education, with 55 percent of 15- to 18-year-olds having completed the third cycle of basic education (nine years). Access to electricity is high, currently estimated at 84 percent[1] of the population, and about 85 percent of the adult population owns a mobile phone; over 60 percent have access to drinking water. However, there are significant risks to development and growth from gender disparities and low inclusion of women and girls in STP.

6. **Climate change is already impacting STP, with increased climate variability and higher temperatures.** From 1950 to 2010, STP experienced a 1.5 degree celsius increase in average annual temperatures, and since the 1950s, the islands have been subject to more intense and heavier rainfall events.[2] Many coastal communities witness flooding up to ten times a year, causing significant damage to homes and livelihood assets. In December 2021 and March 2022, STP was hit by tropical storms of high intensity, with associated severe flooding and landslides that led to loss of lives and damage to critical infrastructure.

## Sectoral and Institutional Context

7. **STP has made strides in increasing school enrolment rates, with significant efforts towards achieving universal primary education.** Compared to other countries, STP ranks at the 75th percentile in access and at the 51st percentile in learning[3]. There has been progress in increasing access to basic education in STP, with 55 percent of 15- to 18-year-olds having completed the third cycle of basic education (nine years). Enrolment rates in secondary education have significantly increased, from 63 percent in 2018 to 72.5 percent in 2022, though disparities in school attainment persist,

[1] *Plano de Acção Nacional das Energias Renováveis (PANER) Período [2021-2030/2050]* - National Renewable Energy Action Plan for STP for the period 2021-2030/2050

[2] World Bank Feature Story (intranet), December 4, 2023.

[3] UNESCO Institute for Statistics, 2017

especially for girls, children from disadvantaged households, and those with special needs.[4] In 2021, of the 255 schools, 222 were public (of which 100 are pre-school) and 33 private (of which 23 were pre-school). The percentages are similar in terms of student numbers – with only five percent of students across these levels being enrolled in private schools. The structure of STP's pre-tertiary education sector was modified by the 2018 National Education System Law which mandates 11 years of compulsory education (comprising two years of pre-school and nine years of basic education), divided into three cycles. Sector responsibilities lie with the Ministry of Labor, Solidarity, Family and Vocational Training (*Ministerio do Trabalho, Solidariedade, Família e Formação Profissional,* MTSFFP) and the Ministry of Education and Tertiary Education (*Ministério da Educação e Ensino Superior,* MEES).

8. **The expansion of educational provision in STP—a result of recent advances in access to education—has resulted in an increase in spending, which is set to continue in the coming years.** Strengthening access to domestic financing and increasing efficiency at all levels of the education system is therefore crucial for sustainability and to continue making progress in the sector. While education spending in STP is aligned with the average for Sub-Saharan Africa (SSA), this is still low by global standards, at 18.9 percent of total education spending levels globally.

9. **Teacher salaries constitute the largest share of the public service wage bill, accounting for 40 percent (2017).** Per pupil expenditure in primary education alone as a percentage of GDP per capita was 12 percent[5]. Furthermore, teacher salaries represent the greatest proportion of the education budget (74 percent), followed by subsidies and transfers for tertiary education (20 percent). This leaves limited discretionary resources available for investments in inputs that will lead to improvements in education quality, increases in access and retention, and guarantee of continuation of basic educational programs. Even though the government continues to charge fees (including for registration, school feeding, and school uniforms), services are not necessarily provided. For instance, in December 2018, the school feeding program was discontinued in most schools because of lack of funds – although fees were still charged.

10. **Short term measures to protect gains in education must be accompanied by strong efforts to address underlying fiscal risk that largely emanate from the energy sector.** Strengthening the power sector is an important pillar for fiscal stability and economic growth. High dependence on expensive diesel for electricity production leads to high delivery costs exposed to the volatility of international fuel prices while poor operational performance leads to high losses. Collection is low with EMAE estimating that only 30 percent of consumers paying regularly for electricity consumption. Approximately 30 percent of consumers have no contracts and another 10-20 percent, including government offices, pay with significant delays.

11. **There are concrete indications of a shift in momentum to address the energy crisis.** In 2019, Sonangol, Angola's national oil company that had been supplying fuel on credit, unilaterally decided to reduce the supply of fuel to STP considering the large stock of arrears owed by STP and demanded upfront payments for fuel purchase. This exerted pressure on government spending and has heightened the momentum to address sector shortfalls. December 2023, Availability of electricity supply on Sao Tome Island has improved since December 2023 with the commissioning of a refurbished 10 MW diesel power plant. Ongoing projects, including those financed by other IFIs (AfDB and IFC) can help the country reduce thermal generation by nearly 50% over the next 4 years[6]. Energy efficiency measures to replace inefficient lamps with energy-saving LED lamps have resulted in a peak power reduction of 4 MW. Additionally, construction of a 2MW solar PV plant is under construction, the full capacity of which is expected to be commissioned by December 2024. The government is also entering into an agreement with the IFC to deploy 11MW of solar PV through a lease option that can be quickly deployed over the next 12 months[7].

[4] 2017 Household Budget Survey (IOF).
[5] UNESCO Institute for Statistics, 2017
[6] WB Team estimates. Assumes 3% increase in demand per annum
[7] The proposal with SCATEC is for a contanarized solution which can be deployed quickly

12. **A continued mix of strong policy measures and investments are needed to improve sector performance and the GoSTP is committed to implementing energy sector reforms that will help restore macroeconomic and fiscal stability.** The generation mix in STP will need to shift from diesel, toward greener, less costly solutions, without which financial sustainability will remain elusive. GoSTP needs to determine an optimal, cost effective and affordable mix supported by an updated least cost power development plan and develop a clear vision towards a transition towards this mix. In the short-term, solar PV plants, including rooftop solar, can be deployed to reduce the cost of generation. In parallel, the government needs to develop and implement a hydro-power expansion program to develop its hydro resources in line with the Least Cost Power Development Plan (LCPDP), including through public-private partnerships. Additionally, there is a need to strengthen EMAE's operational performance and governance, including on efficiency, transparency, and accountability of operations, with an emphasis on improving service quality and reducing non-technical losses.

13. **The project design, therefore, includes performance-based conditions (PBCs)** to incentivize timely action in electricity sector reforms that will support STP in strengthening its fiscal position and reduce the risk of interrupting access to social services, including education, as a result of budget shortfalls. The PBCs are applied to part of the project funds to allow immediate disbursement to meet pressing needs while the rest of the grant proceeds are designed to align disbursements with funding needs.

### C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

**The Project Development Objective (PDO)** is to support continued access to education and contribute to addressing sources of fiscal pressure emanating from the energy sector in STP.

Key Results

14. The **PDO** indicators, which address the two parts of the PDO, are:

- Safeguard education spending:
  - Eligible education sector staff salaries paid on time (Percentage)
- 
- Address sources of fiscal pressure emanating from the energy sector:
  - Medium-term decarbonization strategy is under implementation (Yes/no; monitored through a PBC on "*Strategic decarbonization plan for the electricity sector published.*")
  - Number of private sector concessionaires in commercial operations of EMAE (Number; monitored through a PBC on "*Structure of a concession for EMAE commercial operations adopted.*")
  - Transparency around production input costs for the electricity sector is improved (Yes/no; monitored through a PBC on "*Audit of fuel use and production inputs for EMAE published.*")
  - 

### D. Project Description

15. **The SAFER Project is an emergency operation, in response to and addressing the current fiscal crisis.** As such, the project will provide temporary emergency support to ensure continued delivery of core public education services through the payment of teacher salaries. In parallel, it will support the implementation of critical activities in the energy sector that will reduce the sector's fiscal impact. PBCs will be used to reflect the project's dual focus of addressing the

current emergency and helping steer the economy out of the recurring crisis. The PBCs are applied to part of the project funds to incentivize completion of the proposed sustainability measures in relation to the eligible expenditures and have been structured with the government to align disbursements with funding needs. As an emergency operation, the project has a planned implementation period of 18 months. It is processed under the World Bank Policy for Investment Project Financing (IPF), section III, paragraph 12: Projects in Situations of Urgent Need of Assistance or Capacity Constraints. Experience in other regions demonstrated that the use of targeted budget financing under an IPF modality has been an appropriate instrument to deliver targeted interventions to support basic service delivery in a flexible manner.

16. **The project will build on and leverage ongoing IDA-financed engagements in STP**, including the US$17.2 million Girls' Empowerment and Quality Learning for All Project (PEREQT, P169222), the US$28 million Power Sector Recovery Project (PSRP, P157096), and the recently approved US$38 million Access to Clean Resilient Electricity (ASCENT, P177099, part of the regional multi-phase approach). The project also builds on results and reforms implemented as part of a 2020 to 2023 programmatic series of three Coronavirus disease (COVID-19) Human and Economic Response, Recovery and Resilience Development Policy Operations (DPOs). The DPO series supported the GoSTP response to the human and economic impacts from the COVID-19 pandemic, combined with economy-wide and sectoral reforms for a stronger recovery. The first DPO (US$10 million, approved in December 2020) focused on STP's response to the pandemic, the second operation (US$12 million, approved in December 2021) supported recovery and resilience, while the last DPO in the series (US$15 million, approved August 2023) supported recovery and structural reforms underpinning growth and poverty reduction, helping STP meet financing needs due to continued economic impacts from the pandemic and from global shocks. Reforms supported under the series include strengthening social protection, increasing domestic revenues, improving banking sector stability, promoting financial inclusion, improving the environment for investment in tourism, and reforming the energy sector.

17. **Component 1. Emergency financing to ensure continued access to quality education (US$23.3 million equivalent):** This component will finance targeted recurrent operating costs, including salaries of personnel in the education sector. Operating costs will be financed to ensure the capacity of teachers and schools to undertake their duties.

18. **Component 2: Technical assistance to support the government's fiscal stabilization program (US$0.5million equivalent):** This component will support the government's commitment to improve the energy sector's sustainability and limit its negative impact on the fiscal and macro-economic program. This will entail addressing structural reforms in the energy sector. Specific activities to be financed under the component are technical assistance for: (i) the preparation of the decarbonization plan; (ii) undertake a technical audit of EMAE's production inputs (fuel use, spare parts, payroll, transport fleet); and (iii) the outsourcing of commercial operations of EMAE.

19. **Component 3. Project management (US$0.2 million equivalent):** Component 3 will finance the operating costs of the Project Implementation Unit (PIU) under the Project Administration and Fiduciary Agency (*Agência Fiduciária De Administração De Projectos* – AFAP), including monitoring and evaluation, project audits, review of teacher payroll, management of environmental and social (E&S) risks, and other operating costs required for the implementation of the project. The component will also cover the costs to develop a dedicated sensitization and engagement campaign on risks of sexual exploitation and abuse and sexual harassment SEA/SH at school levels, including supporting the application of a code of conduct among all school personnel and of SEA/SH-sensitive grievance mechanisms in all schools.

| Legal Operational Policies | Triggered? |
|---|---|
| Projects on International Waterways OP 7.50 | No |
| Projects in Disputed Area OP 7.60 | No |

Summary of Screening of Environmental and Social Risks and Impacts

20. The proposed activities to be financed under this project are likely to generate minor, temporary, and reversible environmental and social risks and negative impacts, which will be managed through the application of appropriate mitigation measures. Key E&S aspects related to the financed activities include labor and working conditions; occupational health and safety; community health and safety, including substantial SEA/SH risks; road, traffic, and transport safety; inclusion of disabled students as project's beneficiaries; limited transparency and accountability in delivering project benefits under the current economic conditions; and institutional contextual risk, given the Borrower's low capacity in managing E&S issues. Technical Assistance (TA) activities under Component 2 could have manageable downstream impacts. The moderate risk rating is based on factors such as anticipated low to moderate environmental risks from project investments and TA, the Borrower's experience with Bank-financed projects and commitment to ESF compliance, and favorable contextual factors. Capacity challenges at the local level will be addressed through TA and capacity-building measures outlined in the Terms of Reference, subject to World Bank review and approval.

## E. Implementation

Institutional and Implementation Arrangements

21. The Ministry of Finance (*Ministério das Finanças e Planeamento* - MFP) will be responsible for overall project implementation through AFAP and for meeting the project's objectives in coordination with the Ministry of Education (*Ministério da Educação* - MdE) and Ministry of Infrastructure and Natural Resources (*Ministério das Infraestruturas e Recursos Naturais* - MIRN) as well as other stakeholders involved in the project such as EMAE and the Office of the Prime Minister.

22. AFAP is well experienced with the World Bank's rules and procedures. AFAP has established a project team reporting directly to the Director General and comprising a procurement specialist, a monitoring and evaluation (M&E) officer, a financial management (FM) officer, an environmental and social standards officer, a gender-based violence (GBV) officer, and an accountant. AFAP, through this team, will oversee fiduciary as well as social and environmental standards. The team has been involved in earlier projects and are therefore experienced enough for smooth implementation of the project. One representative from MFP, MdE and MIRN each will work with AFAP to coordinate project activities and ensure adequate flow of information amongst stakeholders.

23. The PIU will be responsible for managing the day-to-day operations of the project. Its main functions include: (i) providing logistical support and guidance; (ii) compiling work plans, budgets and procurement plans; (iii) monitoring project implementation and preparing progress reports; (iv) maintaining project accounts, managing designated accounts and preparing project financial statements; (v) submitting withdrawal applications to the World Bank for replenishment; and (vi) making recommendations to the committees on how to effectively implement the agreed work plan; and (vi) identifying, managing and supervising E&S risks and impacts, including GBV/SEA/SH related ones.

24. Strategic oversight of the project, especially on the reform program, will be provided by the energy crisis committee, established by the Prime Minister. The committee led by the Prime Minister will oversee the necessary reforms in the electricity sector and facilitate communication and alignment between EMAE, AFAP, the Ministry of Finance, the Ministry of Infrastructure, and the Prime Minister's Office itself. A project operation manual will be developed by the project team documenting processes and procedures to be followed for project implementation.

## CONTACT POINT

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## APPROVAL

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|---|---|
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### Approved By

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