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Report No: PADHI00660

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED GRANT

IN THE AMOUNT OF SDR18.3 MILLION
(US\$24 MILLION EQUIVALENT)

TO THE

DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE

FOR A

SAFEGUARDING ACCESS TO FISCAL AND EDUCATIONAL RESOURCES PROJECT

JULY 16, 2024

Energy and Extractives Global Practice
Eastern and Southern Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective {June 30, 2024})

Currency Unit = SDR

US\$1 = SDR 0.76

FISCAL YEAR

July 1 - June 30

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ABBREVIATIONS AND ACRONYMS

AFAP	Fiduciary Agency for Project Administration (<i>Agência Fiduciária De Administração De Projectos</i>)
AGER	General Regulatory Authority (<i>Autoridade Geral de Regulação</i>)
AM	Accountability Mechanism
ASCENT	Access to Clean Resilient Electricity Project
E&S	Environmental and Social
EMAE	Water and Electricity Utility (<i>Empresa de Água e Eletricidade</i>)
ESCP	Environmental and Social Commitment Plan
ESF	Environmental and Social Framework
ESMP	Environmental and Social Management Plan
ESS	Environmental and Social Standards
FM	Financial Management
GBV	Gender-Based Violence
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GM	Grievance Mechanism
GoSTP	Government of São Tomé and Príncipe
GRS	Grievance Redress Service
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IPF	Investment Project Financing
LCPDP	Least Cost Power Development Plan
M&E	Monitoring and Evaluation
MECC	Ministry of Education, Culture and Science (<i>Ministério da Educação, Cultura e Ciências</i>)
MIRN	Ministry of Infrastructure and Natural Resources (<i>Ministério das Infraestruturas e Recursos Naturais</i>)
MIS	Management Information Systems
MPF	Ministry of Planning and Finance (<i>Ministério do Planeamento e Finanças</i>)
NDC	Nationally Determined Contributions
OHS	Occupational Health and Safety
PBC	Performance-Based Conditions
PDO	Project Development Objective
PEREQT	Girls Empowerment and Quality Education for All Project
POM	Project Operation Manual
PIU	Project Implementation Unit
PPP	Purchasing Power Parities
PPSD	Project Procurement Strategy for Development
PSRP	Power Sector Recovery Project
PV	Photovoltaic
SCD	Systematic Country Diagnostic
SAFER	Safeguarding Access to Fiscal and Educational Resources Project
SEA	Sexual Exploitation and Abuse
SH	Sexual Harassment
SRGBV	School-Related Gender-Based Violence
STEP	Systematic Tracking of Exchanges in Procurement
STP	São Tomé and Príncipe
TA	Technical Assistance
ToC	Theory of Change
VAT	Value-Added Tax
WBG	World Bank Group



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DATASHEET

BASIC INFORMATION

Project Beneficiary(ies) Sao Tome and Principe	Operation Name Safeguarding Access to Fiscal and Educational Resources Project		
Operation ID P506269	Financing Instrument Investment Project Financing (IPF)	Environmental and Social Risk Classification Moderate	Process

Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input checked="" type="checkbox"/> Fragile State(s)
<input checked="" type="checkbox"/> Performance-Based Conditions (PBCs)	<input checked="" type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input checked="" type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternative Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Expanded Implementation Support (HEIS)

Expected Approval Date 30-Jul-2024	Expected Closing Date 31-Jan-2026
Bank/IFC Collaboration No	

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 Name	Cost (US\$)
Component 1: Emergency financing to ensure continued access to quality education	23,300,000.00
Component 2: Technical assistance to support the Recipient’s fiscal stabilization program	500,000.00
Component 3: Project management	200,000.00

Organizations

Borrower: Democratic Republic of Sao Tome and Principe
 Implementing Agency: Ministry of Infrastructure and Natural Resources, Ministry of Planning and Finance, Fiduciary Agency for Project Administration

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

IDA Resources (US\$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
National Performance-Based Allocations (PBA)	0.00	24.00	0.00	0.00	24.00
Total	0.00	24.00	0.00	0.00	24.00

Expected Disbursements (US\$, Millions)

WB Fiscal Year	2025	2026
Annual	23.70	0.30
Cumulative	23.70	24.00

PRACTICE AREA(S)

Practice Area (Lead)

Energy & Extractives

Contributing Practice Areas

Education; Macroeconomics, Trade and Investment

CLIMATE

Climate Change and Disaster Screening



Yes, it has been screened and the results are discussed in the Operation Document

SYSTEMATIC OPERATIONS RISK- RATING TOOL (SORT)

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

POLICY 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

ENVIRONMENTAL AND SOCIAL

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
ESS 1: Assessment and Management of Environmental and Social Risks and Impacts	Relevant



ESS 10: Stakeholder Engagement and Information Disclosure	Relevant
ESS 2: Labor and Working Conditions	Relevant
ESS 3: Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4: Community Health and Safety	Relevant
ESS 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8: Cultural Heritage	Not Currently Relevant
ESS 9: Financial Intermediaries	Not Currently Relevant
NOTE: For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).	

LEGAL

Legal Covenants

Sections and Description

Conditions

Type	Citation	Description	Financing Source
Effectiveness	V.5.01.(a)	The Subsidiary Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of AFAP to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.	IBRD/IDA
Effectiveness	V.5.01.(b)	The Project Operations Manual has been adopted	IBRD/IDA



		by the Recipient, in accordance with Section I.C of Schedule 2 to this Agreement, in a form and substance satisfactory to the Association.	
Effectiveness	V.5.01.(c)	The Labor Management Procedures have been adopted by the Recipient, in accordance with the ESCP, in a form and substance satisfactory to the Association.	IBRD/IDA
Effectiveness	V.5.01.(d)	The Gender-Based Violence, Sexual Exploitation and Abuse, and Sexual Harassment Action Plan has been adopted by the Recipient, in accordance with the ESCP, in a form and substance satisfactory to the Association.	IBRD/IDA
Effectiveness	V.5.01.(e)	The Stakeholder Engagement Plan has been adopted and disclosed by the Recipient, in accordance with the ESCP, in a form and substance satisfactory to the Association.	IBRD/IDA
Effectiveness	V.5.01.(f)	The Grievance Mechanism has been established by the Recipient, in accordance with the ESCP, in a form and manner satisfactory to the Association.	IBRD/IDA



I. STRATEGIC CONTEXT

- 1. The Safeguarding Access to Fiscal and Educational Resources (SAFER) Project is an emergency project to enable continued delivery of education services**, which otherwise faces potential disruption in the face of a fiscal crisis, while helping address underlying sources of fiscal pressure that stem from the energy sector. The project is a crucial contribution to the fiscal stabilization program of the Government of São Tomé and Príncipe's (GoSTP) which hinges on an energy transition. It reduces the risk of a rollback by serving as a bridge between the recurrent fiscal crisis and medium-term measures towards fiscal stability. The project builds on and leverages past and ongoing World Bank-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.
- 2. The current fiscal crisis threatens education sector spending and could undermine recent gains in advancing access to education.** STP has a young population—half under 18 years of age and increasingly educated, thanks to recent efforts by GoSTP to improve its human capital. The expansion of education provision in STP has resulted in an increase in public spending for the sector, constituting the largest share of the public service wage bill (40 percent), which is set to continue in the coming years. Teacher salaries represent the greatest proportion of the education budget (74 percent), followed by subsidies and transfers for tertiary education (20 percent). The project, therefore, provides emergency funding of education sector salaries and other recurrent costs critical to enabling continued provision of education services. While the short-term measures under the project to protect education sector spending are critical, they must be coupled with efforts to address the underlying sources of the fiscal crisis.
- 3. The sources of the cyclical fiscal crisis largely emanate from the energy sector**—a result of STP's high dependence on expensive diesel for electricity production, translating into high delivery costs and volatility and poor sector performance and governance, with aggregate technical and commercial losses above 37 percent (of which more than 20 percent are nontechnical). In 2023, fuel purchase on credit was halted and fuel supply reduced, with the requirement of upfront payments due to STP's large stock of arrears to the Angolan national oil company, Sonangol. This exerted pressure on government spending—and resulted in a two-week black-out in June 2023—and has heightened the momentum for addressing sector reforms.
- 4. The project design, 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.

A. Country Context

- 5. STP is a country of untapped natural wealth but faced with significant development challenges—many of which are linked to its isolation and lack of economies of scale.** STP 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. It also has a large, exclusive economic zone, about 160 times larger than the archipelago, that is a marine biodiversity hotspot and supports high numbers of unique species. However, while there has been progress on certain human capital indicators, with the United Nations Development Programme Human Development Indicator increasing from 0.45 in 1990 to 0.63 in 2019, STP's economic model—largely public sector-driven and dependent on overseas development assistance—has not



brought prosperity to the population. It has not created jobs, the quality of public services is generally low, and poverty persists. As of 2017, the most recent poverty data available, almost 45 percent of the Saotomean population was living on less than US\$3.65 per day (in 2017 purchasing power parities or PPP terms), the international poverty line used for lower middle-income countries. This includes the 15.3 percent of the population living on less than US\$2.15 per day (2017 PPP terms)¹. Weak institutional capacity has also led to STP's inclusion in the World Bank's list of institutionally fragile countries. STP's 2022 Country Policy and Institutional Assessment (CPIA) score of 2.9—below the IDA average of 3.1 and a 0.1 score decrease from 2021—illustrates persistent institutional weaknesses, particularly regarding economic management (score of 2.5). Moreover, limited provision of basic infrastructure and services, such as reliable and efficient energy supply, the small scale of the economy, and lack of connectivity significantly constrain drivers of growth and private sector development.

6. **Climate change exacerbates current development challenges.** 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. Many coastal communities witness flooding up to 10 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. The authorities estimate total reconstruction needs from these two events at US\$37.5 million, around 7 percent of gross domestic product (GDP).² There is more than a 20 percent chance of potentially damaging coastal flood waves occurring in the next 10 years.³

7. **STP faces an acute macroeconomic and fiscal crisis marked by weak growth, high inflation, and depleted foreign exchange reserves.** The economy is estimated to have contracted by 0.5 percent in 2023 (unlike in 2022, which saw 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, coupled with delays in the disbursement of external financing, which historically has fuelled growth, 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, successive external shocks, and recurrent energy crisis have also led to severe macroeconomic imbalances, with a 2023 domestic primary fiscal deficit of 1.7 percent of GDP. Despite a tightening of the monetary policy, inflation is elevated, estimated at 19.2 percent in April 2024. 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 Db 14.8 million (equivalent to US\$20 million).

8. **The energy sector is at the core of the ongoing macroeconomic crisis, driving the fiscal deficit and debt.** Universal access to electricity (Sustainable Development Goal 7)—a critical factor for effective service delivery and economic growth—is within reach in STP, with an access rate of 84 percent.⁴ However, as diesel is used for 97 percent of STP's current electricity generating capacity, the sector weighs heavily on the state budget, with government contributing US\$7 million a quarter towards fuel purchases for electricity generation.⁵ Additionally, there are inefficiencies at the level of the public Water and Electricity utility, *Empresa de Água e Eletricidade* (EMAE), including technical and operational losses,

¹ STP Country Partnership Framework (FY24-29)

² IMF Country Report No. 22/95, April 2022.

³ ThinkHazard (thinkhazard.org), STP overview

⁴ National Renewable Energy Action Plan for STP (2021-2030/2050) *STP Plano de Acção Nacional das Energias Renováveis (PANER) Período 2021-2030/50*.

⁵ Cost depends on and fluctuates according to international fuel prices. Total average monthly fuel import bill (for all uses) is US\$5 million.



while end-user electricity tariffs (US\$0.22 per kWh) are well below the cost of generation (US\$0.34 per kWh). These factors have triggered a severe fiscal crisis, where the energy sector is a major contributor to the stock of public debt (estimated at 84.3 percent of GDP in 2023) and the depletion of foreign reserves. Additionally, the energy sector's high financing costs limit public resources available for service delivery and investments, thereby curbing future growth and development. Reducing diesel-based generation—to be replaced by cheaper and greener solutions—and improving sector performance are therefore critical steps to address the current fiscal crisis, requiring immediate and decisive action on the part of Saotomean policy makers.

9. **The government has completed some hard reforms towards addressing the budget gap.** Fuel prices were adjusted in 2023, removing explicit subsidies even though automatic price adjustment is yet to be applied. In June 2023, a new value-added tax regime was also introduced to increase internal revenue. The Central Bank of São Tomé and Príncipe implemented some tightening measures to reduce excess reserves and the wage bill has been well controlled, coming in under budget despite rising inflation. In the energy sector, the main source of fiscal pressure, critical actions already enacted to improve the financial sustainability and operational efficiency include: (a) adopting a methodology for establishing and periodically adjusting EMAE's revenue requirements; (b) mandating EMAE to publish key performance indicators; (c) establishing import tariffs on incandescent light bulbs and import tariff exemptions for materials and equipment to be used in the production of renewable energy; and (d) regularizing the commercial status of consumers without electric energy service contracts. However, the impact of these reforms on sector finances, and hence reduced fiscal pressure, is not immediate.

B. Sectoral and Institutional Context

10. **STP has made significant progress towards achieving universal primary education and ranks in the 75th percentile in access to education and the 51st percentile in learning.**⁶ In total, 55 percent of 15- to 18-year-olds have completed the third cycle of basic education (9 years), while enrolment rates in secondary education have significantly increased, from 63 percent in 2018 to 72.5 percent in 2022. However, there are disparities in school attainment, especially for girls, children from disadvantaged households, and children with special needs.⁷ Gender disparities persist, particularly in basic education, where girls face higher rates of nonenrolment and dropout due to socioeconomic pressures within their households. In contrast, secondary education shows a more balanced retention rate between genders, suggesting improved opportunities for girls to complete their secondary schooling. Furthermore, the quality of education is low, with associated weak learning outcomes, a result of outdated textbooks, low teacher quality, insufficient management capacity in schools, and inadequate infrastructure. Only 37.1 percent of the child population reached a basic level of proficiency in both reading and math, with results varying significantly according to geographical location.⁸

11. **The expansion of educational provision in STP—a result of recent advances in access to education—has resulted in an increase in public spending for the sector, which is set to continue in the coming years.** Strengthening access to domestic financing and increasing efficiencies at all levels of the education system are crucial elements to ensuring the sustainability of the sector and continuing to make progress on the access and quality agendas. While education spending in STP is aligned with the Sub-Saharan Africa average, at 4 percent of GDP (except for 3.3 percent in 2020),⁹ it is still low

⁶ UNESCO Institute for Statistics 2017.

⁷ 2017 Household Budget Survey (National Institute of Statistics, STP).

⁸ 2019 Multiple Indicator Cluster Survey.

⁹ The Partnership Pact: Transforming Education in São Tomé and Príncipe: Learning for All and Efficiency.



by global standards. Teacher salaries constitute the largest share of the public service wage bill, accounting for 40 percent in 2017. 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 guarantees for continuation of basic educational programs.

12. **The current fiscal crisis threatens education sector spending and could undermine recent sector gains.** Short-term measures to protect education sector spending are therefore critical but must be coupled with efforts to address the underlying sources of the fiscal crisis. These sources largely emanate from the energy sector—a result of STP’s high dependence on expensive diesel for electricity production, translating into high delivery costs and volatility and poor sector performance and governance, with aggregate technical and commercial losses above 37 percent (of which more than 20 percent are nontechnical); low collection rates (EMAE estimates that only 30 percent of consumers regularly pay for electricity consumption); 30 percent of consumers having no contract for electricity provision and use; and another 10–20 percent, including government offices, paying for electricity consumed with significant delays.¹⁰

13. **The Saotomean authorities are committed to addressing the macro fiscal crisis through reforms and measures that will put the energy sector on a sustainable path.** In the aftermath of the fuel supply crises of 2023, the authorities have displayed strong commitment to a mix of policy measures and investments aimed at improving energy sector performance and restoring macroeconomic and fiscal stability. The main element of these efforts is to shift the generation mix from diesel toward greener, less costly solutions. Additionally, there is a need to strengthen EMAE’s operational performance and governance in areas such as efficiency, transparency, and accountability of operations, with an emphasis on improving service quality and reducing nontechnical losses. Together, these measures will increase the financial sustainability of the sector and reduce its fiscal impact, hence reducing fiscal pressure and freeing up resources for improving service delivery and other critical investments for growth and development.

14. **The authorities are implementing short-term measures within longer-termed plans, aimed at reducing the sector’s impact on the fiscal situation,** including: energy efficiency measures to replace inefficient lamps with energy-saving LED lamps, which have already resulted in a peak power reduction of 4 MW; replacement of old, inefficient, and malfunctioning diesel generators with newer and more efficient ones (availability of electricity supply on São Tomé Island has improved since December 2023 with the commissioning of a 10 MW diesel power plant financed by a Turkish investor); and strengthening the governance and performance (operational and technical) of EMAE.

15. **The authorities plan to reduce thermal generation in the electricity production mix to nearly 50 percent over the next four years.**¹¹ This will lead to an important reduction in the government’s fuel bill (with fuel use decreasing from a 2024 baseline level of 38 million litres to an estimated 23 million litres in 2028), thus strengthening the fiscal stance (see figure 1). To do so, the GoSTP will need to determine an optimal, cost-effective, and affordable mix supported by an updated Least Cost Power Development Plan (LCPDP), based on which a decarbonization plan should be developed and adopted. In the short- to medium-term, solar photovoltaic (PV) plants, including rooftop solar, can be deployed to reduce the cost of generation. In parallel, the government needs to develop and implement a hydropower expansion program to develop existing hydro resources in line with the LCPDP, including through public-private partnerships. As part of this effort, a 2 MW solar PV plant is under construction, the full capacity of which is expected to be commissioned by December 2024. The government also intends to enter into an agreement with the International Finance Corporation

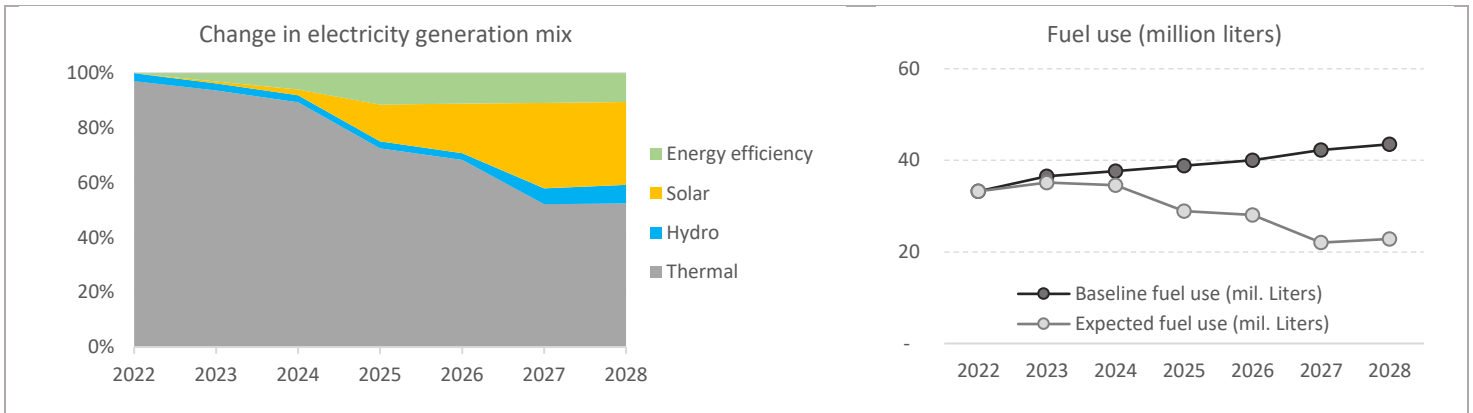
¹⁰ Some consumers have outstanding debts for more than 12 months.

¹¹ World Bank estimates. Assumes three percent increase in demand per annum.



(IFC) to deploy 11 MW of solar PV through a lease option that can be utilized within a 12-month period.¹² Further progress is needed in other key reform areas, including allowing private sector participation in generation and distribution, implementing gradual tariff adjustments, adopting regulation on distributed generation, and further strengthening of EMAE’s commercial performance.

Figure 1: Impact of Ongoing Projects on the Generation Mix and Fuel Consumption in STP



Source: World Bank team estimates

C. Relevance to Higher Level Objectives

16. **The project supports the World Bank vision to create a world free of poverty on a liveable planet and evolution.** It is aligned with the Africa regional development priorities, namely human capital and universal access to electricity, and will contribute to the IDA20 policy commitments related to addressing learning poverty, sustaining energy for all, and creating better jobs.

17. **The project is aligned with the 2021 Systematic Country Diagnostic (SCD) (Report No. 163801) and the World Bank Group (WBG) Country Partnership Framework (CPF) for STP. (FY24–29, Report No. 185278-ST)** The SCD identifies five binding constraints to accelerating economic growth and fostering shared prosperity in STP: low human capital; a small private sector; a costly and deficient electricity sector; isolation and low connectivity; and weak institutional capacity. Based on this analysis, the CPF proposes WBG support focused on strengthening multidimensional resilience, with particular attention to improving access to green, reliable, and lower cost electricity (Objective 1); and improving access and quality of schooling and job-relevant skills development (Objective 3). It contributes to Theme One: Supporting Macroeconomic Stability and Inclusive Growth by supporting the government’s efforts to reduce dependency on diesel and lower electricity generation costs by integrating more renewable energy into the generation mix and improving the operational performance and efficiency of EMAE. These activities will contribute to reduced subsidies and enhanced macroeconomic stability.

18. **The project contributes to a narrowing of gender gaps in alignment with the WBG’s Gender Strategy (2024–2030),** specifically the strategic objectives of ending gender-based violence (GBV), elevating human capital, and expanding and enabling economic opportunities by: financing activities that support transportation of students to and

¹² The proposal from the IFC is for a containerized solution, which can quickly be deployed and commissioned.



from school which, especially for girls, increases safety and encourages school attendance; and ensuring teachers, including female teachers who are role models for girls, continue to provide services in schools.

19. **The project is consistent with the Nationally Determined Contributions (NDCs) of STP.** In the updated NDC¹³ submitted to the United Nations Framework Convention on Climate Change, STP commits to an emissions reduction target of 27 percent by 2030. The updated NDC has a broader sectoral approach covering energy, transport, fishery, agriculture, livestock farming, forestry, water, waste, civil protection, and resilience for the most vulnerable communities. This will be achieved in the project through technical assistance provided under Component 2, which will lead to a reduction in emissions. This component will support the development of a decarbonization plan that will transition the energy mix away from diesel use to a largely renewable energy-based mix. Other activities will lead to a reduction of commercial losses through improved operational performance of EMAE. There are no investments in infrastructure, but development of the decarbonization plan will incorporate identified climate risks, and fundraising for the implementation of the plan will include climate financing. The project is also consistent with the National Adaptation Plan. An important objective of the project is to reduce vulnerability to climate change impacts in STP by supporting the country's capacity to implement an integrated approach to adaptation planning, to be reflected in its strategic decarbonization plan.

20. **The project supports the World Bank's Second Climate Change Action Plan** by providing technical assistance that will increase the share of renewable energy and move away from reliance on fossil fuels, creating a more enabling environment to mobilize future private sector investments in clean energy. It will also improve sector planning and the operational and financial performance of EMAE. The project is also aligned with the Paris Agreement. It is a low-risk category project due to its nature, and given there will be no investments in infrastructure, no scope-I emissions are expected. The project will have zero to negligible emissions and will help in the decarbonization of STP's energy sector.

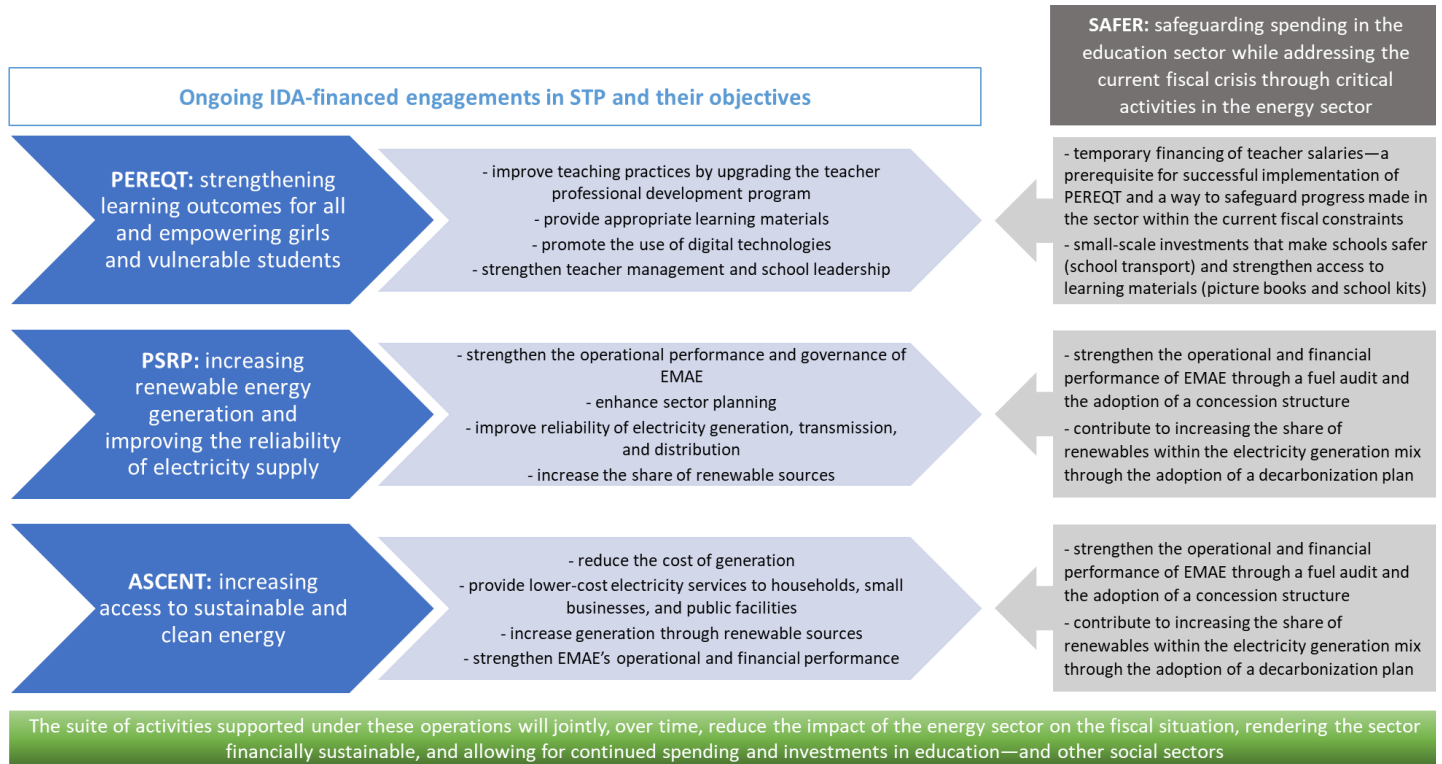
II. PROJECT DESCRIPTION

21. **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 countries 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. The project builds on and leverages past and ongoing World Bank-financed engagements in STP aimed at strengthening service delivery in the education and energy sectors and improving macroeconomic stability (figure 2).

¹³ STP NDC 2021 available at https://unfccc.int/sites/default/files/NDC/2022-06/Updated_NDC_STP_2021_EN_.pdf.



Figure 2: SAFER – Leveraging Ongoing Engagements in the Education and Energy Sectors in STP



Source: World Bank 2024.

Note: ASCENT = Access to Clean Resilient Electricity Project; EMAE = EMAE = *Empresa de Água e Eletricidade* (Power and Water Company); IDA = International Development Association; PEREQT = Girls' Empowerment and Quality Learning for All Project; PSRP = Power Sector Recovery Project; SAFER = Safeguarding Access to Fiscal and Educational Resources.

22. In assuring timely payment of teacher salaries, coupled with investments in school supplies and school transport services, the SAFER Project will complement larger investments under the US\$17.2 million Girls' Empowerment and Quality Learning for All Project (PEREQT, P169222), which aims to strengthen learning outcomes and empower girls and vulnerable students. SAFER will also leverage investment under the US\$28 million Power Sector Recovery Project (PSRP, P157096) and the recently approved US\$47.1 million Access to Clean Resilient Electricity (ASCENT, P177099, part of the regional multiphase programmatic approach). Both projects aim to increase access to sustainable and clean energy. The project also builds on results emanating from the 2020– 2023 programmatic series of three COVID-19 Human and Economic Response, Recovery and Resilience Development Policy Operations (DPOs).¹⁴ The DPO series supported the GoSTP's response to the human and economic impacts from the COVID-19 pandemic, combined with economy-wide and sectoral reforms for a stronger recovery. Reforms under the series included 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.

A. Project Development Objective

23. 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.



PDO Level Indicators

24. The PDO indicators, which address the two parts of the PDO, are:
- Support continued access to education:
 - 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.*”)

B. Project Components

25. **The project will address the ongoing fiscal crisis in STP.** This will be done by ensuring timely payment of salaries to teachers and school administrators in the public sector, thereby allowing for the continued delivery of services in the education sector at a time when fiscal resources are constrained and there is an associated risk of nonpayment of salaries (which constitute the largest budget item in STP). In parallel, the project will support activities in the energy sector that are critical for its financial and operational sustainability, and that will limit its fiscal impacts in the medium to long-term using PBCs to incentivize timely action. The PBCs are drawn from the government’s commitments to addressing structural issues in the energy sector, namely: adoption of a decarbonization plan; selection of a transaction advisor to assist the government in the process to outsource EMAE’s commercial functions; and completion of a technical audit of EMAE’s production inputs.

Component 1. Emergency financing to ensure continued access to quality education (US\$23.3 million equivalent)

26. Component 1 of the project 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. Component 1 will have two subcomponents:

27. *Component 1a – Payment of salaries for personnel in the education sector (US\$22.8 million equivalent).* Timely payment of teacher and administrator salaries will ensure the continued provision of education services in STP, safeguarding recent progress made in the sector. Salaries paid under this subcomponent will pertain to teachers in primary and secondary schools, teachers for adult education, and school administrators across all levels of education. Disbursements for US\$14.8 million equivalent will be made against completion of PBCs whose implementation will be supported through technical assistance under Component 2. The PBCs, designed to stabilize STP’s fiscal position over the medium term and thus reduce risks of delayed salary payments after project close, are: PBC #1 – Strategic decarbonization plan for the electricity sector adopted; PBC #2 – Structure for the concession of EMAE commercial operations adopted; and PBC #3 – Audit of production input costs for the electricity sector published.

¹⁴ 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 in 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 global shocks.



28. *Component 1b – Auxiliary expenses for schools (US\$0.5 million equivalent).* Under this subcomponent, the project will finance recurring operating costs for safe student transportation, ensuring the functioning of 24 school buses and vans through financing of critical repairs and maintenance; the supply of school kits to all basic and secondary schools (107 schools, based on student enrolment as of September 1, 2024); the supply of appropriate educational materials through the printing and distribution of story books for early childhood learning (the story books have been developed with funding from the ongoing education project, PEREQT, and an associated trust fund).

Component 2: Technical assistance to support the Recipient’s fiscal stabilization program (US\$0.5million equivalent)

29. Component 2 will support the government’s commitment to improve the energy sector’s sustainability and limit its negative fiscal impact. Sixty-four percent of disbursements under Component 1 are conditioned on activities under Component 2, using PBCs.¹⁵ Financing will support the authorities’ adoption of a path toward decarbonizing electricity generation, improve commercial performance of the energy sector, and increase efficiency of electricity generation. At the core of the government’s program will be the development of a decarbonization plan that will define the transition towards generation that is more cost-effective and affordable—and less exposed to global shocks including the price of oil—as well as cleaner. Specific activities to be financed under the component are technical assistance for: the preparation of a decarbonization plan; a technical audit of EMAE’s production inputs (fuel use, spare parts, payroll, transport fleet, and so on); and the outsourcing of commercial operations of EMAE. The decarbonization plan will specify generation technology options to be developed over the medium to long term, funding requirements, and options to reduce liquid fuel dependence in the transport sector, among others. An investment prospectus will be developed as part of the plan, which will serve as the basis for fundraising to finance it. In the short term, outsourcing EMAE’s commercial operations is expected to lead to improved revenue collection and reduced commercial losses, thereby reducing expected government expenditure in the energy sector. Financing under Component 2 will complement ongoing engagements in the sector, including through the PSRP and the recently approved ASCENT STP.

Component 3. Project management (US\$0.2 million equivalent)

30. 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 Projetos – AFAP*), including monitoring and evaluation, project audits, review of teacher payroll, management of environmental and social (E&S) risks, financial management and procurement functions and other operating costs required for the implementation of the project. The component will also cover the costs to develop and implement 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.

Table 1: Estimated Project Costs (in US\$ million)

	Unconditioned	Conditioned	Total
Component 1. Emergency financing to ensure continued access to quality education	8.5	14.8	23.3
Component 2: Technical assistance to support the Recipient’s fiscal stabilization program	0.5	0	0.5
Component 3. Project management	0.2	0	0.2
	9.2	14.8	24

Source: World Bank

¹⁵ See Annex 2 for the financial breakdown under the component supporting decarbonization and other climate activities.



C. Project Beneficiaries

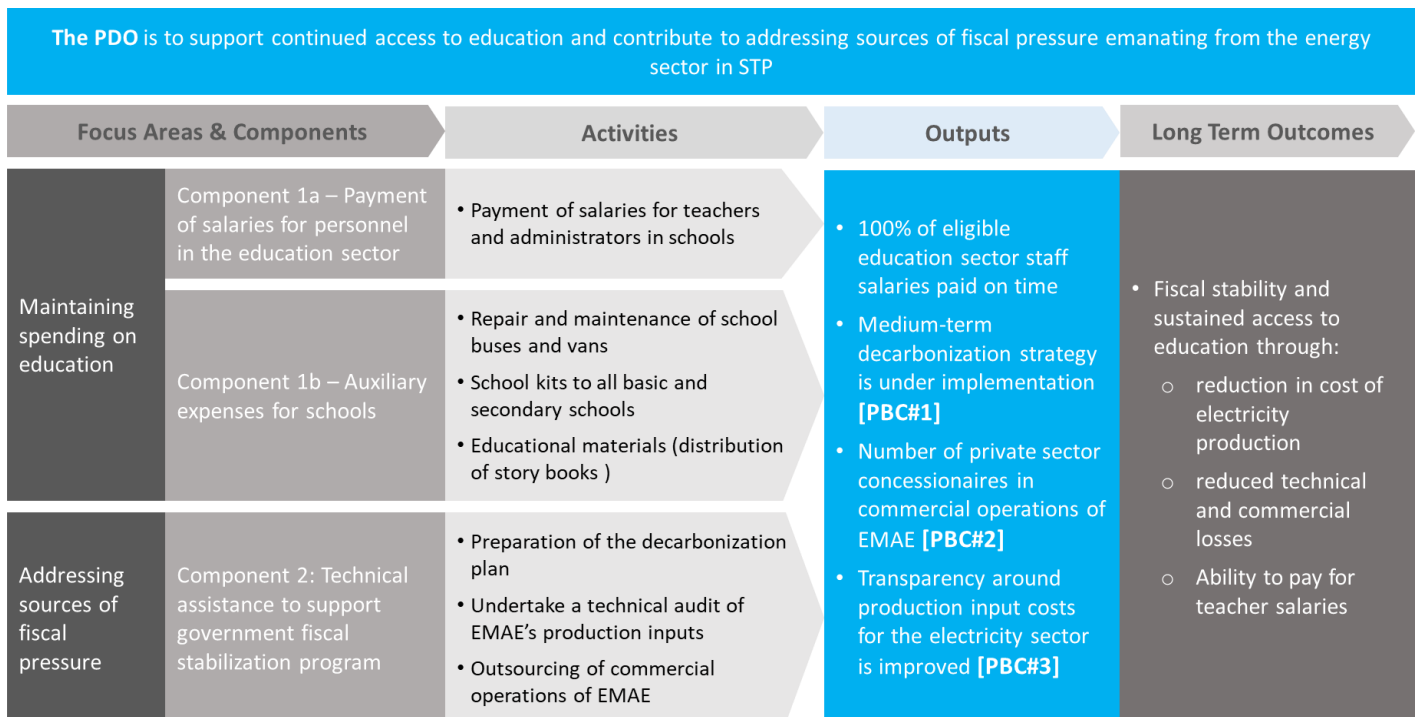
31. **The direct beneficiaries of the project are all students of preschool, basic, secondary, and adult education facilities or schools in STP.** Over 80,000 students will directly benefit from continued provision of services in schools. About 4,200 teachers and school administrators will benefit from the project through the timely payment of salaries. Vulnerable groups and women will benefit from the safeguarding of education services, particularly those enrolled in secondary education. They also represent those who will benefit the most from the investments in the maintenance and repair of school buses, as long distance to school and safety concerns are key factors limiting access to schooling as well as education outcomes. The dependents of teachers and school administration and staff, including women and children, will also benefit as their financial situations will be secured.

32. **Addressing the financial health of the energy sector will allow for a positive cost cycle for the service chain,** leading to reduced cost of service, improved reliability and quality of service, increased payments from customer base due to greater affordability, easier transition to cost-reflective electricity tariffs due to lower cost of service, increased competitiveness and productivity of industrial and commercial consumers, and strengthened performance of the broader economy.

D. Results Chain

33. The Theory of Change (ToC) set out in figure 3 highlights the project activities, outputs, and PDO outcome indicators, as well as the high-level, long-term outcomes.

Figure 3: Theory of Change



Source: World Bank

Note: PBC = performance-based condition; PDO = Project Development Objective; STP = São Tomé and Príncipe.



E. Rationale for World Bank Involvement and Role of Partners

34. **The government has requested World Bank support to ensure financing for continued access to education services and address the ongoing fiscal crisis through critical changes in the energy sector.** The World Bank's response through this project is to sustain teacher salaries for primary, secondary, and adult education facilities while supporting critical actions in the energy sector that will put it on a more sustainable path, decrease its impact on the country's fiscal situation, and move it towards decarbonization.

35. **The project is an important element of an ongoing transition in STP.** Based on actions taken by the government, there is a clear line of sight towards a 50 percent reduction in the use of diesel for electricity production over the next four years and thus, reduced government spending on fuel purchases, which, in turn, leads to improved fiscal stability. This emergency support helps the government avoid non-concessional borrowing to pay for public services as happened in May of 2023, which further jeopardizes the transition to fiscal stability.

36. **Access to quality education is at the core of human capital development, which, in turn, drives growth and reduces poverty.** Greater educational attainment correlates with economic growth, greater health outcomes for the population, and greater civic mindedness. STP has made significant gains in increasing access to education and the current fiscal crises threatens to erode these gains. By financing part of the government's education bill, the project helps to ensure that education centers in the country continue to be staffed to teach students; transportation services are secured to protect safe transit of students, especially girls; and schools are provided basic kits required by teachers and students to facilitate learning.

37. **The World Bank, as the largest external financier of education worldwide, is well placed to support the government to address the fiscal crises through its ongoing engagement in both the education and energy sectors.** The emergency support will bring immediate relief to the government and ensure continued delivery of quality education while addressing underlying factors that have led to the recurring monetary crises. It complements ongoing investment projects and policy support programs geared towards improving the financial health of the energy sector.

38. **The World Bank is the largest contributor to the government's efforts to meet its development objective of providing access to reliable and affordable electricity in a sustainable manner.** The current portfolio has a total budget of US\$88.1 million under two operations. Both projects include investments to address the commercial performance of EMAE through a revenue protection program to install smart meters for consumers, and across the network, supply of a complete management information system (MIS) and institutional capacity building.

39. **Ongoing investments have been complemented by policy actions.** As part of the recently concluded three-part programmatic series DPOs, the government has adopted and passed various instruments to improve EMAE's governance and management performance, move toward cost-reflective tariffs, and adopt transparent approaches to augmenting generation capacity. The project builds on this broader engagement, in support of the government's wider reform program.

40. **Role of Partners.** The African Development Bank and the United Nations Development Programme (UNDP) are also supporting the energy transition in STP through investments and technical assistance. They are jointly financing the development of the first grid-connected photovoltaic (PV) plant in STP with a total capacity of 2 MW. Additionally, UNDP and the World Health Organization are working on a program to extend solar PV to health facilities as primary or secondary sources of electricity.



F. Lessons Learned and Reflected in the Project Design

41. **The project draws on several lessons from the World Bank's experience in public sector management and response to emergencies** and specifically benefitted from the design of the Zambia Emergency Health Service Delivery Project (P176214), the Somalia Recurrent Cost and Reform Project Phases 2 and 3 (P154875 and P173731, respectively), and the Burkina Faso Emergency Recurrent Cost Financing Project (P169486).
42. **The choice of the IPF instrument allows for targeted financing of critical government expenditures** as opposed to using a development policy operation. This, coupled with the necessary technical assistance, provides the flexibility needed to finance fragile contexts while helping address underlying causes of fiscal distress.
43. **Simplified and focused interventions and flexibility on processes are important in ensuring effective rollout of project activities** and timely achievement of objectives, especially in context of an emergency. The design of the project has taken this into account by focusing on a single expenditure area (education) instead of dispersing expenses across several sectors. The processing of the project has also been condensed following World Bank procedures.
44. **Taking informed risks in a context of emergency and fragility, rather than disengaging, pays off and avoids costlier consequences for governments.** The project will provide critical support to financing service delivery to give the government fiscal space and avoid a recurrence of widespread fuel shortages that pushed the government into expensive purchasing and borrowing deals. The World Bank's continued engagement in STP, through strong support across sectors, demonstrates its commitment to STP's development and growth and provides the authorities with support to undertake critical actions and engage in reforms that will break the cycle of macroeconomic and fiscal instability.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

45. **The project's implementation arrangements build on those already in place through ongoing World Bank-financed projects** in energy and education, with AFAP taking a central role as an experienced and recently enhanced fiduciary institution. The Ministry of Planning and Finance (*Ministério do Planeamento e Finanças e*– MPF) will be responsible for overall project implementation through AFAP and for meeting the project's objectives as set out in the Subsidiary Agreement between MPF and AFAP. AFAP will coordinate with the Ministry of Education, Culture and Sciences (*Ministério da Educação, Cultura e Ciências* – MECC) 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.
46. **AFAP is well experienced with the World Bank's rules and procedures.** It has established a project team as a PIU 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 (ESS) officer, a GBV officer, and an accountant. Through this team, AFAP will oversee fiduciary and social and environmental standards. The team has been involved in earlier projects and is therefore experienced enough for smooth implementation of the project. One representative each from MPF, MECC, and MIRN will work with AFAP to coordinate project activities and ensure an adequate flow of information among stakeholders.
47. **The PIU will be responsible for managing the day-to-day operations of the project.** Its main functions include: providing logistical support and guidance; compiling work plans, budgets, and procurement plans; monitoring project implementation and preparing progress reports; maintaining project accounts, managing designated accounts, and



preparing project financial statements; submitting withdrawal applications to the World Bank for replenishment; making recommendations to the committees on how to effectively implement the agreed work plan; and identifying, managing, and supervising E&S risks and impacts, including GBV and SEA/SH related ones.

48. **Strategic oversight of the project, especially regarding key energy sector activities aimed at alleviating fiscal pressure, will be provided by the Energy Crisis Committee**, established by the Prime Minister. The committee, led by the Prime Minister, will oversee the agreed-upon activities 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 is being prepared by the client's project team, documenting processes and procedures to be followed for project implementation.

B. Results Monitoring and Evaluation Arrangements

49. **Progress in achieving the PDO will be measured and monitored through the PDO and the intermediate results indicators of the results framework.** The results framework provides indicators that are assessed under each component, including baselines and details concerning the reference data, target values, and frequency of data collection, as well as source and methodology. The PIU will be responsible for the coordination with stakeholders and other institutions and agencies for the monitoring of the results framework. The M&E specialist, with support from relevant agencies, will collect the relevant data for the project results indicators and provide reliable analysis. Reports will be submitted on a quarterly basis, including on the Environmental and Social Commitment Plan (ESCP). The PIU will periodically report on progress toward the achievement of the PDO to the Energy Crisis Committee.

C. Sustainability

50. **The project's sustainability hinges on the government's commitment to critical actions and reforms in the energy sector**, which are being supported by the wider energy portfolio and complemented by the proposed project. Actions taken by the government are estimated to reduce diesel consumption for power generation by 25 percent by the end of 2025—leading to anticipated savings of approximately US\$15 million annually. This will support STP in strengthening its fiscal position and notably reduce the projected financing gap.

51. **Development partners' strong commitment to supporting the energy sector would also contribute to the project's sustainability.** Ongoing projects, including those financed by other international financial institution (African Development Bank and IFC) can help the country reduce thermal generation by about 35–40 percent over the next four years, resulting in significant cost savings. Adoption of a strategic decarbonization plan will result in further reduction in production costs. Financial challenges and poor commercial performance in the distribution segment negatively impact transmission and generation, often resulting in contingent liabilities for the government. Outsourcing commercial operations protects the revenue chain in the sector.

52. **The ongoing IPF portfolio is also supporting the improvement of EMAE's operational performance**, with a focus on the quality of the electricity supply, commercial operations (revenue cycle and prepayment), network rehabilitation, consolidation of the MISs that support operations, and key business areas of the utility.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic, and Financial Analysis



53. The project did not undertake a typical economic and financial analysis given the nature of the intervention and the uncertainty of determining costs and benefits. However, project implementation will lead to concrete benefits resulting from providing the government some fiscal space, which will allow it to better cope with the series of shocks and reduce the risk for the country to fall into deeper crises with longer term implications. The project will help prevent services disruptions and contribute to maintaining trust in the government's capacity to deliver basic services in education. As a result, public service functions in meeting the basic needs of the population will be maintained. These are intangible benefits that are difficult to quantify but critical for sustained human capital development. The alternative would be the government's inability to maintain service delivery, which would have a significant adverse economic and financial impact on the country, most notably on the poorest and most vulnerable segments of the population.

54. **Component 1 of the project includes the payment of recurrent expenses, such as operating costs and salaries in education sector.** The cost of this first component is estimated at around US\$22.8 million, which is approximately 20 percent of the government's budget for the year, and it will contribute to keeping about 80,000 students in school, more than half of whom (40,283) are female students. This component will help strengthen human capital, which is one of the most important factors for helping individuals to move out of poverty.

55. **Component 2 of the project will, over the medium term, yield economic benefits to existing and new electricity customers** through the provision of improved electricity services. By strengthening EMAE's commercial operations, government actions can lead to a more stable and reliable supply of electricity. This means fewer blackouts, brownouts, and disruptions in service, ensuring consumers have access to electricity when they need it. Reduced commercial losses also translate to more efficient use of resources, which can lead to cost savings for both utilities and consumers. The transition away from costly diesel will significantly reduce the cost of generation, while the increased share of renewable energy will reduce the government's exposure to global economic shocks. These key actions in the energy sector will also help extend access to electricity to more people, especially in rural or underserved areas, due to the increased financial viability of the sector. These benefits can be quantified after the development of the decarbonization plan and approval of the structure to outsource commercial operations. Four tranches of disbursements are expected for Component 1a: US\$8 million will be disbursed upon effectiveness, with the remaining funding disbursed upon achievement of the PBCs. Details of expected evidence are included in Section VII: Results Framework and Monitoring.

Gender

56. **While access to education is high, there are strong inequalities (location, special needs, and gender)** that, along with the poor quality of education, continue to affect children and young people and the development of STP's human capital. Girls, especially in the North-West and South-East Regions, are more likely to be out of school than boys. The cost of gender inequality in education is high. When girls are not in school, they are at higher risk of child marriage, which also results in high costs for them, their children, and society. The STP Partnership Pact: Strengthening the Education System to Generate Quality and Equity in Learning sets out the priorities of the education sector and the priority actions for the government and stakeholders to implement or support to achieve such a transformation. The payment of teachers' salaries will ensure continued access to education for both boys and girls. Additionally, due to an insufficient number of secondary schools, some students travel long distances to school which raises parents' concerns about their physical safety on the way to school especially for girls and in turn contributes to absenteeism of girls in schools. The project therefore deliberately focused on the repair and maintenance of school buses because it will allow more girls to continue attending schools because of enhanced physical safety. Girls currently represent about half of the students in the last cycle of basic education (grades 7 to 9) and secondary (grades 10 to 12), but 65 percent of the students who already benefit from the school buses. Analysis shows that the provision of school transportation is expected to increase safety and encourage school attendance for girls and could increase their attendance by as much as 20 percent. In the absence of nationally monitored baseline for school attendance for girls, the impact of this activity will be measured by the



increased attendance at beneficiary level. Namely, during implementation, the share of female beneficiaries who report enrolling in school or increased attendance as a result of access to the repaired school buses will be monitored.

Paris Alignment

57. **The project is aligned with the goals of the Paris Agreement on mitigation and adaptation.** In terms of adaptation assessment, the project's assessment of risks from climate hazards and their subsequent impact on education operations is highly location- and development-context driven. These considerations have been incorporated into the project design as reflected in its climate hazard and risk screening (Annex 2). According to the education sector notes on the Paris Agreement, changes to the operating procedures of entities managing educational facilities to proactively reduce the impact of climate hazards include undertaking regular structural audits for buildings located in hazard-prone areas. Component 1 ensures administrators in schools are remunerated to continue undertaking such duties. On the mitigation side, through technical assistance provided under Component 2, the project will lead to a reduction in emissions. This component will support the development of a decarbonization plan that will transition the energy mix away from diesel use to a largely renewable energy-based mix.

58. **The decarbonization plan will help the government meet its NDCs for 2021,** which plan to reduce emissions by 27 percent (109 kTCO₂eq) by 2030 by strengthening its technical and institutional capacities. Other activities will lead to a reduction of commercial losses through improved operational performance of EMAE. There are no investments in infrastructure but development of the decarbonization plan will incorporate identified climate risks, and fundraising for the implementation of the plan will include climate financing. Therefore, it can be concluded that the residual risk associated with the project from climate change has been reduced to low and falls under the acceptable threshold level.

B. Fiduciary

(i) Financial Management

59. **An FM assessment was conducted on AFAP, the project implementing agency, to evaluate whether the project meets the World Bank's minimum FM requirements in accordance with the World Bank Policy and Directives on Investment Project Financing.** The objective of the assessment was to determine whether AFAP has acceptable financial management arrangements, which will ensure that the project funds are used only for the intended purposes in an efficient and economical way; the preparation of accurate, reliable, and timely periodic financial reports; and safeguarding of the PIU's assets. The assessment leveraged the FM assessments results and agreed FM arrangements being applied to the projects in the STP portfolio managed by AFAP. Overall, the FM risk was assessed as Substantial.

60. **The project will apply the same FM arrangements as the other projects in the STP portfolio,** specifically AFAP's FM arrangements relating to planning and budgeting, accounting system and policies, internal controls, internal auditing, and external auditing. The current project operation manual (POM) specifies the applicable internal controls and will include procedures for requesting disbursements from the World Bank for this emergency operation as well as its financial reporting requirements. AFAP will prepare project quarterly unaudited interim financial reports and submit them to the World Bank within 45 days after the quarter. AFAP's appointed external auditor will audit the project-specific annual financial statements. The audited project financial statement and the management letter will be submitted to the World Bank no later than six months after the end of AFAP's financial year end. The detailed disbursement arrangements will be provided in the Disbursement and Financial Information Letters. The FM arrangements are detailed in Annex 1.

61. **AFAP agreed to implement additional measures to strengthen FM arrangements and mitigate identified risks before the grant's effective date.** Specifically, it will prepare and include project disbursement-related internal controls



in the POM and conduct capacity building for FM systems and disbursement procedures for the designated project accountant and signatories. The World Bank will conduct FM training throughout the project implementation.

(ii) Procurement

62. **The procurement risk associated with the project is rated Moderate.** AFAP has extensive experience in the implementation of procurement activities according to World Bank’s procedures. Expected procurement activities are simple and low value. It consists of small contracts for goods, non-consulting, services and consulting services. No works contract is expected to be procured under this project. AFAP has prepared a short Project Procurement Strategy for Development (PPSD) for project implementation.

63. **Applicable procedures.** Procurement will be carried out in accordance with the World Bank Procurement Regulations for IPF Borrowers, dated September 2023 and amended over time, and the provisions stipulated in the Financing Agreement. The Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated July 1, 2016, will also apply.

64. **The procurement activities for the project will be managed by AFAP.** AFAP has been handling fiduciary activities of the World Bank–funded projects since its establishment in 2003. Currently, it is supporting the implementation of all World Bank–financed projects in the STP portfolio. AFAP has adequate capacity to handle procurement activities under this project, with a procurement department comprising four staff with experience in World Bank procurement procedures. Considering the nature of this project, AFAP is able to provide adequate procurement support without additional resources.

65. **The procurement plan for the activities will be managed through the World Bank’s tracking system, Systematic Tracking of Exchanges in Procurement (STEP).** A procurement plan has been prepared, covering the life of project implementation (18 months), as informed by the PPSD, and agreed between the recipient and the World Bank. Furthermore, the plan will be updated from time to time to guide the implementation of procurable components of the project. The processing of these activities will be done in real time through STEP.

C. Legal Operational Policies

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



D. Environmental and Social

66. **The overall E&S risk rating is expected to be Moderate.** The key applicable ESS in the project are ESS 1 (Assessment and Management of Environmental and Social Risks and Impacts), ESS 2 (Labor and Working Conditions), ESS 3 (Resource Efficiency and Pollution Prevention and Management), ESS 4 (Community Health and Safety), and ESS 10 (Stakeholder Engagement and Information Disclosure). **The Social Risk Rating is deemed Moderate** as the foreseen social impacts are expected to be minor, reversible, temporary, and manageable through the application of appropriate mitigation measures. Key social issues related to the financed activities include the following: labor and working conditions and occupational health and safety (OHS) for the education professionals, bus operators, mechanics, and other project-related workers (the payment of salaries excludes the application of the ESSs to school facilities and limits its scope to ESS 2 and related GBV and SEA/SH risks); community health and safety related to a range of factors including road, traffic, and transport safety and workers-communities interactions, with a particular attention to SEA and SH risks in the school environment; possible exclusion of vulnerable populations as project beneficiaries, such as students with disabilities; challenges in ensuring that the targeting for payment of education workers' salaries is conducted in a transparent and inclusive manner; limited transparency and accountability in delivering project benefits under the current economic conditions could lead to lack of trust in the education system; and institutional contextual risk, given the Borrower's low capacity in managing E&S issues.

67. **The sexual exploitation and abuse and sexual harassment (SEA/SH) risk rating is expected to be Substantial,** based on the nature and scale of activities and the existing analysis of the country context. School-related gender-based violence (SRGBV) is a pressing concern in the country. Specifically, the education sector has been registering a significant number of grievances related to SEA/SH at the school level, which requires particular attention to intensify GBV and SEA/SH preventive and mitigation measures in the education sector. Codes of conduct will have to be signed by all project-related workers and will be established as a condition to receive school personnel's salary payments, together with the operationalization of an SEA/SH-sensitive grievance mechanism (GM) within all schools, starting from the second salary disbursement. SRGBV is a preexisting risk, and it is not expected that the project will further exacerbate it. However, the project is taking the opportunity to mitigate this risk by supporting the implementation of already existing national preventive and mitigation measures.

68. **The Environmental risk rating is deemed as Moderate.** The project will not finance civil works typically associated with negative E&S impacts. Instead, it aims to generate positive environmental outcomes directly through the funding of salaries for key primary and secondary school teachers, adult educators, and school administrators (Component 1a). Under Component 1b, the project will finance the repair and maintenance of 24 school buses. This activity may result in some environmental impacts, including: generation of hazardous and non-hazardous waste from parts replacement and use of oils, lubricants, and chemicals, posing risks such as underground water contamination if not managed properly; increased energy consumption on the Island, contributing to the overall carbon footprint, as diesel is the primary energy source; potential noise and air pollution during engine testing and cleaning processes; and OHS-related impacts (due to operation of heavy machinery, manual handling of heavy loads, awkward postures, and repetitive tasks that can lead to musculoskeletal injuries). These impacts are expected to be of medium magnitude, reversible, and manageable. They are site-specific, with no anticipated impacts beyond the project footprint and a low probability of serious adverse effects on human health or the environment. Mitigation measures are readily identifiable and can be predictably implemented. Activities under Component 2, focused on technical assistance (TA), may have downstream impacts that can be effectively managed. The preparation and adoption of the decarbonization plan is anticipated to have negligible environmental impacts initially. However, the implementation of the TA outcomes



could lead to moderate downstream environmental impacts (such as land use changes, material extraction, waste generation, and increased water consumption). These impacts will necessitate an assessment aligned with ESS 1.

69. **To address the aforementioned E&S risks and impacts, the project prepared an ESCP that includes specific E&S provisions related to community and OHS**, which will also be integrated into the POM. The project has also prepared a first draft of a Stakeholder Engagement Plan, which will be finalized by effectiveness. Labor management procedures and a GBV and SEA/SH Action Plan will be prepared by effectiveness to address labour management and the identified SEA/SH risks. An Environmental and Social Management Plan (ESMP) will be prepared for the school bus repair and maintenance activities during the project implementation phase. A Waste Management Plan will be developed as part of the ESMP, incorporating measures specified in the WBG General Environmental, Health, and Safety Guidelines, aligned with Good International Industry Practice. An E&S standards specialist and a GBV specialist have already been assigned to the PIU to identify, manage, and supervise E&S risks and impacts, including GBV- and SEA/SH-related ones. Although the assigned specialists have already been applying the environmental and social framework (ESF), their capacity to manage E&S risks following ESSs is still limited. An E&S capacity building plan will be developed and adopted to strengthen the PIU's E&S capacity and understanding of E&S risks management.

V. GRIEVANCE REDRESS SERVICES

70. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms (GM) or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address project-related concerns. The project-level GM will include protocols to respond safely and ethically to project-related SEA/SH incidents, including accountability and responsibility framework, referral pathways, and administrative investigation procedures. Project-affected communities and individuals may submit their complaint to the World Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred or could occur as a result of World Bank noncompliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of World Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the GRS, visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the AM, visit <https://accountability.worldbank.org>.

VI. KEY RISKS

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

72. **Political and governance risk is rated Substantial.** Government's commitment to fully implementing the reforms needed to improve the financial health of the energy sector will impact the ability to fully implement project activities. Without significant reforms, it will be challenging to address the fiscal challenges in the sector. Tariffs are below the level of cost recovery and will need to be revised for high-consuming customers to form the basis for ensuring that revenue requirements will be met, and to allow for the funding of investment in and maintenance of the infrastructure. Mitigation measures will include continued coordination and working closely with the MIRN, the MPF, EMAE, and the high-level Energy Crisis Committee on the implementation of reform programs. The World Bank will work with the IMF and other



development partners to align and reinforce messages at the highest level of government (that is, the Prime Minister's Office) in order to minimize the risk of delays in the implementation of policy measures.

73. **Macroeconomic risk is rated High.** While the overall macroeconomic outlook for STP is mildly positive, it is subject to significant downside risks, including: delays in the implementation of overdue actions and reforms in the energy sector, which will perpetuate its fiscal impacts and hence public resources available for key sectors; a slowdown in the implementation of externally funded infrastructure projects, which could subdue economic activity and undermine economic growth; continued delays and uncertainty around a new requested IMF program, which could impact availability of external financing; and climate-related events, which could lead to unforeseen expenses and negatively impact the ability to sustain expenditures in the education sector. Quick preparation and implementation of the project will mitigate the identified macroeconomic risks, coupled with strong collaboration and coordination with key partners operating in the energy sector and with the IMF on the macroeconomic side. Close dialogue with the authorities is also a key mitigating factor.

74. **Institutional capacity risk is rated Substantial.** The outcomes of past reforms have been weak as a result of limited institutional capacity and coordination which could impact implementation of agreed actions in the energy sector. Mitigating measures include building on successful ongoing activities and institutions for the implementation of the project. AFAP, which has recently undergone a deep reform process, including capacity strengthening, will play a key role in the implementation of the project. The project has been designed to minimize the number of transactional activities, including procured goods and services. This will facilitate implementation. Relying on existing, proven capacity within the country will also mitigate the institutional capacity risk.

75. **Fiduciary risk is rated Substantial.** The overall fiduciary risk rating is due to risks associated with financial management and is informed by the country context as well as the risk of delay in financial reporting due to the increased volume of work with the new project. To mitigate the FM risks, and to ensure compliance, the AFAP Financial Management Manual will be updated to include procedures that cover activities under the project and the accounting software updated to facilitate financial reporting for the project.



VII. RESULTS FRAMEWORK AND MONITORING

PDO Indicators by PDO Outcomes

Baseline	Closing Period
Support continued access to education	
Eligible education sector staff salaries paid on time (Percentage)	
Jul/2024	Dec/2025
100	100
Address sources of fiscal pressure emanating from the energy sector	
Number of private sector concessionaires in commercial operations of EMAE (Number)	
Jul/2024	Dec/2025
0	1
Transparency around production input costs for the electricity sector is improved (Yes/No)	
Jul/2024	Jul/2025
No	Yes
Medium-term decarbonization strategy is under implementation (Yes/No)	
Jul/2024	Jul/2025
No	Yes

Intermediate Indicators by Components

Baseline	Closing Period
Component 1: Emergency financing to ensure continued access to quality education	
Number of school buses and vans repaired and maintained in service (Number)	
Jul/2024	Dec/2024
0	24



Number of story books printed (Number)	
Jul/2024	Apr/2025
0	120000
Increased attendance rate for girls (grades 7-12) as a result of better transport (Percentage)	
Jul/2024	Dec/2025
0	20
Component 2: Technical assistance to support the Recipient’s fiscal stabilization program	
Strategic decarbonisation plan for the electricity sector adopted (Yes/No) ^{PBC}	
Jun/2024	Oct/2024
No	Yes
Structure for concession of EMAE commercial operations adopted (Yes/No) ^{PBC}	
Jun/2024	May/2025
No	Yes
Audit of production input costs for the electricity sector published (Yes/No) ^{PBC}	
Jun/2024	Mar/2025
No	Yes
Component 3: Project management	
Share of teachers that sign code of conduct (Percentage)	
Jul/2024	Dec/2024
0	100
Share of complaints resolved by project close (Percentage)	
Jul/2024	Jul/2025
0	100

Performance-based Conditions (PBC)

Period	Period Definition
Period 1	6 months
Period 2	12 months
Period 3	18 months



Baseline	Period 1	Period 2	Period 3
1:Strategic decarbonisation plan for the electricity sector adopted (Yes/No)			
No	Yes	Yes	Yes
0.00	5,000,000.00	0.00	0.00
PBC allocation	5,000,000.00	As a % of Total PBC Allocation	33.78%
2:Structure for concession of EMAE commercial operations adopted (Yes/No)			
No	No	Yes	Yes
0.00	0.00	5,000,000.00	0.00
PBC allocation	5,000,000.00	As a % of Total PBC Allocation	33.78%
3:Audit of production input costs for the electricity sector published (Yes/No)			
No	No	Yes	Yes
0.00	0.00	4,800,000.00	0.00
PBC allocation	4,800,000.00	As a % of Total PBC Allocation	32.43%



Monitoring and Evaluation Plan: PDO Indicators by PDO Outcomes

Safeguard education spending	
Eligible education sector staff salaries paid on time (Percentage)	
Description	Share of staff in the education sector who are paid on time
Frequency	Every four months
Data source	MECC
Methodology for data collection	Collected from payroll data
Responsibility for data collection	AFAP
Address the underlying sources of fiscal pressure emanating from the energy sector	
Structure of concession for EMAE commercial operations adopted (Yes/No)	
Description	A transaction advisor is hired to help the government structure a contract to outsource EMAE’s commercial operations.
Frequency	Once
Data source	MIRN
Methodology for data collection	Update from MIRN
Responsibility for data collection	AFAP
Audit of fuel use and production inputs for EMAE published (Yes/No)	
Description	Audit of production input parameters including fuel use and payroll
Frequency	Once
Data source	MIRN
Methodology for data collection	Update from MIRN
Responsibility for data collection	AFAP
Strategic decarbonization plan for the electricity sector adopted (Yes/No)	
Description	Plan to transition towards sustainable, cost-effective supply of electricity developed and adopted by the government.
Frequency	Once
Data source	MIRN
Methodology for data collection	Update from MIRN
Responsibility for data collection	AFAP



Monitoring and Evaluation Plan: Intermediate Results Indicators by Components

Emergency financing to ensure continued access to education	
Number of school buses and vans repaired and maintained in service (Number)	
Description	Number of school buses and vans repaired and maintained in service through project financing
Frequency	Every four months
Data source	MECC
Methodology for data collection	Based on field report from the Ministry of Education and Higher Education
Responsibility for data collection	AFAP
Number of story books printed (Number)	
Description	Printing and distribution of story books for early childhood learning
Frequency	Once
Data source	MECC
Methodology for data collection	Count of books delivered to schools
Responsibility for data collection	AFAP
Increased attendance rate for girls (grades 7-12) as a result of better transport (Percentage)	
Description	Increase in the attendance rate for girls who use the school buses after repairs are done
Frequency	Every four months
Data source	MECC
Methodology for data collection	Share of girls who report enrolling in school or increased attendance as a result of access to the repaired school buses
Responsibility for data collection	AFAP
Technical assistance to support government fiscal stabilization program	
Project management	
Share of teachers that sign code of conduct (Percentage)	
Description	Percentage of teachers paid by the project that sign the code of conduct in line with ESF requirements and decree passed by the government.
Frequency	Every four months
Data source	MECC
Methodology for data collection	Based on data from MECC
Responsibility for data collection	AFAP
Share of complaints resolved by project close (Percentage)	
Description	Number of complaints reported through project GM and resolved by PIU.
Frequency	Every four months
Data source	GM
Methodology for data collection	Based on data from GM
Responsibility for data collection	AFAP



Verification Protocol: Performance Based Conditions

Strategic decarbonization plan for the electricity sector adopted (Yes/No)	
Formula	Not scalable
Description	The PBC will support the government to consolidate existing plans and update these into a strategic plan that will serve as the main instrument to decarbonize the energy sector, including outlining a roadmap; outlining actionable steps, milestones, and responsible entities for achieving these targets; reviewing fuel supply options as needed for competitively priced fuel needs; making recommendations to help promote electric mobility; and devising a communications strategy to build national and international support, among others.
Data source or agency	Ministry of Planning and Finance
Verification entity	Not applicable
Procedure	GoSTP, with support of experts, shall develop and adopt (through its Council of Ministers) a strategy to decarbonize the electricity sector and carry out at least two consultations, after which the strategy (report) will be published on external websites of relevant government agencies (MIRN and AGER) and formally submitted to the World Bank by means of a letter. The letter and its content will form the basis for disbursement.
Structure for concession of EMAE commercial operations adopted (Yes/No)	
Formula	Not scalable
Description	The PBC will initiate the process for selecting a private concessionaire who will be responsible for managing the commercial aspects of EMAE's operations in the electricity sector. This is expected to lead to better utilization of infrastructure such as MISs and smart meters, as well as improved revenue and reduction in commercial losses.
Data source or agency	Ministry of Planning and Finance
Verification entity	Not applicable
Procedure	GoSTP shall hire a transaction advisor under a contract procured using the World Bank's procurement regulations. The transactions advisor shall help the government prepare a structure to outsource EMAE's commercial operations to a private concessionaire in accordance with the terms of reference used for the procurement process. The finalized structure shall be adopted by the government (through its Council of Ministers) and formally submitted to the World Bank by means of a letter as evidence of meeting the PBC.
Audit of production input costs for the electricity sector published (Yes/No)	
Formula	Not scalable
Description	The PBC will undertake a survey of various inputs for the production of electricity, especially fuel purchase and use. It shall also review other inputs such as human resources, operations and maintenance costs, and assets, among others. The output will be a report published by the government through the sector regulator, AGER, and MIRN. The outcome of the audit will also form the basis for the reporting of key performance indicators that are supposed to be reported to the regulator (AGER).
Data source or agency	Ministry of Planning and Finance
Verification entity	Not applicable
Procedure	GoSTP shall hire an independent consultant under a contract procured using the World Bank's procurement regulations. The consultant shall undertake a review of production inputs for electricity production in accordance with the terms of reference used for the procurement process. The final report shall be published on the external websites of relevant government agencies (MIRN and AGER) and formally communicated to the World Bank by means of a letter as evidence of meeting the PBC.

Note: AGER = *Autoridade Geral de Regulação*; EMAE = *Empresa de Água e Electricidade* (Power and Water Company); GoSTP = Government of São Tomé and Príncipe; MIRN = *Ministério das Infraestruturas e Recursos Naturais* (Ministry of Infrastructure and Natural Resources); PBC = performance-based conditions.

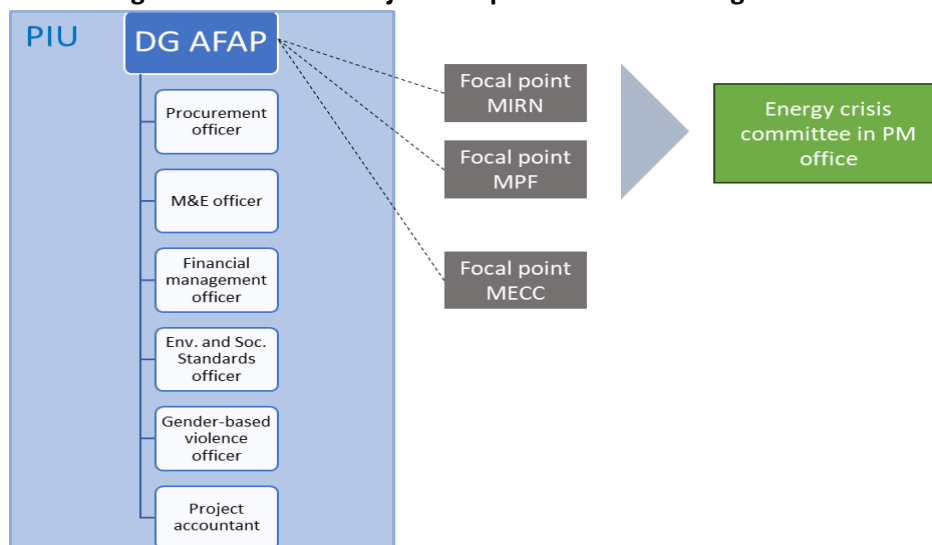


Annex 1: Implementation Arrangements and Support Plan

Implementation Arrangements

1. The Ministry of Planning and Finance (Ministério do Planejamento e Finanças MPF) will be responsible for overall project implementation through the Project Administration and Fiduciary Agency (Agência Fiduciária De Administração De Projectos – AFAP) and for meeting the project’s objectives as set out in the Subsidiary Agreement. AFAP will coordinate with the Ministry of Education, Culture and Sciences (Ministério da Educação, Cultura e Ciências – MECC) and the Ministry of Infrastructure and Natural Resources (Ministério das Infraestruturas e Recursos Naturais – MIRN) as well as other stakeholders involved in the project, such as the Power and Water Company (Empresa de Água e Electricidade – EMAE) and the Office of the Prime Minister. AFAP is well experienced with the World Bank’s rules and procedures. It has established a project team as a Project Implementation Unit (PIU) 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 (ESS) officer, a gender-based violence (GBV) officer, and an accountant (figure 1A.1). Through this team, AFAP will oversee fiduciary as well as social and environmental standards. Strategic oversight of the project, especially regarding key energy sector activities aimed to alleviate fiscal pressure, will be provided by the energy crisis committee, established by the Prime Minister.

Figure 1A.1: SAFER Project’s Implementation Arrangements



Source: World Bank 2024.

DG AFAP = Director General, Agência Fiduciária De Administração De Projectos (Project Administration and Fiduciary Agency); M&E = monitoring and evaluation; MECC = Ministério da Educação, Cultura e Ciências (Ministry of Education, Culture and Sciences); MIRN = Ministério das Infraestruturas e Recursos Naturais (Ministry of Infrastructure and Natural Resources); MPP = Ministério do Planejamento e Finanças (Ministry of Planning and Finance); PIU = Project Implementation Unit; PM = Prime Minister.



Financial Management

2. **The FM risk was assessed to be Substantial.** An FM assessment was conducted on AFAP, the project implementing agency, to evaluate whether the project meets the World Bank's minimum FM requirements in accordance with the World Bank Policy and Directive on Investment Project Financing. The objective of the assessment was to determine whether AFAP has acceptable financial management arrangements, which will ensure: that the project funds are used only for the intended purposes in an efficient and economical way; the preparation of accurate, reliable, and timely periodic financial reports; and safeguarding of the PIU's assets. The assessment leveraged the FM assessments results and agreed FM arrangements being applied to the projects in the São Tomé and Príncipe (STP) portfolio managed by AFAP. It was confirmed that the project will apply similar arrangements to the project, as follows:
3. **Budgeting.** The project activities will be included in AFAP's annual planning and budget. In addition, the financial and project performance will be included in AFAP's monthly management and project reports and be subjected to management monitoring.
4. **Accounting.** AFAP's project financial specialist will have the overall FM responsibility for the project. A project accountant responsible for the energy projects in AFAP will be responsible for the day-to-day FM operations of the project. AFAP uses TOMPRO accounting system. The system will be used to record the project transactions and generate the required financial reports.
5. **Internal Control and Internal Audit.** The financial transactions for the project activities will be recorded based on internal controls set out in AFAP's accounting, financial, and administrative procedures manual. The controls, including procedures for withdrawing disbursements and conditional disbursements for the relevant activities, will also be documented in the procedure's manual. AFAP has an internal auditor who will review the project transactions based on the annual work plan and a copy of the periodic report will be shared with the World Bank.
6. **Interim Financial Reporting.** Interim and annual project financial statements will be generated using the TOMPRO software¹⁶. The AFAP team agreed to prepare quarterly unaudited financial statements for the project and submit them to the World Bank within 45 days after the quarter.
7. **Funds Flow and Disbursement Arrangement.** The project will use any of the following four disbursement methods: advance, reimbursement, direct payment, and special commitments. Funds will flow from the World Bank to the designated account at the Central Bank of STP. Funds for operational expenses will be transferred to an account opened and managed by AFAP for funds for Component 3. For disbursement requests, AFAP will use interim unaudited financial statements.
8. **Performance-Based Conditions (PBCs).** The project has three PBCs under Component 2 that require no independent verification. However, the PBCs will be clearly detailed in the project document. PBC-related disbursements will be made as follows: PBC 1 – US\$5 million disbursed after the Government of São Tomé and Príncipe (GoSTP) formally submits to the World Bank and publishes on its websites, the strategy to decarbonize the electricity sector; PBC 2 – US\$5 million disbursed after the GoSTP-hired transaction advisor's report on EMAE is finalized, accepted by the government,

¹⁶ Accounting software used by AFAP



and formally submitted to the World Bank; and PBC 3 – US\$4.8 million disbursed after the audit report for production input costs of the electricity sector is finalized, accepted by GoSTP, published in its external website and formally submitted to the World Bank. Disbursements will be made into a designated account opened at the Central Bank of STP for subsequent transfer into the STP Treasury. Through AFAP, GoSTP will submit to the World Bank a request for disbursements of relevant PBC-related amounts as well as the amount of US\$8 million to be disbursed upon grant effectiveness. The disbursement amounts requested and as indicated in the financing agreement will be paid into a designated account in the STP Treasury.

9. **Auditing:** The project-specific annual financial statements will be audited by AFAP's appointed external auditor. AFAP will submit a copy of the project-audited financial statements and management letter within six months after the year end.

Procurement Arrangements

10. **Applicable Procedures.** Procurement will be carried out in accordance with the World Bank Procurement Regulations for IPF Borrowers, dated September 2023 and amended over time, as well as the provisions stipulated in the Financing Agreement. The Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated July 1, 2016, will also apply.

11. **Procurement Strategy for the Project.** The Project Procurement Strategy for Development (PPSD) captures the key contracts to be financed by the project and recommends the most suitable approaches for the project to implement a fit-for-purpose procurement, achieving value for money with efficiency. The PPSD's recommendations will be incorporated into the procurement section of the project operation manual (POM). These will guide the project in carrying out procurement in accordance with World Bank Procurement Regulations. In addition to informing the initial procurement plan, the PPSD will enable the project to create the activities in the World Bank's Systematic Tracking of Exchanges in Procurement (STEP) system and to initiate procurement implementation.

12. The procurement plan for the activities will be managed through STEP. A procurement plan, as informed by the PPSD, and agreed upon between the Recipient and the World Bank, shall be prepared. Furthermore, the plan will be finalized prior to any project disbursements, no later than 30 days after the effectiveness date, and will be updated from time to time to guide the implementation of procurable components of the project. The processing of these activities will be done in real time through STEP.

13. Procurement arrangements, roles, and responsibilities, as well as the methods and requirements for carrying out procurement under the project will be elaborated and included as part of the POM. The POM will be prepared by the Recipient and agreed upon with the World Bank before grant effectiveness.

14. Procurement activities will be managed by AFAP, which has been handling fiduciary matters of World Bank-funded projects in STP since its establishment in 2003. Currently, AFAP has adequate capacity to handle procurement activities under this project and is staffed with a full-time Procurement Officer.

15. **National Procurement Procedures:** The country's procurement law is being revised to ensure more consistency with international best practices. Standard bidding documents are not adequate and need to be revised. On the other



hand, the country's capacity in the public sector (ministries and institutes) is limited; therefore, adequate application of the procedures is not ensured. For this reason, the procurement activities under this project will be implemented strictly, using the World Bank Procurement Regulations referred to previously.

16. **The procurement residual risk is rated Moderate.** AFAP is experienced in implementing procurement activities according to World Bank's procedures and procurement is limited.



ANNEX 2: Climate Change and Natural Hazard Risks and Adaptation Screening

1. **Resilient** infrastructure development in São Tomé and Príncipe (STP) includes consideration of existing natural hazards and **ongoing** climate change. Relevant risks for this project include flooding (medium risk) and extreme heat (medium risk).¹⁷ Figure 2A.1 details such historical risks. Multiple strategies can be adopted to mitigate the impacts of climate change and natural hazards. These generally fall into the categories of resistance and resilience to hazards.

Flooding is considered as medium risk for STP. The risk varies geographically although it is higher on the coast and the north-east side of the main island. Available information for the depth of water under an expected 0.01-annual flood probability (“100-year flood”)¹⁸. This means that there is a 1 percent chance in any given year of a flood occurring at the depths shown. In a 30-year project timeframe, this amounts to a 26 percent likelihood of occurring at least once. It should be noted that the data presented in the figure is based on historical occurrences, which are limited by the available records. Increasing the resistance of energy assets to flooding hazards can prevent assets from being stranded and alleviate the costs of disruptions. The easiest and most effective method to limit flood impacts is to site these systems in locations with low flood risks. Barring this, deep anchors or beams around transmission poles and towers can reduce flood damage. Elevation of substations is a common approach to decreasing the risk of flood damage. A simple floor wall can also be installed, often at lower costs.

2. The risk for extreme heat in current climate conditions is rated as medium in STP. Climate change is expected to increase median and extreme temperatures by a range of 0.6–2.3 degrees Celsius within 50 years for the Island of São Tomé.¹⁹ Extreme heat has impacts on energy demand (cooling for buildings), transmission and distribution efficiency, and transformer life. The increased annual seven-day maximum average temperature, relative to the historical values for the 2030 and 2040 decades,²⁰ is projected to be 1.3–1.5°C. Panels with more efficient heat coefficients, such as cadmium telluride (CdTe), could be considered.

Resilience through the Project

3. Due to the nature of the project, which does not support investments in infrastructure, it does not face any climatic threats. The project will, however, increase the resilience of the educational system by ensuring continued payment of salaries in the education sector, enhancing operational efficiency in the energy sector, increasing the resilience of school transportation modes. Overall, the project will increase the resilience of communities and future generations in STP. Meanwhile, the decarbonization plan will help the government strengthen its technical and institutional capacities, while other technical assistance activities will lead to a reduction of commercial losses through improved operational performance of EMAE (*Empresa de Água e Electricidade* – Power and Water Company). There are no investments in infrastructure, but the development of a decarbonization plan will incorporate identified climate risks, and fundraising for the implementation of the plan will include climate financing. Therefore, it can be concluded that the

¹⁷ ThinkHazard database, Sao Tome and Principe. The World Bank (2021). <https://www.thinkhazard.org>

¹⁸ FATHOM Flooding Data [Fluvial, Pluvial]. The World Bank Group (2021)

¹⁹ Climate Change Knowledge Portal, Sao Tome and Principe. The World Bank Group (2021)

²⁰ Decadal values represent the average of the annual seven-day maximum average temperature for each year within the corresponding decade. The 2030 decade represents the average value for the years 2030–2039, for example. Values are the increase, in degrees Celsius, above the 30-year historical baseline (calculated as the average of annual seven-day maximum temperatures from 1970–1999). Original calculations based on data from NASA Center for Climate Simulation, NASA NEX-GDDP (2019).



residual risk associated with the project from climate change has been reduced to Low and falls under the acceptable threshold level.

Climate Change Adaptation and Mitigation Measures

4. While this emergency project will finance operating and recurring costs in the education sector, it is also designed to support and initiate critical change in STP’s energy sector, moving towards decarbonizing electricity generation, which will strengthen the financial sustainability of the sector and reduce its negative impacts on the climate. Although allocated as support to the education sector to mitigate impacts from the ongoing fiscal crisis, a total of US\$15.3 of the Investment Project Financing (IPF) disbursements is directly tied to climate adaptation- and mitigation-related reforms. Table 2A.1 shows how each of the disbursement conditions supports climate adaptation and mitigation efforts.

Table 2A.1: Overview of Disbursement Conditions

Component 1. Emergency financing to ensure continued access to quality education (US\$23.3 million equivalent)
Decarbonization plan adopted (US\$5 million)
A decarbonization plan provides a structured approach for transitioning STP from high fuel dependency to renewable energy and addressing climate change. This shift will not only decrease reliance on fossil fuels, mitigating climate change by significantly lowering greenhouse gas (GHG) emissions, but it will also drive the development of clean and renewable energy technologies. In the long run, such a national plan can also foster innovation, create jobs in the green energy sector, and reduce long-term energy costs, as experienced in the current fiscal crisis.
Structure of concession for EMAE commercial operations adopted (US\$5 million)
A structure of concession for commercial operations in the energy sector is designed to help in reducing energy waste, lowering carbon emissions, and addressing climate change by fostering private sector innovation in clean energy. Outsourcing commercial operation to private companies will stimulate competition, leading to increased efficiency and reduced energy waste. Moreover, private companies are more inclined to invest in advanced technologies and deployment of clean energy technologies like solar and wind power, often reducing costs and increasing accessibility. In line with the decarbonization plan, the technical assistance will also help EMAE’s concession to include regulatory frameworks and incentives that encourage sustainable practices and penalize high emissions, further motivating the private sector to adopt cleaner technologies.
Technical audit of EMAE’s production input undertaken (US\$4.8 million)
Conducting a technical energy audit of EMAE’s inputs, such as fuel use, spare parts, payroll, and the transport fleet will help reduce energy consumption and address the climate change challenge. This audit process will identify inefficiencies and wasteful practices in energy usage across various aspects of EMAE’s operation. By analyzing data on fuel consumption, the audit can uncover opportunities to switch to more efficient or renewable energy sources, thus lowering GHG emissions. Assessing the use of spare parts and maintenance practices helps ensure that machinery operates at peak efficiency, reducing unnecessary energy expenditure. Payroll analysis can reveal areas where human resources might be optimized for better energy management, such as through training or shifts in operational practices. Evaluating the transport fleet can lead to recommendations for more fuel-efficient vehicles or optimized routing to reduce fuel consumption. Overall, the insights gained from a thorough technical energy audit



will enable EMAE to implement targeted energy efficiency measures, leading to decreased energy consumption, reduced environmental impact, and enhanced sustainability, thus contributing to the broader goal of mitigating climate change.

Component 2: Technical Assistance to support Recipient’s fiscal stabilization program (US\$0.5million equivalent)

This technical assistance financing will support the government in designing and adopting these three energy and climate activities.

Note: EMAE = Empresa de Água e Electricidade (Power and Water Company); STP = São Tomé and Príncipe.