Financing Agreement

(Second Strengthening Growth and Fiscal Policy Development Policy Financing)

between

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
FINANCING AGREEMENT

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

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient a grant, deemed by the Association to be on concessional terms, as set forth or referred to in this Agreement, in an amount equivalent to four million and two hundred thousand Special Drawing Rights (SDR 4,200,000) ("Financing").

2.02. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.

2.03. The Payment Dates are June 15 and December 15 in each year.

2.04. The Payment Currency is Euro.

2.05. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.
ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:

(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient’s macroeconomic policy framework and the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

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

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient’s macroeconomic policy framework.

5.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

5.03. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.
ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is its minister responsible for finance.

6.02. For purposes of Section 11.01 of the General Conditions:
   (a) the Recipient’s address is:
       Ministry of Finance, Trade and Blue Economy
       Largo das Alfandegas
       Caixa Postal 168
       São Tomé,
       República Democrática de São Tomé e Príncipe; and,
   (b) the Recipient’s Electronic Address is:
       Telex: 239-2222182
       Facsimile: 239-2224172
       E-mail: MFCEA@financas.gov.st

6.03. For purposes of Section 11.01 of the General Conditions:
   (a) The Association’s address is:
       International Development Association
       1818 H Street, N.W.
       Washington, D.C. 20433
       United States of America; and
   (b) the Association’s Electronic Address is:
       Telex: 248423 (MCI)
       Facsimile: 1-202-477-6391
AGREED as of the Signature Date.

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

By

[Signature]

Authorized Representative

Name: [Signature]

Title: Minister des Finances

Date: June 12, 2018

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: [Signature]

Title: Country Manager

Date: June 12, 2018
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:

A. Introduce Growth Enabling Reforms in the Financial Sector, Business Environment and Infrastructure Sector

1. The BCSTP has adopted regulations implementing the Recipient’s Financial Institutions Resolution Law, which set out: (i) the measures to be applied by the BCSTP in the resolution of distressed financial institutions (as evidenced by the BCSTP’s Normas de Aplicação Permanente 15/2017, published in the Recipient’s Diário da República No. 97, of July 10, 2017); and (ii) the requirements for the elaboration and adoption of recovery and resolution plans (as evidenced by the BCSTP’s Normas de Aplicação Permanente 16/2017, published in the Recipient’s Diário da República No. 97, of July 10, 2017).

2. The Recipient, through its Council of Ministers, has approved and submitted to the Recipient’s Parliament a draft law on microfinance (as evidenced by the letter No. 0254/GSG-AN/18 of the Secretary General of the Parliament, dated March 20, 2018).

3. The Recipient, through its Council of Ministers, has approved and submitted to Parliament the proposed National Payment Systems Law, which sets forth the statutory level principles for regulation on modern payment methods such as, inter alia, agent banking, mobile money and electronic payments (as evidenced by the letter No. 0254/GSG-AN/18 of the Secretary General of the Parliament, of March 20, 2018).

4. The Recipient, through the Council of Ministers, has approved and submitted to the Recipient’s Parliament: (i) the proposed Property Registration Code (as evidenced by the letter No. 0159/GSG-AN/18 of the Secretary General of the Parliament, dated February 22, 2018); and (ii) the proposed Public Notary Code (as evidenced by the letter No. 0107/GSG-AN/18 of the Secretary General of the Parliament, dated February 7, 2018), both of which reduce costs and simplify procedures to register property.
5. EMAE has published its policy to improve billing collection and launched a public awareness campaign through public TV and radio to promote transparency and incentivize timely payment of energy bills (as evidenced by the minutes 04/CD/SE/17 of the extraordinary meeting of the Board of Directors of EMAE, held on May 31, 2017).

6. The Recipient, through its Council of Ministers, has ruled that any capacity extension in the power sector will have to follow the prescriptions of the integrated Least-Cost Power Development Plan, and that any exemptions would need to obtain the approval of the Recipient’s Minister of Infrastructure, who shall have to provide the rationale for such exemption and publish said decision (as evidenced by the Ministerial Deliberation No. 006/2018, of January 18, 2018).

7. AGER had published the minimum quality criteria for the provision of services in the electricity sector, in order to improve the reliability of energy supply (as evidenced by the Resolution No. 020/CA/2017, published in the Recipient’s Diário da República No. 194, of December 29, 2017).

B. Generate Fiscal resources and Savings and Improve the Quality of Public Expenditures

8. The Recipient, through its Council of Ministers, has adopted the legal framework for fiscal invoices and similar documentation, whereby it legally mandated companies to issue fiscal invoices, set out said invoice’s minimum content and time requirements for storing them (as evidenced by Law Decree 9/2016, published in the Recipient’s Diário da República No. 171, of November 16, 2016).

9. The Recipient, through its Council of Ministers, has approved the SOE Reform Plan that established a performance monitoring system with financial and non-financial targets for all SOEs and incentives to ensure compliance (as evidenced by the Deliberação No. 003/2018, of February 5, 2018, which has been signed by the Minister of the Presidency of the Council of Ministers and Parliamentary Affairs).

10. The Recipient’s Parliament has enacted a National Planning System Law that harmonizes planning and budget tools and lays the foundation for the appraisal and selection of public investment projects (as evidenced by Law no. 6/2017, published in the Recipient’s Diário da República No. 37, of April 3, 2017).

11. The Recipient has registered in the Recipient’s social registry all the beneficiaries of the three social protection programs defined in the Recipient’s Social Protection Policy and Strategy (as evidenced by the letter from the Minister of Labor and Social Affairs, No. 05/DPECP/MEAS-GM/2018, of March 6, 2018).
Section II. Availability of Financing Proceeds

A. General. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

B. Allocation of Financing Amounts. The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing proceeds. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Withdrawal Tranche</td>
<td>4,200,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>4,200,000</td>
</tr>
</tbody>
</table>

C. Withdrawal Tranche Release Conditions

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

D. Deposit of Financing Amounts

The Recipient, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Association: (a) the exact sum received into the account referred to in Section 2.03 (a) of the General Conditions; (b) the details of the account to which the Dobra equivalent of the Financing proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Recipient’s budget management systems; and (d) the statement of receipts and disbursement of the account referred to in Section 2.03 (a) of the General Conditions.

E. Audit. Upon the Association’s request, the Recipient shall:

1. have the account referred to in Section 2.03 (a) of the General Conditions audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;

2. furnish to the Association as soon as available, but in any case, not later than four months after the date of the Association’s request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall
reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and,

3. furnish to the Association such other information concerning the Dedicated Accounts and their audit as the Association shall reasonably request.

F. Closing Date. The Closing Date is December 31, 2018.
APPENDIX

Section I. Definitions


3. “Council of Ministers” means Conselho de Ministros, the Recipient’s government body formed by the Prime Minister and all Ministers as foreseen in article 112 of the Recipient’s Constitution.


5. “EMAE” means Empresa de Águas e Electricidade, the Recipient’s water and electricity utility, established and operating pursuant to Law Decree 34/79 of June 21, 1979, and Decree No. 59/91, of November 19, 1991.


8. “Ministry of Infrastructure” means the Recipient’s Ministry of Infrastructure, Natural Resources, and Environment; or any successor thereto.


10. “Parliament” means Assembleia Nacional, the Recipient’s highest legislative body as foreseen in article 92 of the Recipient’s Constitution.

11. “Program” means: the program of objectives, policies, and actions set forth or referred to in the letter dated March 28, 2018, from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution and comprising actions taken, including those set forth in Section I of
Schedule 1 to this Agreement, and actions to be taken consistent with the program’s objectives.


15. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.