Financing Agreement
(Third Strengthening Growth and Fiscal Policy Development Policy Financing)

between

DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE ("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 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, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to three million seven hundred Special Drawing Rights (SDR 3,700,000) ("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 Event of Suspension consists of, namely, that 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, namely, that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program, with the adequacy of the Recipient’s macroeconomic policy framework and with the Recipient’s compliance with the Non-Concessional Borrowing Policy.

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 of Planning, Finance and Blue Economy.

6.02. For purposes of Section 11.01 of the General Conditions:

(a) the Recipient’s address is:

Ministerio das Planeamento, Finanças e Economia Azul
Largo Customs
B. P. 168
Sao Tome
Sao Tome and Principe; and

(b) the Recipient’s Electronic Address is:

Facsimile: E-mail:
239-2224172 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: Facsimile:
248423 (MCI) 1-202-477-6391
AGREED as of the Signature Date.

DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE

By

[Signature]

Authorized Representative

Name: Alcine Chavda Silva
Title: Chargé d'Affaires a.i
Date: DEC 19, 19

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: Director General
Title: Director Operations and Strategy
Date: DEC 19, 19
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

The actions taken by the Recipient under the Program include the following:

Pillar A: Introduce Growth-Enabling Reforms in the Financial, Business Environment and Infrastructure Sectors

1. The Recipient, through BCSTP, has approved the Report for the Sao Tome and Principe Banking System Asset Quality Review, as part of its efforts to improve financial soundness of commercial banks, (as evidenced by: (a) Report for the Sao Tome and Principe Banking System Asset Quality Review, dated April 2019; and (b) BCSTP Board of Director’s Decision, dated July 9, 2019).

2. The Recipient, through: (i) its National Assembly, has passed the legal framework for payment services providers and payment system operators, which outlines the oversight framework, and duties and powers of BCSTP; and (ii) BCSTP, has passed the key implementing regulations under the National Payments System Law, which provide for the legal protection of the electronic transfer of funds and the licensing and supervision of payment institutions and payment system operators (as evidenced by (a) Letter from the General Secretary of the National Assembly dated October 21, 2019, Ref. No. 1005/GSG-AN/19; and (b) Permanent Application Standard No. 9/2019 on Electronic Funds Transfers, dated July 24, 2019, published in the Diário da República No. 76, Series II, dated August 22, 2019).

4. The Recipient, through its Council of Ministers, has approved the institutional structure for enabling interoperability between the land property register (Registo de Propriedade) and the cadaster (Registo Cadastral) (as evidenced by Decree approving the Internal Regulation for the Informatization of the Property Register, dated September 11, 2019).

5. The Recipient, through the President of the Republic, has instituted an energy demand management program, which includes the exchange of low efficient bulbs with higher efficient ones (as evidenced by Decree approving the Energy Demand Management Program in Sao Tome and Principe, dated October 23, 2019, enacted on November 4, 2019).

6. The Recipient, through its Council of Ministers, has approved: (a) a Least-Cost Power Sector Development Plan, which provides the basis for a competitive process for all power generation activities; and (b) a Management Improvement Plan for EMAE, which aims to improve EMAE’s operational performance (as evidenced by: (a) Resolution No. 9/2019 Validating and Approving the National Development Plan, the Least-Cost Energy Development Plan and the Investment Promotion Strategy, dated February 13, 2019, published in the Diário da República No. 19, Series I, dated March 27, 2019; and (b) Deliberation No. 10/2019 of the Presidency of the Council of Ministers, dated May 17, 2019).

7. The Recipient, through AGER, has signed a concession contract with EMAE, which stipulates the obligations of the Recipient and the licensee, including rules on tariffs and sanctions (as evidenced by General Concession Agreement for the Management and Use of the Public Energy Transport and Distribution Network between the Recipient and EMAE, published in the Diário da República No. 108, dated November 7, 2019).

**Pillar B: Generate Fiscal Resources and Savings and Improve the Quality of Public Expenditures**

8. The Recipient, through the National Assembly, has passed the Value Added Tax Code which sets forth provisions aimed at broadening the tax base and generating more own-source revenues (as evidenced by Law No. 13/2019 approving the Value Added Tax Code, dated October 28, 2019, published in the Diário da República No. 71, Series I, dated November 6, 2019).

9. The Recipient, through the Ministry of Finance, has instituted a financial system-based (non-cash) payment mechanism to allow for the tracking and reconciliation of funds allocated to social protection payments (as evidenced by Contract for Services No. 30/S/COMP2/SPS/2019 dated July 17, 2019).
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>3,700,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>3,700,000</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 Dedicated Accounts 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, 2020.
APPENDIX

Definitions


2. "BCSTP" means Banco Central de São Tomé e Príncipe, the Recipient’s central bank, established and operating pursuant to Organic Law 8/92, published in the Diário da República No. 16, of August 3, 1992.

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. “Diário da República” means the Recipient’s official gazette.


7. “EMAE” means Empresa de Água 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.


9. “National Assembly” means Assembleia Nacional, the Recipient’s highest representative and legislative body in accordance with Article 92 of the Recipient’s Constitution.


12. "President of the Republic" means the Recipient's head of state in accordance with Article 77 of the Recipient's Constitution.

13. "Program" means: the program of objectives, policies, and actions set forth or referred to in the letter dated October 23, 2019, 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.

14. "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.

15. "Single Withdrawal Tranche" means the amount of the Financing allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.