

CONFORMED COPY

GRANT AGREEMENT NUMBER TF024606

Grant Agreement

(Commercial Debt Reduction Program)

between

THE DEMOCRATIC REPUBLIC OF SAO TOME & PRINCIPE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

as Trustee of
the Debt Reduction Facility
for IDA-Only Countries

Dated August 2, 1994

GRANT AGREEMENT NUMBER TF024606

GRANT AGREEMENT

AGREEMENT, dated August 2, 1994, between the DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) acting as trustee of the Debt Reduction Facility for IDA-Only Countries (the Facility).

WHEREAS: (A) pursuant to Resolutions No.89-13 and No. IDA 89-4 of the Executive Directors of the International Bank for Reconstruction and Development and the Association, respectively, as amended, the Facility has been established and is being administered by the Association as a trust to provide grants to assist in the reduction of the commercial debt of certain members of the Association;

WHEREAS: (B) the Recipient has adopted a medium-term adjustment program, as described in the Statement of Development Policy dated May 25, 1990, that was approved by the Association;

WHEREAS: (C) the Recipient has formulated a debt management strategy satisfactory to the Association that: (i) includes a program for resolving the commercial debt problem of the Recipient in a comprehensive manner based on funds to be provided by the Facility (the Debt Reduction Program); (ii) provides for substantial relief from official bilateral creditors of the Recipient; and (iii) will materially enhance the Recipient's growth and development prospects;

WHEREAS: (D) on the basis of the foregoing, the Recipient has requested and the Association has agreed to make available to the

Recipient a grant out of the funds of the Facility to assist the Recipient in implementing the Debt Reduction Program on the terms and conditions hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Acceptance Message" means an acceptance message delivered by a Creditor pursuant to the Debt Purchase Offer;

(b) "Administrative Coordinator" means the administrative coordinator appointed by the Recipient with respect to the Debt Purchase Offer;

(c) "Closing Date" means the date 180 days after the date of this Agreement, or such later date as may be established by the Association for purposes of Paragraph 3 of the Schedule to this Agreement;

(d) "Coordinator Account" means the interest bearing account opened by the Administrative Coordinator on its books (together with any correspondent account opened by its bankers) to which amounts withdrawn from the Grant Account are credited;

(e) "Creditors" means the creditors identified in the Reconciliation Statement referred to in the Debt Purchase Offer;

(f) "Debt" means any or all of the indebtedness which is eligible for purchase of a release under the Debt Purchase Offer;

(g) "Debt Purchase" means the purchase of a release of debt by the Recipient pursuant to the Debt Purchase Agreements;

(h) "Debt Purchase Agreement" means each of the agreements resulting from the acceptance by Creditors of the Debt Purchase Offer;

(i) "Debt Purchase Offer" means the Offer relating to the Cancellation of Public Debt made by the Recipient to the Creditors;

(j) "Deed of Release" means a deed of release in form and substance satisfactory to the Administrative Coordinator delivered by a Creditor if so requested by the Administrative Coordinator pursuant to the Debt Purchase Offer;

(k) "Dollars" and the sign "\$" means dollars in the currency of the United States of America;

(l) "Grant" means the grant referred to in Section 2.01 of this Agreement;

(m) "Grant Account" means the account opened by the Association on its books in the name of the Recipient to which the amount of the Grant is credited; and

(n) "Taxes" includes imposts, levies, fees and duties of any nature, whether in effect at the date of this Agreement or thereafter imposed.

ARTICLE II

The Grant

Section 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth in this Agreement, a grant (the Grant) in the amount of one million five hundred thousand dollars (\$1,500,000).

Section 2.02. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account only in accordance with the provisions of the Schedule to this Agreement, as such Schedule may be amended from time to time by agreement between the parties.

Section 2.03. It is the policy of the Association that no Facility funds shall be withdrawn on account of payments for any Taxes levied by, or in the territory of, the Recipient. To that end, the Recipient shall not cause or permit any proceeds of the Grant to be used as payment for such Taxes.

Section 2.04. Neither the Recipient nor any other person shall have any rights with respect to the Grant, and the Association shall have no obligations with respect thereto, except as stated in this Agreement. The Association does not assume any fiduciary obligation to, or relationship of agency or trust for or with, the Recipient and shall have no liability to the Recipient or to any other person for any action taken or omitted to be taken by it, except for the performance of its express obligations set forth in this Agreement.

Section 2.05. (a) Unless the Association shall otherwise agree, any proceeds of the Grant held or used, other than in accordance with Section 2.02 of, and the Schedule to, this Agreement, following their withdrawal by the Recipient from the Grant Account, shall be immediately refunded by the Recipient to the Association.

(b) Any refund pursuant to paragraph (a) above shall be made in Dollars under such procedures as the Association shall direct.

ARTICLE III

Execution of the Debt Reduction Program; Other Covenants

Section 3.01. (a) The Recipient shall carry out the Debt Reduction Program with due diligence and to that end shall exercise its rights and comply with its obligations under the Debt Purchase Offer and the Debt Purchase Agreements in such manner so as to ensure the objectives of the Grant will be fulfilled.

(b) Save for the purpose of curing any ambiguity or curing or correcting any manifest error, the Recipient shall not, without the prior written consent of the Association, amend, modify, revoke or terminate the Debt Purchase Offer or any of the Debt Purchase Agreements or any Deed of Release, waive any provisions thereof or consent to any such amendment, modification, waiver, revocation or termination.

Section 3.02. The Recipient shall ensure that the proceeds of the Grant are used solely for the payment of amounts due pursuant to the Debt Purchase Agreements and for other expenditures permitted pursuant to the Schedule to this Agreement.

Section 3.03. (a) The Recipient shall maintain, or cause to be maintained, separate records and accounts adequate to reflect in accordance with sound accounting practices the use of the proceeds of the Grant and all transactions relating to the Debt Purchase Agreements.

(b) The Recipient shall:

(i) have the records and accounts referred to in paragraph (a) of this Section audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than four months after the Closing Date, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

Section 3.04. (a) The Recipient shall enable the Association's representatives to examine all records and documents relevant to the performance of its obligations under this Agreement.

(b) Promptly after completion of the Debt Reduction Program, but in any event not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, the Recipient shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the carrying out of the Debt Reduction Program, its cost and the benefits derived and to be derived from it, the performance by the Recipient of its obligations under this Agreement, the performance by the Recipient and each Creditor of their respective obligations under the Debt Purchase Agreements and the accomplishment of the purposes of the Grant.

Section 3.05. The Recipient and the Association shall cooperate fully to assure that the purposes of the Grant will be accomplished. To that end, the Recipient and the Association shall:

(i) from time to time, at the request of either one of them, exchange views with regard to the progress of the Debt Reduction Program, the purposes of the Grant, and the performance of their respective obligations under this Agreement; and furnish to the other party all such information related thereto as it shall reasonably request; and

(ii) promptly inform each other of any condition which interferes with, or threatens to interfere with, the matters referred to in paragraph (i) above.

Section 3.06. Except as the Association may otherwise agree, the Recipient shall ensure that each Deed of Release is substantially in the form agreed with the Association.

ARTICLE IV

Suspension; Cancellation

Section 4.01. (a) If any of the following events shall have occurred and be continuing, the Association may, by notice to the Recipient, suspend in whole or in part the right of the Recipient to make with-drawals from the Grant Account or from the Grant Account opened pursuant to the Grant Agreement Number TF 024605 (Preparation of Commercial Debt Reduction Program) entered into between the Recipient and the Association dated July 1, 1993, or both:

(i) the Recipient shall have failed to perform any of its obligations under this Agreement or under the Grant

Agreement referred to above in this paragraph (a);

(ii) any representation made, or statement furnished, by the Recipient in connection with this Agreement and intended to be relied upon by the Association in making the Grant shall have been incorrect in any material respect;

(iii) the Association shall have suspended in whole or in part the right of the Recipient to make withdrawals under any agreement between the Recipient and the Association because of a failure by the Recipient to perform any of its obligations under such agreement;

(iv) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Debt Reduction Program can be carried out in whole or in part or that the Recipient will be able to perform its obligations under this Agreement or any Debt Purchase Agreement; or

(v) the Recipient shall have been suspended from membership in or ceased to be a member of the Association, or ceased to be a member of the International Monetary Fund.

(b) If the Recipient shall have failed, after the Closing Date, to perform any of its obligations under this Agreement, the Association may, by notice to the Recipient, suspend in whole or in part the right of the Recipient to make withdrawals under any agreement between the Recipient and the Association.

(c) The right of the Recipient to make withdrawals from either of the Grant Accounts referred to in paragraph (a) of this Section, or from any credit account opened under any of the development credit agreements between the Recipient and the Association, shall continue to be suspended until the event or events which gave rise to suspension shall have ceased to exist, unless the Association shall have notified the Recipient that the right to make withdrawals has been restored.

Section 4.02. If: (a) at any time, the Association determines, after consultation with the Recipient, that an amount of the Grant will not be required to finance the Debt Reduction Program pursuant to the terms of this Agreement;

(b) after the Closing Date, an amount of the Grant shall remain unwithdrawn from the Grant Account; or

(c) the right of the Recipient to make withdrawals in respect of any amount from either of the Grant Accounts referred to in paragraph (a) of Section 4.01 or from any of the credit accounts referred to in paragraph (c) of such Section, shall have been suspended for a continuous period of thirty days, the Association, may by notice to the Recipient, terminate the right of the Recipient to make withdrawals with respect to such amount. Upon the giving of such notice, such amount shall be cancelled.

Section 4.03. Notwithstanding any cancellation or suspension, all the provisions of this Agreement shall continue in full force and effect except as specifically provided in this Article.

ARTICLE V

Effective Date; Termination

Section 5.01. This Agreement shall not become effective unless the following conditions have been fulfilled:

(a) the Association shall have received evidence satisfactory to it establishing that the Debt Purchase Offer is in form and substance satisfactory to the Association;

(b) the Association shall have received evidence satisfactory to it establishing that the execution and delivery of this Agreement and the Debt Purchase Offer by the Recipient and the performance by the Recipient of its obligations thereunder have been duly authorized or ratified by all necessary governmental or corporate action; and

(c) no event shall have occurred since the date of this Agreement which would have entitled the Association to suspend the right of the Recipient to make withdrawals from either of the Grant Accounts referred to in paragraph (a) of Section 4.01 of this Agreement if this Agreement had become effective on such date.

Section 5.02. As part of the evidence to be furnished pursuant to Section 5.01 of this Agreement, the Recipient shall furnish to the Association an opinion or opinions satisfactory to the Association of counsel acceptable to the Association, showing that:

(a) this Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Recipient and is legally binding upon the Recipient in accordance with its terms;

(b) the making and delivery of the Debt Purchase Offer has been duly authorized or ratified by the Recipient, in accordance with Sao Tome and Principe law and the Recipient has the capacity to issue the Debt Purchase Offer and to perform its obligation thereunder;

(c) the delivery of the Debt Purchase Offer to a Creditor and the delivery by such Creditor to the Administrative Coordinator of an Acceptance in the form required by the Debt Purchase Offer, assuming due authorization and execution thereof by such Creditor, will together constitute a binding contract between the Recipient and such Creditor with respect to the Debt specified in such Acceptance Message, subject only to the provisions and conditions precedent set out in the Debt Purchase Offer;

(d) each Acceptance Message and Deed of Release (if any) which is delivered to the Administrative Coordinator by a Creditor in accordance with the terms of the Debt Purchase Offer, assuming due authorization and execution thereof by such Creditor, will constitute the legal, valid and binding obligation of such Creditor, capable of being enforced in accordance with its terms, subject only to the provisions and conditions precedent set out in the Debt Purchase Offer; and

(e) the making and delivery by the Recipient of the Debt Purchase Offer and each of the Debt Purchase Agreements, and the performance of its obligations thereunder, do not and will not conflict with or result in a breach of: (i) the terms or provisions of, or constitute a default under, any agreement or instrument to which the Recipient is a party; or (ii) any law or statute, or any order or regulation applicable to the Recipient of any court, government agency, authority or body or arbitrator having jurisdiction over it.

Section 5.03. Except as the Association shall otherwise agree, this Agreement shall enter into effect on the date on which the Association dispatches to the Recipient notice of its acceptance of the evidence required by Section 5.01 of this Agreement.

Section 5.04. This Agreement shall terminate upon performance by the Recipient of all its obligations hereunder; provided that if the Recipient shall not have made any withdrawal from the Grant Account on or before the Closing Date (because of the failure of this Agreement to become effective or for any other reason), this Agreement shall terminate

immediately thereafter.

ARTICLE VI

Enforceability of the Grant Agreement; Failure to Exercise Rights; Arbitration

Section 6.01. The rights and obligations of the Recipient and the Association under this Agreement and under the other Grant Agreement referred to in paragraph (a) of Section 4.01 of this Agreement shall be valid and enforceable in accordance with their terms notwithstanding the law of any State or political subdivision thereof to the contrary. Neither the Recipient nor the Association shall be entitled in any proceeding under this Article to assert any claim that any provision of any of such Agreements is invalid or unenforceable because of any provision of the Articles of Agreement of the Association or of the Resolutions mentioned in Clause A of the Preamble to this Agreement.

Section 6.02. No delay in exercising, or omission to exercise, any right, power or remedy accruing to any party under this Agreement or under the other Grant Agreement referred to in paragraph (a) of Section 4.01 of this Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default. No action of such party in respect of any default, or any acquiescence by it in any default, shall affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

Section 6.03. (a) Any controversy between the parties to this Agreement or under the other Grant Agreement referred to in paragraph (a) of Section 4.01 of this Agreement and any claim by either such party against the other arising under this Agreement or such other Agreement which has not been settled by agreement of the parties shall be submitted to arbitration by an Arbitral Tribunal as hereinafter provided.

(b) The parties to such arbitration shall be the Recipient on one side, and the Association on the other side.

(c) The Arbitral Tribunal shall consist of three arbitrators appointed as follows: one arbitrator shall be appointed by the Association; a second arbitrator shall be appointed by the Recipient; and the third arbitrator (hereinafter sometimes called the Umpire) shall be appointed by agreement of the parties or, if they shall not agree, by the President of the International Court of Justice or, failing appointment by said President, by the Secretary General of the United Nations. If either of the parties shall fail to appoint an arbitrator, such arbitrator shall be appointed by the Umpire. In case any arbitrator appointed in accordance with this Section shall resign, die or become unable to act, a successor arbitrator shall be appointed in the same manner as herein prescribed for the appointment of the original arbitrator and such successor shall have all the powers and duties of such original arbitrator.

(d) An arbitration proceeding may be instituted under this Section upon notice by the party instituting such proceeding to the other party. Such notice shall contain a statement setting forth the nature of the controversy or claim to be submitted to arbitration, the nature of the relief sought, and the name of the arbitrator appointed by the party instituting such proceeding. Within thirty days after such notice, the other party shall notify to the party instituting the proceeding the name of the arbitrator appointed by such other party.

(e) If within sixty days after the notice instituting the arbitration proceeding, the parties shall not have agreed upon an Umpire, either party may request the appointment of an Umpire as provided in paragraph (c) of this Section.

(f) The Arbitral Tribunal shall convene at such time and place as shall be fixed by the Umpire. Thereafter, the Arbitral Tribunal shall determine where and when it shall sit.

(g) The Arbitral Tribunal shall decide all questions relating to its competence and shall, subject to the provisions of this Section and except as the parties shall otherwise agree, determine its procedure. All decisions of the Arbitral Tribunal shall be by majority vote.

(h) The Arbitral Tribunal shall afford to the parties a fair hearing and shall render its award in writing. Such award may be rendered by default. An award signed by a majority of the Arbitral Tribunal shall constitute the award of such Tribunal. A signed counterpart of the award shall be transmitted to each party. Any such award rendered in accordance with the provisions of this Section shall be final and binding upon the parties to this Agreement. Each party shall abide by and comply with any such award rendered by the Arbitral Tribunal in accordance with the provisions of this Section.

(i) The parties shall fix the amount of the remuneration of the arbitrators and such other persons as shall be required for the conduct of the arbitration proceedings. If the parties shall not agree on such amount before the Arbitral Tribunal shall convene, the Arbitral Tribunal shall fix such amount as shall be reasonable under the circumstances. Each party shall defray its own expenses in the arbitration proceedings. The costs of the Arbitral Tribunal shall be divided between and borne equally by the parties. Any question concerning the division of the costs of the Arbitral Tribunal or the procedure for payment of such costs shall be determined by the Arbitral Tribunal.

(j) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the settlement of controversies between the parties to this Agreement or of any claims by either party against the other party arising hereunder.

(k) The Association shall not be entitled to enter judgment against the Recipient upon the award, to enforce the award against the Recipient by execution or to pursue any other remedy against the Recipient for the enforcement of the award, except as such procedure may be available against the Recipient otherwise than by reason of the provisions of this Section. If, within thirty days after counterparts of the award shall have been delivered to the parties, the award shall not be complied with by the Association, the Recipient may take any such action for the enforcement of the award against the Association.

(l) Service of any notice or process in connection with any proceeding under this Section or in connection with any proceeding to enforce any award rendered pursuant to this Section may be made in the manner provided in Section 7.01 of this Agreement. The parties to this Agreement waive any and all other requirements for the service of any such notice or process.

ARTICLE VII

Miscellaneous Provisions

Section 7.01. (a) Any notice or request required or permitted to be given or made under this Agreement shall be in writing. Except as otherwise provided in Section 5.03 of this Agreement, such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable or telex to the party to which it is required or permitted to be given or made at such party's address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request.

(b) The following addresses are specified for the purposes of

paragraph (a) above:

For the Recipient:

Ministry of Economy and Finance
P.O. Box 187
Sao Tome
Sao Tome and Principe

Telex:

945225 Miplano ST

Facsimile:

22501
22777

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable Address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA)
64145 (WUI)
82987 (FTCC) or
197688 (TRT)

Facsimile:

(202) 477-6391

Section 7.02. The Minister of Economy and Finance of the Recipient or any person or persons authorized in writing by said person is designated as representative of the Recipient for the purposes of taking any action required or permitted to be taken by the Recipient under the provisions of this Agreement.

Section 7.03. The Recipient shall furnish to the Association sufficient evidence of the authority of the person or persons who will, on behalf of the Recipient, take any action or execute any documents required to be taken or executed by the Recipient under this Agreement, including withdrawal applications, and the authenticated specimen signature of each such person.

Section 7.04. This Agreement shall be free from any Taxes levied by, or in the territory of, the Recipient on or in connection with the execution, delivery or registration hereof.

Section 7.05. This Agreement may be executed in several counterparts, each of which shall be an original.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE

By /s/ Domingos Ferreira

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
as Trustee of the Debt Reduction Facility
for IDA-Only Countries

By /s/ Edward V.K. Jaycox

Regional Vice President
Africa

SCHEDULE

Withdrawal of the Proceeds of the Grant

1. (a) The proceeds of the Grant may be withdrawn from the Grant Account solely to pay:

(i) the purchase price payable to Creditors pursuant to the Debt Settlement Agreements; and

(ii) an amount not exceeding one hundred thousand dollars (\$100,000) for incidental costs incurred by the Recipient and approved by the Association, in order to complete the Debt Purchase Program.

Withdrawals pursuant to subparagraph (i) of this paragraph may be made not earlier than three business days in advance of the closing date established under the Debt Purchase Agreements in accordance with the procedures described in paragraph 1 (c) of this Schedule.

(b) Withdrawals pursuant to Paragraph 1 (a) of this Schedule shall be made in Dollars; provided, however, that if the expenditures to be financed out of the Grant have been paid or are payable in another currency, the Association shall, at the request of the Recipient, purchase such currency with the proceeds of such withdrawal and further provided, that, whenever it shall be necessary for purposes of this Agreement to determine the value of any currency in terms of Dollars, such value shall be as reasonably determined by the Association.

(c) Withdrawals from the Grant Account by the Recipient shall be made only on the order of the Recipient and in accordance with procedures acceptable to the Association, including, in the event proceeds of the Grant are withdrawn prior to the closing date established under the Debt Purchase Agreements, procedures for the maintenance of all such withdrawals in the Coordinator Account, and for the refund by such Administrative Coordinator of all such proceeds in the event the conditions precedent to the performance of the Debt Purchase Agreements are not satisfied.

(d) Requests for such withdrawals shall be made by delivery to the Association of a written application from the representative of the Recipient designated in Section 7.02 of this Agreement (or the authorized delegate of such representative pursuant to such Section), in such form, and containing such statements and agreements and accompanied by such supporting evidence, as the Association shall reasonably request, including, without limitation, confirmation of the continued validity of the opinions furnished to the Association pursuant to Section 5.02 of this Agreement.

2. Notwithstanding the provisions of Paragraph 1 above, no withdrawal from the Grant Account by the Recipient shall be permitted unless the Association has received evidence satisfactory to it establishing that:
(i) valid Acceptance Messages have been delivered in respect of all Debt that is the subject of the Debt Purchase Agreements and the Debt Purchase

Agreements are in full force and effect and no party thereto has breached any of its obligations thereunder; and (ii) the condition precedent to the performance by the parties of their obligations under the Debt Purchase Agreements set forth in paragraph 1 of Part 3 of the Debt Purchase Offer has been satisfied.

3. The Recipient shall not be entitled to make any withdrawal from the Grant Account after the Closing Date unless the Association has, by written notice to the Recipient, extended to a later date the period within which such withdrawals may be made.

