

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H559-ST

Financing Agreement

(Additional Financing for the Social Sector Support Project)

between

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 22, 2010

Public Disclosure Authorized

GRANT NUMBER 559-ST

FINANCING AGREEMENT

AGREEMENT dated June 22, 2010, between DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE (the Recipient) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral 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.
- 1.03. The Original Agreement is amended as set out in Section II of the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to one million four hundred thousand Special Drawing Rights (SDR1,400,000) (“Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are June 15 and December 15 in each year.
- 2.05. The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely that any event listed in Section 5.01 of the Original Agreement occurs.
- 4.02. The additional Event of Acceleration consists of the following, namely that any of the events specified in paragraphs (a) and (b) of Section 5.01 of the Original Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its Minister of Planning and Finance, or any successor thereto.
- 6.02. The Recipient's Address is:

*Largo das Alfandegas
Caixa Postal 168
São Tomé
República Democrática de São Tomé e Príncipe*

Facsimile:

239-2222182

E-mail address:

MPFC@CSTOME.NET

6.03. The Association's Address is:

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

| | | |
|-----------------------------|--------------|----------------|
| Cable: | Telex: | Facsimile: |
| INDEVAS Washington, D.C. | 248423 (MCI) | 1-202-477-6391 |

AGREED at District of Columbia, United States of America, as of the day and year first above written.

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

By

/s/ Ovídio Manuel Pequeno
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Mary Barton Dock
Authorized Representative

SCHEDULE I

Project Description

The objectives of the Project are those of the Original Project as stated in Schedule 2 to the Original Agreement.

The Project consists of the Original Project and the following additional subcomponents in Parts B and C of the Original Project:

Part B: Delivery of Basic Health Services

1(c) Construction of approximately four (4) residences for MOH's health personnel to improve the availability and quality of health services in the Recipient's territory.

Part C: Cross-Sector Social Issues HIV/AIDS and Malaria

1 (c):

- (i) Capacity development of the Recipient's health training school, through the provision of Training and technical assistance; and
- (ii) Training of MOH's health personnel, including nurses, to enhance their administrative and technical capacities.

SCHEDULE 2

Section I. Implementation Arrangements

A. Implementation and Institutional Arrangements

Sections 3.01, and 3.05 (Execution of the Project) of the Original Agreement; and Schedule 4 (Implementation Program), to the Original Agreement, as amended by paragraph 3 of Section II of the Appendix to this Agreement, are hereby incorporated by reference in this Part A.1 and shall apply *mutatis mutandis*, to this Agreement, and the Recipient undertakes to comply with the provisions thereof to the same extent as if such provisions had been set out in full in this Agreement.

B. Anti-Corruption

The Recipient shall ensure that the Original Project and the Project are carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth in the PIM. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than one month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

| Procurement Method | |
|---------------------------|------------------------------|
| (a) | National Competitive Bidding |
| (b) | Shopping |
| (c) | Direct Contracting |

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-Based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-Based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-Based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

| Procurement Method | |
|---------------------------|--|
| (a) | Least Cost Selection |
| (b) | Selection Based on Consultants' Qualifications |
| (c) | Single Source Selection |
| (d) | Individual Consultants |

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

| Category | Amount of the Financing Allocated (Expressed in SDR) | Percentage of the Expenditures to be Financed(inclusive of taxes) |
|--|---|--|
| Goods, works, Training, consultants' services, and Operating Costs for the Project | 1,400,000 | 100% |
| TOTAL AMOUNT | 1,400,000 | |

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is December 31, 2011.

Section V. Other Undertakings

1. Not later than three (3) months after the Effective Date, the Recipient shall have updated the accounting software for the Project, in a form and substance acceptable to the Association.
2. Not later there (3) months after the Effective Date, the Recipient shall have updated the FAPM and the PIM, all in a form and substance satisfactory to the Association.
3. Not later than four (4) months after the Effective Date, the Recipient shall have hired the external auditors for the Project, with qualifications and experience, and pursuant to terms of reference satisfactory to the Association, in accordance with the provisions of Section III of Schedule 2 to this Agreement.

APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in paragraph A.2 of Section IV of Schedule 2 to this Agreement.
3. “CDI Subproject” means a community driven development project under Parts A.2, B.2, and C.2 of the Original Project and further described under Section V of Schedule 4 to the Original Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Recipients” published by the Bank in May 2004 and revised in October 2006.
5. “FAPM” means the Financial and Administration Procedural Manual that sets out the financial management arrangements, organization structure (including internal audit functions), staffing, standard accounting forms, books, and ledgers for the implementation of activities under the Project and as referred to in Section I, paragraph 1 of Schedule 4 to the Original Agreement.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, (as amended through October 15, 2006), with the modifications set forth in Section III of this Appendix.
6. “HIV/AIDS” means human immune deficiency virus;
7. “MOH” means the Ministry of Health of the Recipient or any successor thereto.
8. “Operating Costs” means reasonable recurrent Project expenditures, based on an annual budget previously approved by the Association, that would not have been incurred by the Recipient absent the Project, including: (i) office equipment and supplies; (ii) office utilities; (iii) office rental expenses; (iv) Project’s vehicles maintenance costs, fuel and spare parts; (v) travel expenses and *per-diem* for official Project staff (excluding salaries of Recipient’s government staff); and (vi) operation and maintenance of office equipment, financed with proceeds of the Financing, all needed for the supervision of the Project.
9. “Original Agreement” means the development financing agreement for a Social Sector Support Project between the Recipient and the Association, dated

June 24, 2004, as amended to the date of this Agreement (Credit Number 3902-STP and Grant Number H088- STP).

10. “Original Project” means the Project described in Schedule 2 to the Original Agreement.
11. “PIM” means the Project Implementation Manual referred to in Section 1, paragraph 1 of Schedule 4 to the Original Agreement, adopted by the Recipient, setting forth, all procedures and arrangements governing the implementation of the Project, such as procurement and disbursement procedures, as the same may be amended from time to time, and such term shall include any schedules, tables and annexes to the PIM, as well as the Project Performance Indicators.
12. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
13. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated October 31, 2009, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
14. “Program” means the Recipient’s national strategies for education, health, malaria and HIV/AIDS, describing a program designed to improve the delivery of basic health and education services in the country as set forth in the letter dated February 18, 2010, from the Recipient to the Association.
15. “Training” means reasonable expenditures, based on an annual budget previously approved by the Association (other than those for consultants’ services), incurred by the Recipient, to finance transportation costs and *per diem* of trainers and trainees, workshops, rental of training facilities and acquisition of training equipment and material needed for the implementation and supervision of the Project.

Section II. Modifications to the Original Agreement

1. Section 2.03 of the Original Agreement is amended in its entirety to read as follows:

“Section 2.03. The Closing Date shall be December 31, 2011, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.”

2. Section 3.04 of the Original Agreement is amended in its entirety to read as follows:

“Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 4.04, 4.05, 4.06, and 4.07 of the General Conditions (relating to insurance, land acquisition, use of goods, works, services, maintenance of facilities, plans, documents, and records) shall be carried out by AFAP.”

3. Sub-Paragraph (c) of paragraph 13 of Section V of Schedule 4 to the Original Agreement is amended in its entirety to read as follows:

“(c) The Borrower’s right to:

- (i) Inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, and plants included in the Sub-Project, the operations thereof and any relevant records and documents;
- (ii) Obtain all information as the Borrower or the Association shall reasonably request regarding the administration, operation and financial conditions of the Beneficiary; and
- (iii) Suspend or terminate the right of any Beneficiary to use the proceeds of the Grant upon failure by the Beneficiary to perform any of its obligations under the Subproject Agreement.
- (iv) Protect its interests and those of the Association, including the right to: (i) suspend or terminate the right of the Beneficiary to use the proceeds of the Sub-Grant , or obtain a refund of all or any part of the amount of the Sub-Grant then withdrawn, upon the Beneficiary’s failure to perform any of its obligations under the Sub-Project Agreement; and (ii) require each Beneficiary to: (A) carry out its Sub-Project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower; (B) provide, promptly as needed, the resources required for the purpose; (C) procure the goods, works and services to be financed out of the Sub-Project in accordance with the provisions of this Agreement; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Sub-Project and the achievement of its objectives; (E): (1) maintain a financial

management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-Project; and (2) at the Association's or the Borrower's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Borrower and the Association; (F) enable the Borrower and the Association to inspect the Sub-Project, its operation and any relevant records and documents; and (G) prepare and furnish to the Borrower and the Association all such information as the Borrower or the Association shall reasonably request relating to the foregoing."

Section III. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005, (as amended through October 15, 2006) are as follows:

1. Section 2.07 is modified to read as follows:

"Section 2.07. Refinancing Preparation Advance

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank ("Preparation Advance"), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance."

2. Paragraph (i) of Section 6.02 is modified to read as follows:

"Section 6.02. Suspension by the Association

... (1) *Ineligibility.* The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or

collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”