

CONFORMED COPY

GRANT NUMBER H396 - STP

Financing Agreement

(Public and Natural Resource Management Development Policy Grant)

between

DEMOCRATIC REPUBLIC OF SÃO TOMÉ E PRÍNCIPE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 18, 2008

FINANCING AGREEMENT

AGREEMENT dated June 18, 2008, entered into between the DEMOCRATIC REPUBLIC OF SÃO TOMÉ E PRÍNCIPE (“Recipient”) and the 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: (a) 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 (b) the Recipient’s maintenance of an appropriate macro-economic 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) 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.

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 three million sevenhundred thousand Special Drawing Rights (SDR 3,700,000) (“the Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 January 15 and July 15 in each year.
- 2.05. The Payment Currency is Euro.

ARTICLE III — PROGRAM

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on 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 exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which 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 is specified, 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

- 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.
- 6.02. The Recipient's Address is:

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

Facsimile:
239-222182

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 address:	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 E PRÍNCIPE

By /s/ Raul António Costa Cravid

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Olivier P. Fremont

Authorized Representative

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:

1. *Conselho de Ministros* has issued decree number 9, dated April 30, 2008, published in *Diário da República* number 21, dated May 7, 2008, authorizing the Recipient's *Observatorio de Pobreza* to develop a new PRSP.
2. In compliance with article 23 of the Recipient's Public Finance Management Law, *Conselho de Ministros* has submitted to the Recipient's National Assembly, as a prelude for final approval, the Recipient's 2008 budget.
3. *Conselho de Ministros* has issued decree number 10/2008, dated April 30, 2008, published in *Diário da República* number 21, dated May 7, 2008, approving and specifying all budget codes that correspond to poverty reduction priorities in social sectors.
4. For purposes of the elaboration and presentation of the 2008 national budget, the Recipient, through MPF, has used the 2007 budget codes approved by the Recipient's National Assembly along with the Recipient's 2007 national budget, that enable the tracking of revenues and expenditures by functions of the State.
5. The Recipient has established an accounting system for public accounts, and regulated it with decree number 21/07, dated May 24, 2007, published in *Diário da República* number 43, dated September 7, 2007.
6. (a) *Conselho de Ministros* through decree number 8/2008, dated April 30, 2008, published in *Diário da República* number 21, dated May 7, 2008, has created at MPF a public accounting department, with staff, operational resources and budget acceptable to the Association; and

(b) *Conselho de Ministros* through decree number 7/2008, dated April 30, 2008, published in *Diário da República* number 21, dated May 7, 2008, has created at MPF an information technology department, with staff, operational resources and budget acceptable to the Association.

7. The Recipient, through MPF, has submitted to the Recipient's National Assembly, as a prelude for final approval, a bill of law creating a new corporate tax code, in a form and substance acceptable to the Association.
8. The Recipient, through MPF, has submitted to the Recipient's National Assembly, as a prelude for final approval, a bill of law creating a new personal income tax code, in a form and substance acceptable to the Association.
9. The Recipient, through MRN's resolution number 11/2008, dated April 23, 2008, adopted EITI National Committee's detailed roadmap for the implementation of EITI in the Recipient's territory, in a form and substance acceptable to the Association.
10. (a) *Conselho de Ministros*, has approved with decree number 11/2008, dated April 30, 2008, published in *Diário da República* number 21, dated May 7, 2008, the Model Contract, in a form and substance acceptable to the Association; and

(b) *Conselho de Ministros*, has submitted to the Recipient's National Assembly, as a prelude for final approval, the National Petroleum Bill of Law, in a form and substance acceptable to the Association.

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 shall be withdrawn in a Single Tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocation	Amount of the Financing Allocated (expressed in SDR)
Single Tranche	3,700,000
TOTAL AMOUNT	3,700,000

C. Deposits of Financing Amounts

Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

D. Excluded Expenditures

The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

E. Closing Date. The Closing Date is June 30, 2009.

APPENDIX

Section I. Definitions

1. “*Conselho de Ministros*” means the Recipient’s Council of Ministers, headed by the Recipient’s President or its Prime Minister, and comprised by all the Ministers of the Recipient’s Executive Power.
2. “*Diário da República*” means the Recipient’s Official Gazette.
3. “EITI” means Extractive Industries Transparency Initiative, a coalition of governments, companies, civil society groups, investors and international organizations engaged in a voluntary global compact for the improvement of transparency in countries that are dependent on extractive industries.
4. “EITI National Committee” means the Recipient’s National Committee created through MRN’s (as hereinafter defined) resolution number 17/2007, dated December 13, 2007, and headed by the Recipient’s Minister of Natural Resources and Environment, and comprising representatives of the Recipient’s: (a) national government; (b) extractive industries; (c) civil society; (d) chambers of commerce; (e) national press; and (f) unions, for purposes of implementing EITI in the Recipient’s territory.
5. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and

		semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
- (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
- (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
6. "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 II of this Appendix.
7. "Model Contract" means the model form of contract, in form and substance acceptable to the Association, to be used by the Recipient in its future contractual relationships with petroleum companies operating in the Recipient's territory and approved by the Recipient's *Conselho de Ministros* through decree number 11/2008, dated April 30, 2008, published in the Recipient's *Diário da República* number 21, dated May 7, 2008.
8. "MPF" means *Ministério do Plano e Finanças*, the Recipient's Ministry of Planning and Finance, or any successor thereto.

9. “MRN” means *Ministério dos Recursos Naturais e Meio Ambiente*, the Recipient’s Ministry of Natural Resources and Environment, or any successor thereto.
10. “National Petroleum Bill of Law” means the Recipient’s bill of law to regulate the administration of hydrocarbon resources in the Recipient’s territory, including, *inter alia*, the exploration, development and production of crude oil and natural gas.
11. “*Observatorio de Pobreza*” means MPF’s unit created by *Conselho de Ministros*, through decree number 32/2005, dated December 21, 2005, published in *Diário da República* number 38, dated December 30, 2005, in charge of poverty reduction matters in the Recipient’s territory.
12. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated May 7, 2008, 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.
13. “PRSP” means the Recipient’s Poverty Reduction Strategy to be developed by the Recipient’s *Observatorio de Pobreza*, as per the mandate of the Recipient’s *Conselho de Ministros*, set forth in decree number 9/2008, dated April 30, 2008, published in the Recipient’s *Diário da República* number 21, dated May 7, 2008.
14. “Public Finance Management Law” means the Recipient’s law number 3/2007, dated December 28, 2006, published in *Diário da República* number 4, dated February 12, 2007, that establishes and harmonizes the Recipient’s rules and procedures on programming, execution and control of public resources.
15. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

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

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.

4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. Plans; Documents; Records

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 4.07. Program Monitoring and Evaluation

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.

7. 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 definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.