

CONFORMED COPY

CREDIT NUMBER 3428 STP

Development Credit Agreement

(Public Resource Management Credit)

between

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 10, 2000

CREDIT NUMBER 3428 STP

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 10, 2000, between DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated August 14, 2000, describing a program of actions, objectives and policies designed to strengthen public resource management and improve the Borrower's macroeconomic stability (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Association has decided, in support of the Program, to provide such assistance to the Borrower by making the Credit in three tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications thereof set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

"'Project' means the Program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made";

(b) Section 4.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement";

(c) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions.";

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.06 (c) is modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."; and

(f) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "BCSTP" means Banco Central de Saõ Tomé e Príncipe, the Borrower's Central Bank established and operating pursuant to Law No. 8/92 dated August 26, 1992;

(b) "bring to the point of sale" means that the Borrower has taken the following steps: (i) prepared and distributed investment memoranda for the relevant public enterprises; (ii) solicited offers directly or through advertisement(s) in appropriate newspapers, under terms and conditions agreed upon between the Borrower and the Association; (iii) evaluated the offers and selected the bidder(s) (if any); and (iv) invited the successful bidder(s) (if any) to enter into

good faith negotiations;

(c) "Deposit Account" means the account referred to in Section 2.02 (b) of this Agreement;

(d) "First Tranche" means the tranche referred to in Category (1) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, to be released by the Association on or after the Effective Date;

(e) "Fiscal Year" means the fiscal year of the Borrower beginning on January 1 and ending on December 31;

(f) "Floating Tranche" means the tranche referred to in Category (3) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, to be released by the Association on or after the date on which the conditions referred to in Part B of Schedule 2 to this Agreement have been met;

(g) "Letter of Development Policy" or "LDP" means the Letter of Development Policy referred to in Recital (A) of the Preambles to this Agreement;

(h) "MPF" means the Borrower's Ministry of Planning and Finance;

(i) "PSRP" means the Poverty Reduction Strategy Paper to be prepared by the Borrower and furnished to the Association;

(j) "Second Tranche" means the tranche referred to in Category (2) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, to be released by the Association on or after the date on which the conditions referred to in Part A of Schedule 2 to this Agreement have been met;

(k) "SYDONIA" means the Borrower's automated system for the assessment of tax bases and the calculation of the Borrower's custom duties; and

(l) "tranche" means any of the following tranches, namely the First Tranche, the Second Tranche and the Floating Tranche.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to five million eight hundred thousand Special Drawing Rights (SDR 5,800,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a deposit account in dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Credit

shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

(d) No withdrawals shall be made from the Credit Account:

(i) under Category (2) of the table in paragraph 1 of Schedule 1 to this Agreement unless the amount specified in Category (1) has been withdrawn by the Borrower, the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association:

(A) with the progress achieved by the Borrower in the carrying out of the Program;

(B) that the actions set forth in Part A of Schedule 2 to this Agreement have been undertaken; and

(C) that the macroeconomic policy framework of the Borrower is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Association;

(ii) under Category (3) of the table in paragraph 1 of Schedule 1 to this Agreement, unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association:

(A) with the progress achieved by the Borrower in the carrying out of the Program;

(B) that the actions set forth in Part B of Schedule 2 to this Agreement have been undertaken; and

(C) that the macroeconomic policy framework of the Borrower is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Association; and

(e) If, after said exchange of views, the Association is not so satisfied, the Association may give notice to the Borrower to that effect and, if within 90 days after such notice, the Borrower shall not have taken steps satisfactory to the Association, in respect of paragraph (d) (i) and (ii) above, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

Section 2.03. The Closing Date shall be 31 March 2003 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a

commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 15 and October 15 commencing April 15, 2011 and ending October 15, 2040. Each installment to and including the installment payable on October 15, 2020 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Association of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower 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 and the actions specified in Schedule 2 to this Agreement.

(b) Prior to each such exchange of views, the Borrower 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.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit 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 Schedule 2 to this Agreement.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Association;

(b) 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 by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.09 of this Agreement, the Minister of the Borrower responsible for finance is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministério de Planeamento e Finanças
São Tomé
República Democrática de São Tomé e Príncipe

Facsimile:

239-12-22182

239-12-22372

For the Association:

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

Facsimile:

Cable address:

Telex:

477-6391

INDEVAS

248423 (MCI) or

(202)

Washington, D.C.

64145 (MCI)

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 SÃO TOMÉ AND PRÍNCIPE

By /s/ Domingos Ferreira

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit
and Excluded Expenditures

1. Subject to the provisions set forth or referred to in this Schedule, the table below sets forth the amounts allocated to the tranches to be withdrawn from the Credit Account and the percentage of expenditures for items to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) First Tranche	2,000,000	100%
(2) Second Tranche	1,900,000	100%
(3) Floating Tranche	1,900,000	100%
TOTAL	5,800,000	

2. Notwithstanding the provisions of paragraph 1 above, and for purposes of Section 2.02 (d) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

(a) expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(b) expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another credit or a loan;

(c) expenditures for goods included in the following groups or subgroups 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 Borrower:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, 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)

(d) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

(e) expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

(f) expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(g) expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2

Actions Referred to in Section 2.02 (d) of this Agreement

Part A: Conditions for the release of the Second Tranche

1. The Borrower has taken measures, satisfactory to the Association, to eliminate the granting of all ad hoc exemptions under its tax laws and regulations, as referred to in paragraph 21 of the LDP.

2. The Borrower has taken measures, satisfactory to the Association, to strengthen its customs and tax administration, including measures to make fully operational the automated system (SYDONIA) for the assessment of tax bases and the calculation of custom duties by the Borrower's Department of Customs, as referred to in paragraph 21 of the LDP.

3. The Borrower has taken measures, satisfactory to the Association, to require all its revenue agencies to employ the single taxpayer identification number system in monitoring compliance by taxpayers with the relevant tax laws and regulations, as referred to in paragraph 21 of the LDP.

4. The Borrower has carried out a public expenditure review, satisfactory to the Association, for its education and health sectors and has implemented a civil service reform program satisfactory to the Association, as referred to in paragraphs 20 and 22 of the LDP.

5. The Borrower has implemented a general sales tax, satisfactory to the Association, as referred to in paragraph 21 of the LDP.

Part B: Conditions for the release of the Floating Tranche

1. The Borrower has carried out, to the satisfaction of the Association and within the framework of its budget for Fiscal Year 2002, the recommendations of the public expenditure review of its education and health sectors, as referred to in paragraph 22 of the LDP.

2. The Borrower has, to the satisfaction of the Association: (i) implemented, by bringing to the point of sale or by liquidating non-performing public enterprises for which buyers cannot be found, the privatization program for the public enterprises identified in paragraph 23 of the LDP; (ii) rehabilitated public utilities by periodically adjusting tariff rates; (iii) strengthened the legal and institutional framework for private investment; (iv) conducted a study on the telecommunication sector with a view to opening it up to competition; (v) adopted a program for the privatization of the Borrower's large state-owned agricultural farms; and (vi) adopted an action plan regarding the rationalization of the Borrower's land tenure system, as referred to in paragraph 14 of the LDP.

