

CONFORMED COPY

CREDIT NUMBER 2038 STP

Development Credit Agreement

(Multisector Project)

between

DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 19, 1989

CREDIT NUMBER 2038 STP

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 19, 1989, between DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

(B) the Borrower intends to obtain from bilateral and multilateral aid and development organizations (hereinafter called "Additional Financiers") loans and grants (hereinafter called "Additional Funding") to assist in financing part of the Project and in expanding the activities of the Social and Infrastructure Fund (SIF) on the terms and conditions to be set forth in agreements to be entered into between the Borrower and each of the Additional Financiers;

WHEREAS the Association has agreed, on the basis, inter of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

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, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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) "SIF" means the Social and Infrastructure Fund (Fundo Social e de Infraestructuras), established by the Borrower's Decreto-Lei No. 45/88 dated December 8, 1988, as a legal entity under the supervision (tutela) of the Prime Minister;

(b) "Subsidiary Administration Agreement" means the agreement to be entered into between the Borrower and SIF, pursuant to Section 3.01(b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Administration Agreement;

(c) "SA Subproject" means a social assistance subproject including, inter alia, subprojects related to nutrition, health care, education and training;

(d) "SI Subproject" means a social infrastructure improvement subproject including, inter alia, construction or rehabilitation subprojects related to water supply, sanitary or storm drainage, solid waste management, urban roads and streets, low-income housing, schools and medical centers;

(e) "EI Subproject" means an economic improvement subproject including, inter alia, subprojects related to production activities such as markets, manufacturing cooperatives, governmental services to be privatized, and working capital credit for private entrepreneurship;

(f) "Subprojects" means collectively SA Subprojects, SI Subprojects and EI Subprojects; and "Subproject" means any one of such Subprojects;

(g) "Beneficiaries" means residents of Sao Tome and Principe deriving benefits from Subprojects directly or indirectly and who are adversely affected by the current economic conditions and/or by the economic stabilization measures taken by the Borrower including, inter alia, unemployed persons from both the private and public sectors, their families, those persons with critical nutritional or health needs, and those individuals or private small-scale enterprises operating in the economic sector;

(h) "Sponsoring Agency" means any of the governmental and non-governmental entities which proposes to carry out, or is carrying out, a Subproject;

(i) "Subproject Agreement" means the agreement to be entered into between SIF and a Sponsoring Agency for the purposes of carrying out a Subproject and under which SIF agrees to provide financing on a grant or a loan basis out of the proceeds of the Credit;

(j) "SIF By-laws" means the statutes regulating the organization and operations of SIF to be adopted by SIF pursuant to Section 7.01 (c) of this Agreement;

(k) "SIF Operational Procedures Guide" means the guide to be adopted by SIF pursuant to Section 7.01 (c) of this Agreement for appraising, processing and monitoring Subprojects;

(l) "Special Account" means the account referred to in 2.02 (b) of this Agreement;

(m) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower to an exchange of letters dated September 15, 1988 and October 5, 1988 between the Borrower and the Association; and

(n) "Dobra" means the currency of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to three million nine hundred thousand Special Drawing Rights (SDR 3,900,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement:

- (i) for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Part B of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit; and
- (ii) for amounts disbursed (or, if the Association shall so agree, for disbursements required to be made) under Subprojects in respect of the reasonable cost of goods and services required for Part A of the Project and to be financed out of the proceeds of the Credit pursuant to the provisions of Schedules 1 and 4 to this Agreement.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in a commercial bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be December 31, 1996 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 charges 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 June 1 and December 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 1 and December 1 commencing December 1, 1999 and ending June 1, 2029. Each installment to and including the installment payable on June 1, 2009 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; 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 them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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.

Section 2.09. SIF is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through SIP with due diligence and efficiency and in conformity with appropriate financial, administrative and managerial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall enter into a subsidiary administration agreement (the Subsidiary Administration Agreement) with SIP, under terms and conditions which shall have been approved by the Association, providing inter alia for:

- (i) the transfer of the proceeds of the Credit on a grant basis to SIP for the purposes of carrying out the Project; and
- (ii) the obligation of SIP to carry out the Project in accordance with the terms and conditions set forth in this Agreement, including the policies and procedures set forth in Schedule 4 to this Agreement.

(c) The Borrower shall exercise its rights under the Subsidiary Administration Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit

and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Administration Agreement or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. Until the completion of the Project, the Borrower shall cause SIF to keep all key personnel positions filled at all times with staff having qualifications and experience acceptable to the Association, and to consult with the Association prior to the replacement of any such key personnel; said key personnel positions shall include, inter alia, the Executive Administrator, the heads of the four departments of SIF responsible for promotion, Subproject development, administration, and finance and accounting, and the Project management consultant referred to in Section 7.01 (f) of this Agreement to be employed in accordance with Section II of Schedule 3 to this Agreement.

Section 3.04. (a) Beginning November 30, 1990 and by November 30 of each year thereafter, the Borrower shall cause SIF to furnish to the Association, for its comments and approval, its proposed action plan covering its operations for the following twelve-month period, including a list of proposed Subprojects together with a summary description, the financing required therefore and the Sponsoring Agencies.

(b) Upon receipt of the Association's approval, the Borrower shall cause SIF to carry out its action plan, revised as necessary to take the Association's comments into consideration.

Section 3.05. (a) The Borrower shall, together with SIF, at the request of the Association, exchange views with the Association with regard to the progress of the Project and the Subprojects, the performance by SIF of its obligations under the Subsidiary Administration Agreement, and other matters relating to the purposes of the Credit.

(b) The Borrower shall cause SIF to inform the Association promptly of any condition which interferes or threatens to interfere with the progress of the Project and the Subprojects, the accomplishment of the purposes of the Credit, or the performance by SIF of its obligations under the Subsidiary Administration Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause SIF to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of SIF and the operations, resources and expenditures in respect of the Project and each Subproject.

(b) The Borrower shall cause SIF to:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year 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 six months after the end of each such year: (A) certified copies of its financial statements for such year as so audited, and (B) 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 such records, accounts, financial statements

and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall cause SIF to:

- (i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until one year after the Association has received the audit report for the fiscal year in which the last disbursement from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause SIF:

- (a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practices;
- (b) to carry on its operations and conduct its affairs in accordance with sound administrative, financial and managerial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and
- (c) at all times to operate and to maintain its offices, machinery, equipment, vehicles and other property and, from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and managerial practices.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

- (a) as a result of events which have occurred after the date of this Agreement, a situation shall have arisen which shall make it improbable that SIF will be able to perform its obligations under the Subsidiary Administration Agreement or under the Subproject Agreements;
- (b) Decreto-Lei No. 45/88 of December 8, 1988 of the Borrower or SIF By-laws shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SIF to perform any of its obligations under the Subsidiary Administration Agreement or under the Subproject Agreements;
- (c) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of SIF, or for the suspension of its operations, other than in accordance with the provisions for closing the operations of SIF set forth in the Borrower's Decreto-Lei No. 45/88 of December 8, 1988;

(d) the Borrower or any other authority having jurisdiction shall have taken any action, without prior approval of the Association, for the establishment of a financial institution for providing credit for subprojects similar to EI Subprojects under Part A.3 of the Project;

(e) (i) Subject to subparagraph (ii) of this paragraph:

- (A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or
- (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:

- (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and
- (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 6.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraphs (b) or (d) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower;

(b) any event specified in paragraph (c) of Section 6.01 of this Agreement shall occur; and

(c) any event specified in paragraph (e) (i) (B) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (e) (ii) of that Section.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Subsidiary Administration Agreement has been entered into between the Borrower and SIF;

(b) SIF has established an accounting system acceptable to the Association;

(c) SIF By-laws and SIF Operational Procedures Guide, referred to in Section 1.02 (j) and (k) of this Agreement, have been adopted by SIF and are satisfactory to the Association;

(d) SIF has furnished to the Association an action plan covering the first twelve-months' period of its operations, satisfactory to the Association;

(e) SIF has furnished to the Association a model Subproject Agreement, including separate provisions for SA Subprojects, SI Subprojects and EI Subprojects, acceptable to the Association; and

(f) the Project management consultant, referred to in Section 3.03 of this Agreement, has been recruited and has assumed his functions.

Section 7.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Subsidiary Administration Agreement has been duly authorized or ratified by, and is legally binding upon, the Borrower and SIF in accordance with its terms.

Section 7.03. 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.

Section 7.04. The obligations of the Borrower under Articles IV and V of this Agreement and the provisions of paragraph (c) of Section 6.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. Except as provided in Section 2.09 of this Agreement, the Minister of the Borrower responsible for finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Economia e Financas
Sao Tome
Republica Democratica de Sao Tome
e Principe

Telex:

225 MIPLANO STP

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 2033
United States of America

Cable address:

Telex:

INDEVAS	440098 (ITT)
Washington, D.C.	248423 (RCA) or
	64145 (WUI)

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/ Joaquim R. Branco

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto E. Madavo
Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Amount of the Credit Allocated (Expressed in CategorySDR Equivalent)	% of Expenditures to be Financed	
(1) Goods, services and works for SA Subprojects under Part A.1 of the Project	1,300,000	100%
(2) Goods, services, and works for SI Subprojects under Part A.2 of the Project	500,000	100%
(3) Goods, services and works for EI Subprojects under Part A.3 of the Project:	230,000	
(a) up to a total cost of \$10,000 equivalent per Subproject		100%
(b) Subprojects of a total cost of more than \$10,000 equivalent but less than \$20,000 equivalent		100%, up to 95% of the total cost of each Sub- project
(c) Subprojects of a total cost of \$20,000 equi- valent but less than \$50,000 equivalent each		100%, up to 85% of the total cost of each Sub- ject
(d) Subprojects of a total cost of \$50,000 equi- lent but less than \$100,000 equivalent each		100%, up to 75% of the total cost of each Sub- project
(e) Subprojects of a total cost of \$100,000		100%, up to 60% of the total cost

	equivalent but no more than \$150,000		of each Subproject
(4)	Consultants, services and training under Part B of the Project:	650,000	100%
(5)	(a) Equipment, supplies and vehicles under Part B of the Project	45,000	100%
	(b) Civil works under Part B of the Project	40,000	100%
(6)	Operating costs for SIF under Part B of the Project	450,000	100% through November 30, 1990; 80% through November 30, 1991; and 50% thereafter
(7)	Refunding of Project Preparation Advance	400,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(8)	Unallocated	285,000	
	TOTAL	3,900,000	

2. For the purposes of this Schedule, the term "operating costs" means: (i) cost of maintenance and operation of buildings, equipment and vehicles used in the execution of the Project; (ii) costs of travel-related to the implementation of the Project; (iii) costs of conferences, courses, study tours and travel to be undertaken as part of training and other related training costs to be financed under the Project; (iv) salaries for SIF's fixed-term staff, excluding government employees, directly responsible for Project implementation; and (v) other operating expenditures related to the implementation of the Project, as determined in agreement by the Borrower and the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement;

(b) in respect of expenditures for any Subproject to be financed out of the proceeds of the Credit under Categories (1), (2) and (3), up to an aggregate reaching the equivalent of SDR 1,600,000, unless the policies and procedures set forth in Schedule 4 to this Agreement have been complied with and the Association shall have approved any such Subproject prior to the signing of the relevant Subproject Agreement;

(c) in respect of expenditures for any Subproject to be financed out of the proceeds of the Credit under Category (1) or (2), with a total estimated cost of \$100,000 equivalent or more, unless the policies and procedures set forth in Schedule 4 to this Agreement have been complied with and the Association shall have approved any such Subproject prior to the signing of the relevant Subproject Agreement; and

(d) in respect of expenditures for any Subproject to be financed out of the proceeds of the Credit under Category (3)(d) and (e), with a total estimated cost of \$50,000 equivalent or more, unless the policies and procedures set forth in Schedule 4 to this Agreement have been complied with and the Association shall have approved any such Subproject prior to the signing of the relevant Subproject Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are:

- (a) to mitigate the social impact of economic decline and structural adjustment measures;
- (b) to help generate income and employment opportunities for low income, underemployed and unemployed persons; and
- (c) to support private productive activities that will contribute to the economic and social development of the country.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Subprojects

Financing and carrying out of:

1. social assistance (SA) Subprojects;
2. social infrastructure improvement (SI) Subprojects; and
3. economic improvement (EI) Subprojects.

Part B: Institutional Support

Establishment and strengthening of SIF for the purposes of identifying, preparing, appraising and monitoring Subprojects through the provision of technical assistance, the acquisition of office equipment, supplies and vehicles, and office renovation for SIF's headquarters.

* * * * *

The Project is expected to be completed by June 30, 1996.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part B hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Other Procurement Procedures

1. Limited international bidding:

Goods under Part A.1 and 2 of the Project, estimated to cost more than the equivalent of \$250,000 but less than the equivalent of \$500,000 per contract, up to an aggregate amount not to exceed the equivalent of \$700,000, may be procured by the Sponsoring Agency under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

2. Local competitive bidding:

Goods under Part A.1 and 2 of the Project, estimated to cost more than the equivalent of \$100,000 up to the equivalent of \$250,000 per

contract, up to an aggregate amount not to exceed the equivalent of \$1,200,000, may be procured by the Sponsoring Agency under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

3. Local shopping:

Goods estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$200,000, may be procured under contracts awarded on the basis of comparison of price quotation solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

4. Direct contracting:

(a) Works estimated to cost the equivalent of \$75,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$1,000,000, may be procured by direct contracting, on the basis of standard prices established by SIF and approved by the Association, from suppliers eligible under the Guidelines and, at the option of the Sponsoring Agency, nominated by such Sponsoring Agency.

(b) Except as the Association shall otherwise agree, no supplier shall be awarded any contract pursuant to paragraph (a) above, if the amount of such contract, when added to the aggregate amount of all prior contracts, financed out of the proceeds of the Credit and awarded during a twelve-month period pursuant to SIF's standard price procedures directly or indirectly to such supplier, shall exceed the equivalent of \$100,000.

Part C: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association, pursuant to said paragraph 2 (d), shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association, pursuant to said paragraph 3, shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist SIF in carrying out the Project, the Borrower shall cause SIF to employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

Policies and Procedures for the
Execution of Part A of the Project

I. Subproject Identification and Appraisal

1. Proposals for Subprojects may be initiated or sponsored by governmental or non-governmental entities, communities, cooperatives and other groups. Proposals for Subprojects shall identify the type of Subproject, describe the works, goods or services to be financed and identify the Sponsoring Agency and the Beneficiaries.

2. SIF shall process the proposals for Subprojects received in accordance with the SIF Operational Procedures Guide, as it may be modified from time to time, on a basis and in a manner acceptable to the Association.

3. SIF shall:

- (i) identify and promote the development of Subprojects;
- (ii) screen and appraise Subprojects;
- (iii) identify sources of funds additional to the proceeds of the Credit to expand the number of Subprojects financed by SIF; and
- (iv) monitor the implementation of Subprojects.

4. Basic appraisal criteria for all Subprojects shall include the following:

- (i) the Subproject shall meet social needs compatible with national development;
- (ii) the Subproject shall be expected to be completed within three years;
- (iii) labor-intensive methods shall be used to the extent possible;
- (iv) least cost methods of implementation shall be used and, where applicable, existing capital assets shall be utilized to the extent possible;
- (v) the Subproject shall be technically feasible and financially viable;
- (vi) appropriate consideration shall be given to the technical and managerial capability of the Sponsoring Agency; and
- (vii) the Subproject shall address environmental concerns and propose solutions.

In addition, for all SI Subprojects and EI Subprojects with an estimated cost equivalent to \$50,000 or more, an economic rate of return of at least 12% shall be demonstrated, as well as commercial soundness and availability of markets, where applicable.

II. Terms and Conditions of Subprojects

1. Subprojects shall be financed on the following terms and conditions:

- (i) financing of SA Subprojects and SI Subprojects shall be on a grant basis;
- (ii) financing of EI Subprojects shall be on a loan basis, including an appropriate annual rate of interest on the principal amount outstanding, with repayment terms between five and fifteen years and a maximum grace period of five years. The annual rate of interest for the financing of working capital shall be at least equal to the rate charged, on the date of approval of said financing, by Banco Nacional de Sao Tome e Principe to its commercial

customers. For the financing of capital improvement and other fixed assets, the annual interest rate shall be at least equal to 10% and in addition include a service charge of 2%; beginning on June 30, 1990, said interest rate applicable to now financing shall be reviewed every six months and adjusted to take into account the inflation rate forecast in Sao Tome and Principe in the long term; and

- (iii) a mobilization advance of 100 of the estimated cost of the Subproject may be paid upon signing of the Subproject Agreement. Subsequent payments thereafter may be made on the basis of a percentage, acceptable to the Association, of works, goods or services procured, and shall be evidenced by written documentation thereof. A retention of 10% of the estimated cost of the Subproject may be paid upon completion of the Subproject, as evidenced by a certificate of completion, acceptable to the Association.

III. Subproject Approval

1. All Subprojects shall be approved by the Board of Administrators of SIF. In addition, the following Subprojects shall require the prior approval of the Association:

- (i) any Subproject until an aggregate amount reaching the equivalent of SDR 1,600,000 has been withdrawn from the Credit Account; and
- (ii) thereafter, any SA or SI Subproject, with a total estimated cost of \$100,000 equivalent or more, and any EI Subproject, with a total estimated cost of \$50,000 equivalent or more.

2. When presenting a Subproject to the Association for approval, SIF shall furnish to the Association an application, in a form satisfactory to the Association, together with: (i) a description of the Implementing Entity and an appraisal of the Subproject, including procurement procedures and a description of the expenditures to be financed out of the proceeds of the Credit; (ii) the proposed terms and conditions of the financing on a loan basis, including the schedule of amortization of the financing; and (iii) such other information as the Association shall reasonably request.

3. Each request by SIF for authorization to make withdrawals from the Credit Account in respect of a Subproject which is not subject to prior approval by the Association shall contain: (i) a Summary description of the Subproject and the Implementing Entity, including procurement procedures and a description of the expenditures proposed to be financed out of the proceeds of the Credit; and (ii) the terms and conditions of the financing on a loan basis.

4. Except as the Association shall otherwise agree, applications and requests made pursuant to the provisions of paragraphs 3 and 4 above shall be presented to the Association on or before June 30, 1995.

IV. Subproject Agreements

1. The Sponsoring Agencies selected to carry out the Subprojects shall promptly enter into Subproject Agreements with SIF, on terms and conditions satisfactory to the Association, pursuant to which SIF shall, inter alia, obtain rights adequate to protect the interests of the Association and SIF, including the rights of SIF to:

- (i) require the Sponsoring Agency to carry out and operate the Subproject with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;
- (ii) require that: (A) the goods, services and works to be financed out of the proceeds of the Credit shall be procured in accordance with Schedule 3 to this Agreement; and (B) such goods, services and works shall be used exclusively in the carrying out of the Subproject;

- (iii) inspect by itself or jointly, with representatives of the Association if the Association shall so request, such goods and the sites, works, plants and construction included in the Subproject, the operation thereof, and any relevant records and documents;
- (iv) obtain all such information as the Association shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Subproject and, if appropriate, to the benefits to be derived therefrom; and
- (v) suspend or terminate the right of the Sponsoring Agency to the use of the proceeds of the Credit upon failure by such Agency to perform its obligations under its Subproject Agreement with SIF.

2. SIF shall exercise its rights in relation to each Subproject in such manner as to: (i) protect the interests of the Borrower and the Association and its interests; (ii) comply with its obligations under the Subsidiary Administration Agreement; and (iii) achieve the purposes of the Project.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required, pursuant to paragraph 4 of this Schedule, for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been made out of the Special Account for eligible expenditures. All such deposits shall

be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit into the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; and (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraph 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.
