

AFRICAN DEVELOPMENT FUND



AFRICAN DEVELOPMENT BANK



SAO TOME AND PRINCIPE - HIPC APPROVAL DOCUMENT
DECISION POINT UNDER THE ENHANCED FRAMEWORK*

NB : This document contains errata or corrigenda (see Annexes)

**HIPC APPROVAL DOCUMENT FOR SAO TOME & PRINCIPE:
Decision Point under the Enhanced Framework**

1. INTRODUCTION

1.1 The Boards of Directors approved the Bank Group's participation in the enhanced HIPC Initiative, on July 6, 2000. During this meeting, Management's proposal for the delivery modalities and financing arrangements were also approved. Accordingly, the Bank Group would provide its debt relief by releasing eligible countries from up to 80 percent of their annual debt service obligations until the total debt relief is delivered. Debt service delivery would commence at the decision point, with no more than 40 percent of HIPC assistance being provided during the interim period, viz., between the decision and completion points. Whenever possible, total debt relief will be provided within 15 years.

1.2 During their deliberations, the Boards of Directors took note of an earlier meeting of the Deputies of the African Development Fund on June 30, 2000 in Paris. At this meeting the Deputies endorsed the Bank Group's proposed delivery modalities and further agreed that the Bank Group has made the maximum effort in generating internal resources for the HIPC Initiative. The Deputies gave assurance to the Bank Group that they would meet the remaining financing gap to cover the full cost of the Bank's participation in the Initiative.

1.3 In December, 2000, Sao Tome and Principe reached its decision point and the Boards of the IMF and World Bank approved US\$ 97 million worth of debt relief in end-1999 net present value (NPV) terms under the enhanced HIPC Framework. This document invites the Boards to note the justifications for Sao Tome and Principe's qualification for HIPC assistance, and approve the proposed plan to finance the Bank Group's share of Sao Tome & Principe's costs. Section 2 of this document summarises details of Sao Tome & Principe's qualification, while the total debt relief is disaggregated in Section 3 to illustrate how the Bank Group's share of the HIPC costs have been derived. The Bank Group's operations are reviewed in Section 4, with particular emphasis on activities related to the Poverty Reduction Strategy Papers (PRSPs). Section 5 presents details of the proposed delivery modality. The proposed financing plan is presented in Section 6. Recommendations for the Boards' consideration are contained in Section 7.

2. HIPC QUALIFICATION

Sao Tome and Principe qualified for US\$ 97 million worth of debt relief assistance, equivalent to 83 percent reduction in the country's outstanding stock of debt at end-1999 after full use of traditional debt relief mechanisms. The country reached its decision point in December 20, 2000, and is expected to reach its completion point by 2003 by fulfilling the following conditions:

- Preparation and satisfactory implementation of a full PRSP for at least one year;
- Maintaining a stable macroeconomic environment as evidenced by satisfactory performance under a program supported by the IMF-supervised Poverty Reduction and Growth Facility (PRGF) arrangement;
- Making substantial progress in strengthening public expenditure management and the use of HIPC Initiative assistance in the following areas:

- (i) costing sectoral strategies for health and education in the context of the medium-term expenditure framework (MTEF);
 - (ii) satisfactorily implementing a controlling and monitoring mechanism to ensure an efficient and transparent use of HIPC Initiative interim assistance;
 - (iii) placing the programming and execution of foreign-financed capital expenditure under the control of the Ministry of Planning and Finance;
- Implementing a capacity building program to manage oil resources, and establishing a petroleum oversight and control committee;
 - Making operational the Auditor General's Office (*Tribunal de Contas*) and the tribunal for arbitration in business and contract matters;
 - Making progress in the implementation of sector strategies in education and health in the following areas:
 - (i) building and equipping at least 40 new classrooms in primary schools and 15 classrooms in secondary schools; and recruiting, training, or retraining 120 primary school teachers (compared with the 1999 base);
 - (ii) building and equipping at least eight primary health care centers, and increasing the immunization rates for children – for measles, DPT3, and polio to 85 percent from 69 percent in 1999.
 - (iii) reducing child morbidity rate caused by malaria to 60 per 10,000, from 86 per 10,000 in 1999.

A copy of the relevant HIPC decision point document is annexed to this report.

3. HIPC COSTS

Bilateral creditors will account for US\$ 29 million (30 percent) of Sao Tome and Principe's debt relief, while multilateral creditors will deliver the remaining US\$ 68 million (70 percent). The Bank Group's share of debt relief will amount to US\$ 34.03 million in 1999 NPV terms. Table 1 provides a breakdown of Sao Tome and Principe's total debt relief in NPV terms.

Table 1. Breakdown of Sao Tome and Principe's HIPC Costs

	US\$ million (End-1999 NPV)
Total HIPC Debt Relief	97
Bilateral Creditors	29
Multilateral Creditors	68
<i>Of which:</i>	
<i>African Development Bank Group</i>	<i>34</i>
<i>World Bank</i>	<i>24</i>
<i>IMF</i>	<i>.</i>

BANK GROUP INVOLVEMENT IN THE PRSP

4.1 The Interim PRSP (I-PRSP) for Sao Tome and Principe identifies unfavorable socio-economic environment, inadequate past policies and governance problems as the most important

causes of poverty. It also acknowledges that heavy external burden forced the government to reduce social spending. The goal of reducing poverty would be attained by public actions within the context of the I-PRSP and sectoral strategies prepared with donor assistance. The I-PRSP aims at increasing real GDP growth through the implementation of sound macroeconomic policies, increasing access to education and health facilities, improving infrastructure, and strengthening basic institutions. Although the Bank Group was not directly involved in the preparation of the I-PRSP, its Country Strategy Paper (CSP) for Sao Tome and Principe took into account the Government's sectoral strategies and the I-PRSP.

4.2 The Bank Group's CSP for Sao Tome and Principe is based on consultations with the government, civil society including NGOs, and private and public sector institutions. The Bank Group's medium-term assistance strategy (1999-2001), focuses on attaining a stable macroeconomic framework and viable external position, diversifying the productive base, and poverty reduction. It also seeks to support projects that would contribute to higher agricultural productivity, while ensuring the preservation of the natural environment, and improved social services (mainly education and health), and enhancing the access of vulnerable groups to these services. Other issues to be addressed by the Bank Group assistance strategy include: the rehabilitation of existing transport infrastructure, improvement of public utilities, increasing the efficiency of economic management through policy and institutional reforms to stimulate economic growth, and promotion of good governance.

4.3 The government of Sao Tome and Principe is embarking on the preparation of a full PRSP to fulfil the condition for reaching the completion point under the enhanced HIPC framework. The full PRSP will provide a more detailed and priority list of policy actions that would form the basis for poverty reduction. The Bank Group plans to be actively involved in the process and would assist in the development of a co-ordinated approach for economic growth and poverty reduction in Sao Tome and Principe.

5. PROPOSED DELIVERY MODALITY

5.1 As Sao Tome and Principe has reached its decision point, it is proposed that the Bank Group makes a commitment to provide interim debt relief between the decision and completion points, with effect from December 2000. Interim relief will not exceed 40 percent of the total NPV debt relief, and is expected to be delivered between 2001 and 2003. The Bank Group's debt relief would be provided by releasing Sao Tome and Principe from 80 percent of its debt service obligations to the Bank Group each year, until the entire amount of US\$ 34.03 million is delivered. The conditions that would trigger Sao Tome & Principe's floating completion point are outlined in Section 2. When the completion point is reached, the Bank Group will enter into an irrevocable debt relief commitment.

Legal Aspects of Debt Relief Operation

5.2 Debt relief for Sao Tome and Principe is to be provided, under the enhanced framework of the HIPC Debt Initiative, through the mechanism of debt service relief, in accordance with the terms described in the preceding paragraphs. These terms will be implemented by a Debt Relief

Agreement between the Bank Group and the government of Sao Tome and Principe; a HIPC Trust Fund Grant Agreement between the Bank Group, the International Development Association (IDA) and the government of Sao Tome and Principe; and, the Contribution Agreement between the Bank Group and the IDA. The provision of debt relief, as described, is consistent with the rules of the African Development Bank and the African Development Fund.

6. PROPOSED FINANCING ARRANGEMENTS

The Bank Group's share of debt relief will be financed as follows:

	<i>Million US\$ end-1999 NPV</i>
Internal Resources	6.81
European Commission pledge	13.61
Balance with HIPC Trust Fund	13.61
TOTAL	34.03

7. RECOMMENDATIONS

The Boards are invited to:

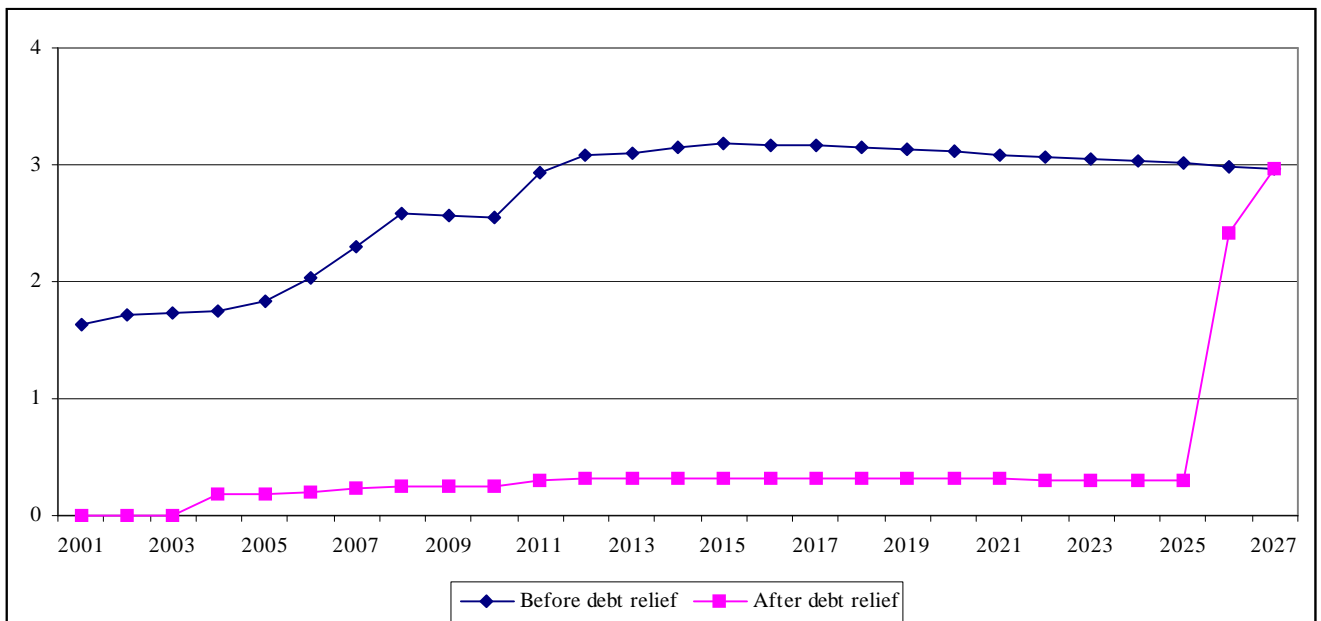
- 7.1 Note the justifications for Sao Tome and Principe's qualification for HIPC assistance at its decision point, under the enhanced framework; and
- 7.2 Approve the plan to finance the Bank Group's share of HIPC debt relief, in accordance with the arrangements presented in Section 6.

**IMF/ World Bank HIPC Document for
SAO TOME AND PRINCIPE**

Annex

SAO TOME & PRINCIPE - HIPC APPROVAL DOCUMENT: DECISION POINT
UNDER THE ENHANCED FRAMEWORK

Impact of Debt Relief on Sao Tome & Principe's Bank Group Debt Service Profile (in million US dollars)



**African Development Bank
HIPC Debt Relief Schedule
(in US dollars)**

**Sao Tome
& Principe**

	TOTAL ADB	TOTAL Debt Relief
2001	0	1,639,548
2002	0	1,719,492
2003	0	1,729,510
2004	0	1,576,448
2005	0	1,645,442
2006	0	1,832,526
2007	0	2,064,263
2008	0	2,320,906
2009	0	2,306,454
2010	0	2,293,432
2011	0	2,633,414
2012	0	2,779,192
2013	0	2,796,550
2014	0	2,833,842
2015	0	2,870,520
2016	0	2,853,643
2017	0	2,843,961
2018	0	2,835,257
2019	0	2,817,155
2020	0	2,799,940
2021	0	2,780,952
2022	0	2,762,851
2023	0	2,744,749
2024	0	2,727,336
2025	0	2,708,546
2026	0	572,024
	0	61,487,953

Summary

Total Nominal Relief	US\$ 61.49 mn
of which ADB	US\$ 0.00 mn
of which ADF	US\$ 61.18 mn
of which NTF	US\$ 0.31 mn
Total NPV Relief	US\$ 34.20 mn
Duration	26 years

* There is a marginal change in the total NPV debt relief after reconciliation with the World Bank

**African Development Fund
HIPC Debt Relief Schedule
(in US dollars)**

**Sao Tome
& Principe**

	TOTAL ADF	TOTAL Debt Relief
2001	1,571,054	1,639,548
2002	1,653,263	1,719,492
2003	1,665,544	1,729,510
2004	1,520,905	1,576,448
2005	1,591,948	1,645,442
2006	1,832,526	1,832,526
2007	2,064,263	2,064,263
2008	2,320,906	2,320,906
2009	2,306,454	2,306,454
2010	2,293,432	2,293,432
2011	2,633,414	2,633,414
2012	2,779,192	2,779,192
2013	2,796,550	2,796,550
2014	2,833,842	2,833,842
2015	2,870,520	2,870,520
2016	2,853,643	2,853,643
2017	2,843,961	2,843,961
2018	2,835,257	2,835,257
2019	2,817,155	2,817,155
2020	2,799,940	2,799,940
2021	2,780,952	2,780,952
2022	2,762,851	2,762,851
2023	2,744,749	2,744,749
2024	2,727,336	2,727,336
2025	2,708,546	2,708,546
2026	572,024	572,024
	61,180,227	61,487,953

Summary

Total Nominal Relief	US\$ 61.49 mn
of which ADB	US\$ 0.00 mn
of which ADF	US\$ 61.18 mn
of which NTF	US\$ 0.31 mn
Total NPV Relief	US\$ 34.20 mn
Duration	26 years

* There is a marginal change in the total NPV debt relief after reconciliation with the World Bank

**Nigeria Trust Fund
HIPC Debt Relief Schedule
(in US dollars)**

**Sao Tome
& Principe**

	TOTAL NTF	TOTAL Debt Relief
2001	68,494	1,639,548
2002	66,230	1,719,492
2003	63,966	1,729,510
2004	55,543	1,576,448
2005	53,494	1,645,442
2006	0	1,832,526
2007	0	2,064,263
2008	0	2,320,906
2009	0	2,306,454
2010	0	2,293,432
2011	0	2,633,414
2012	0	2,779,192
2013	0	2,796,550
2014	0	2,833,842
2015	0	2,870,520
2016	0	2,853,643
2017	0	2,843,961
2018	0	2,835,257
2019	0	2,817,155
2020	0	2,799,940
2021	0	2,780,952
2022	0	2,762,851
2023	0	2,744,749
2024	0	2,727,336
2025	0	2,708,546
2026	0	572,024
	307,727	61,487,953

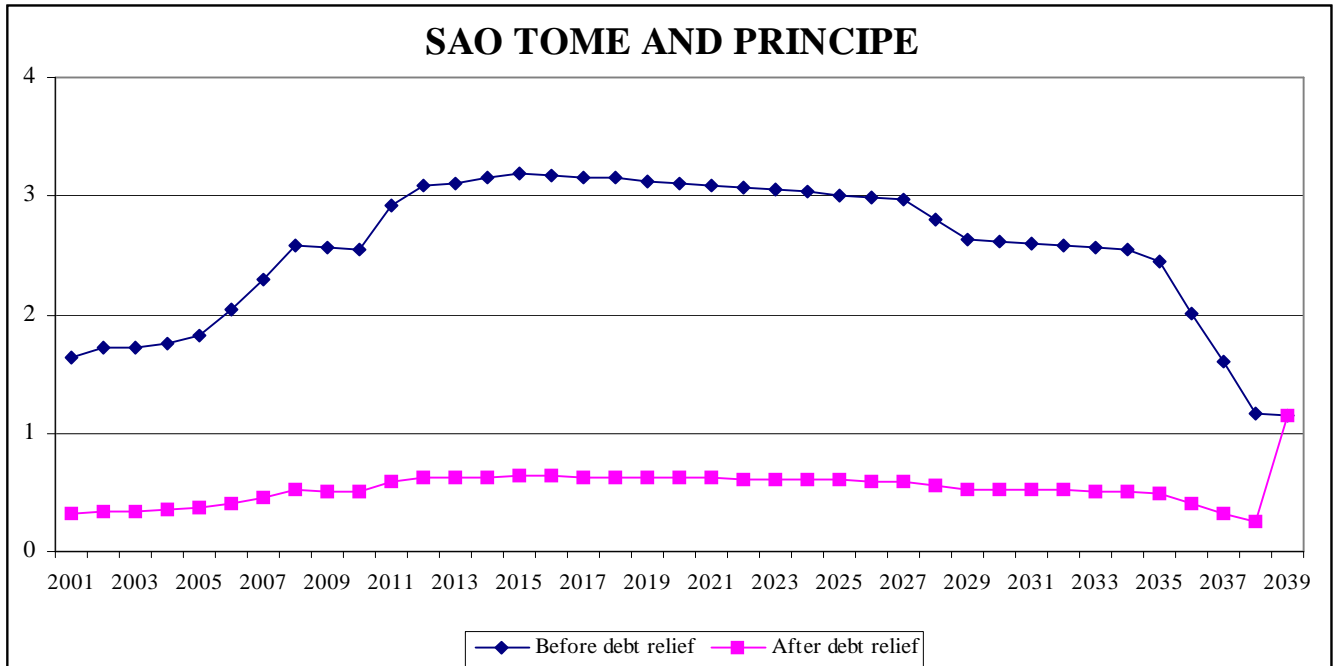
Summary

Total Nominal Relief	US\$ 61.49 mn
of which ADB	US\$ 0.00 mn
of which ADF	US\$ 61.18 mn
of which NTF	US\$ 0.31 mn
Total NPV Relief	US\$ 34.20 mn
Duration	26 years

* There is a marginal change in the total NPV debt relief after reconciliation with the World Bank.

**SAO TOME & PRINCIPE - HIPC APPROVAL DOCUMENT: DECISION
POINT UNDER THE ENHANCED FRAMEWORK**

**Impact of Debt Relief on Sao Tome & Principe's Bank Group Debt Service Profile
(in million US dollars)**



**African Development Bank
HIPC Debt Relief Schedule
(in US\$ millions)**

Sao Tome & Principe

	TOTAL ADB	TOTAL Debt Relief
2001	0	1.3116
2002	0	1.3756
2003	0	1.3836
2004	0	1.4013
2005	0	1.4626
2006	0	1.6289
2007	0	1.8349
2008	0	2.0630
2009	0	2.0502
2010	0	2.0386
2011	0	2.3408
2012	0	2.4704
2013	0	2.4858
2014	0	2.5190
2015	0	2.5516
2016	0	2.5366
2017	0	2.5280
2018	0	2.5202
2019	0	2.5041
2020	0	2.4888
2021	0	2.4720
2022	0	2.4559
2023	0	2.4398
2024	0	2.4243
2025	0	2.4076
2026	0	2.3915
2027	0	2.3754
2028	0	2.2434
2029	0	2.1117
2030	0	2.0974
2031	0	2.0830
2032	0	2.0690
2033	0	2.0543
2034	0	2.0400
2035	0	1.9556
2036	0	1.6128
2037	0	1.2878
2038	0	0.9157
	0	78.9328

Summary

Total Nominal Relief	US\$ 78.93 mn
of which ADB	US\$ 0.00 mn
of which ADF	US\$78.93 mn
Total NPV Relief	US\$ 34.20 mn
Duration	38 years

**African Development Fund
HIPC Debt Relief Schedule
(in US\$ millions)**

Sao Tome & Principe

	TOTAL ADF	TOTAL Debt Relief
2001	1.3116	1.3116
2002	1.3756	1.3756
2003	1.3836	1.3836
2004	1.4013	1.4013
2005	1.4626	1.4626
2006	1.6289	1.6289
2007	1.8349	1.8349
2008	2.0630	2.0630
2009	2.0502	2.0502
2010	2.0386	2.0386
2011	2.3408	2.3408
2012	2.4704	2.4704
2013	2.4858	2.4858
2014	2.5190	2.5190
2015	2.5516	2.5516
2016	2.5366	2.5366
2017	2.5280	2.5280
2018	2.5202	2.5202
2019	2.5041	2.5041
2020	2.4888	2.4888
2021	2.4720	2.4720
2022	2.4559	2.4559
2023	2.4398	2.4398
2024	2.4243	2.4243
2025	2.4076	2.4076
2026	2.3915	2.3915
2027	2.3754	2.3754
2028	2.2434	2.2434
2029	2.1117	2.1117
2030	2.0974	2.0974
2031	2.0830	2.0830
2032	2.0690	2.0690
2033	2.0543	2.0543
2034	2.0400	2.0400
2035	1.9556	1.9556
2036	1.6128	1.6128
2037	1.2878	1.2878
2038	0.9157	0.9157
Summary	78.9328	78.9328
Total Nominal Relief		US\$ 78.93 mn
of which ADB		US\$ 0.00 mn
of which ADF		US\$78.93 mn
Total NPV Relief		US\$ 34.20 mn
Duration		38 years

SAO TOME AND PRINCIPE - HIPC APPROVAL DOCUMENT
DECISION POINT UNDER THE ENHANCED FRAMEWORK

5.1 As Sao Tome and Principe has reached its decision point, it is proposed that the Bank Group makes a commitment to provide interim debt relief between the decision and completion points, with effect from **December 2000**. Interim relief will not exceed 40 percent of the total NPV debt relief, and is expected to be delivered between 2000 and 2003. The Bank Group's debt relief would be provided by releasing Sao Tome and Principe from up to 80 percent of its debt service obligations to the Bank Group each year, until the entire amount of US\$ 34.03 million is delivered. **The balance of debt relief will only be provided after Sao Tome and Principe has reached its completion point following Board approval.** The conditions that would trigger Sao Tome and Principe's floating completion point are outlined in Section 2. When the completion point is reached, the Bank Group will enter into an irrevocable debt relief commitment.