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EBS/00/58
Supplement 1

CONFIDENTIAL

May 1, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **São Tomé and Príncipe—Poverty Reduction and Growth Facility**

Attached for the records of Executive Directors is the text of the three-year arrangement for São Tomé and Príncipe under the Poverty Reduction and Growth Facility as agreed at Executive Board Meeting 00/45 (4/28/00).

Att: (1)

Other Distribution:
Department Heads

**SÃO TOMÉ AND PRÍNCIPE—THREE-YEAR ARRANGEMENT UNDER
THE POVERTY REDUCTION AND GROWTH FACILITY**

1. Attached hereto* is a letter ("the letter") dated March 24, 2000, with an annexed Memorandum of Economic and Financial Policy ("the Memorandum"), from the Minister of Planning, Finance and Cooperation of São Tomé and Príncipe requesting from the International Monetary Fund as Trustee of the Poverty Reduction and Growth Facility Trust ("the Trustee") a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth:

(a) the objectives and policies of the program that the authorities of São Tomé and Príncipe intend to pursue during the three-year period of the arrangement;

(b) the objectives, policies and measures that the authorities of São Tomé and Príncipe intend to pursue during the first year of the arrangement; and

(c) understandings of São Tomé and Príncipe with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of São Tomé and Príncipe will pursue for the second and third years of the arrangement.

2. To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility Trust.

1) (a) For a period of three years from April 28, 2000, São Tomé and Príncipe will have the right to obtain loan disbursements from the Trustee in a total amount equivalent to SDR 6.657 million, subject to the availability of resources in the Poverty Reduction and Growth Facility Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 2.853 million until March 15, 2001 and the equivalent of SDR 4.755 million until March 15, 2002.

(c) During the first year of the arrangement:

- (i) the first disbursement, in an amount equivalent to SDR 0.951 million, will be available on April 28, 2000, at the request of São Tomé and Príncipe;
- (ii) the second disbursement, in an amount equivalent to SDR 0.951 million, will be available on September 15, 2000, at the request of São Tomé and Príncipe and subject to paragraph 2 below; and

*See EBS/00/58, 3/27/00.

- (iii) the third disbursement, in an amount equivalent to SDR 0.951 million, will be available on March 15, 2001, at the request of São Tomé and Príncipe and subject to paragraph 2 below.

(d) The right of São Tomé and Príncipe to request disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined. The phasing of, and conditions for, disbursements during the second year of this arrangement shall be determined in the context of a review of São Tomé and Príncipe's program with the Trustee, the timing of which shall be established at the first review contemplated in paragraph 2(d) of this arrangement.

2) São Tomé and Príncipe will not request the second or third disbursement specified in paragraphs 1(c)(ii) and 1(c)(iii) above:

(a) If the Managing Director of the Trustee finds that, with respect to the second disbursement, the data as of June 30, 2000 and, with respect to the third disbursement, the data as of December 31, 2000, indicate that:

- (i) the floor on the primary balance of the central government's financial operations, or
- (ii) the ceiling on changes in net bank credit to the central government, or
- (iii) the ceiling on changes in net domestic assets of the central bank, or
- (iv) the floor on changes in the net international reserves position of the central bank, or
- (v) the ceiling on the central government's non-reschedulable outstanding external payments arrears, or
- (vi) the ceiling on contracting and guaranteeing by the central government of new concessional borrowing with a maturity of more than one year, or
- (vii) the ceiling on change in the central government's outstanding stock of short-term external credit with a maturity of less than one year,

referred to in paragraph 34 of the Memorandum and specified in Table 1 of the Memorandum, was not observed; or

(b) If the Managing Director of the Trustee finds:

- (i) with respect to the second disbursement, that São Tomé and Príncipe has not carried out its intentions with respect to the adoption of a privatization program of large agricultural estates and the adoption of a law simplifying

real property and land ownership by June 30, 2000 as specified in paragraph 25 and Table 2 of the Memorandum, or

- (ii) with respect to the third disbursement, that São Tomé and Príncipe has not carried out its intentions with respect to the adoption of a mechanism by which adjustments of water and electricity rates reflect production and distribution costs by September 30, 2000 as specified in paragraph 24 and Table 2 of the Memorandum; or

(c) If São Tomé and Príncipe has:

- (i) imposed or intensified restrictions on payments and transfers for current international transactions, or
- (ii) introduced or modified multiple currency practices, or
- (iii) concluded bilateral payments agreements that are inconsistent with Article VIII, or
- (iv) imposed or intensified import restrictions for balance of payments reasons, or
- (v) incurred any new external payments arrears by the public sector; or

(d) Until the Trustee has determined, with regard to the second disbursement, that the first review of São Tomé and Príncipe's program scheduled for completion on or before September 14, 2000 and referred to in paragraph 4 of the Letter has been completed and, with regard to the third disbursement, that the second program review scheduled for completion on or before March 14, 2001 and referred to in paragraph 4 of the Letter has been completed.

3. When São Tomé and Príncipe is prevented from requesting disbursements under this arrangement because of this paragraph 2, such disbursements may be made available only after consultation has taken place between the Trustee and São Tomé and Príncipe and understandings have been reached regarding the circumstances in which São Tomé and Príncipe may request the disbursements.

3) In accordance with paragraph 4 of the Letter, São Tomé and Príncipe will provide the Trustee with such information as the Trustee requests in connection with the progress of São Tomé and Príncipe in implementing the policies and reaching the objectives of the program supported by this arrangement.

4) In accordance with paragraph 3 of the Letter, during the period of this arrangement São Tomé and Príncipe, shall consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and

while São Tomé and Príncipe has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, São Tomé and Príncipe will consult with the Trustee from time to time, at the initiative of the Government or whenever the Managing Director of the Trustee requests consultation on São Tomé and Príncipe's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to São Tomé and Príncipe or of representatives of São Tomé and Príncipe to the Trustee.