

**Memorandum of Understanding
Between the United States Department of the Treasury
Office of Technical Assistance
and the São Tomé and Príncipe
Ministry of Planning and Finance
Regarding Implementation of the
Millennium Challenge Corporation Threshold Program**

A. Purpose

1. The Millennium Challenge Corporation (MCC) Threshold Program provides assistance for countries that have not yet qualified for Compact funding under the Millennium Challenge Act of 2003 but have demonstrated a significant commitment to improve their performance on the eligibility criteria for Compact funding. São Tomé and Príncipe submitted a proposal to MCC in August 2007 for Threshold Program assistance to address problems underlying its performance on the MCC indicators. In September 2007, MCC approved Threshold Program assistance to São Tomé and Príncipe to improve its performance on the *Fiscal Policy*, *Days to Start a Business* and *Cost of Starting a Business* MCC indicators (the “São Tomé and Príncipe Threshold Program” or the “Program”) through implementation of the following Program components:

- Component 1. Strengthen Voluntary Compliance with Tax Laws;
- Component 2. Strengthen Enforcement of Tax Obligations;
- Component 3. Increase Customs Revenue; and
- Component 4. Improve the Business Environment.

MCC selected the United States Department of the Treasury, Office of Technical Assistance (UST-OTA) to implement the São Tomé and Príncipe Threshold Program on its behalf.

2. UST-OTA and the Ministry of Planning and Finance of São Tomé and Príncipe (STP-MoPF) wish to cooperate to implement the São Tomé and Príncipe Threshold Program for the purpose of:

- Raising levels of compliance with tax and customs requirements through sound administrative practices in order to increase revenues;
- Developing and implementing legislation to provide for the effective administration of tax and customs procedures;
- Modernizing the Customs Service to increase efficiency and enhance professionalism; and
- Reducing the time and costs associated with starting a business.

3. Accordingly, UST-OTA and the STP-MoPF have concluded this Memorandum of Understanding to set forth their understandings with respect to their undertakings regarding the

implementation of the São Tomé and Príncipe Threshold Program.

B. Duration of the Assistance. It is planned that the assistance contemplated under this Memorandum of Understanding will occur over the period from the date of this Memorandum of Understanding to January 31, 2010, or such later date as UST-OTA and the STP-MoPF may agree upon in writing (the "Completion Date"), provided, however, that activities to evaluate the São Tomé and Príncipe Threshold Program may continue for a period of one year after the Completion Date.

C. Nature of the Assistance and Terms of Reference. UST-OTA and the STP-MoPF anticipate that the São Tomé and Príncipe Threshold Program will be implemented according to the following terms:

1 Technical Assistance Goals. One of the primary near-term goals of the STP-MoPF is the modernization of the customs and tax administration in São Tomé and Príncipe. UST-OTA will assist the STP-MoPF to achieve this goal through the following:

TAX ACTIVITIES

- Support to develop and implement solutions for the exchange of revenue accounting data between tax administration systems and the proposed Financial Management System and other government agencies, and, as appropriate, receipt of information from non-governmental systems; support for extraction and use of such data in the tax administration.
- Assistance in the conduct and completion of business process reviews for São Tomé and Príncipe's Tax Directorate's tax compliance, registration, and taxpayer service/education functions and integration of redesigned and improved processes into the STP-MoPF organization and operating procedures.
- Training of STP-MoPF on implementation of redesigned processes.
- Assistance in implementing organizational changes that may occur in tax administration functions resulting from modernization activities.
- Management training to develop a management cadre possessing the management skills and vision to successfully implement the modernization program.
- Identification of training needs for technical staff in both operational and support functions;
- Conduct of technical training to eliminate gaps in skills levels of STP-MoPF tax administration technical staff.
- Conduct of compliance projects that use specific source data available to STP-MoPF tax administration, such as indicators of wealth, bank interest reporting, data from other São Tomé and Príncipe government agencies/state corporations, to increase compliance and improve revenue generation.
- Assistance in preparing legislative amendments, operating procedures and training programs aimed at reducing the time and costs required for starting a business.
- Providing limited commodity support to the Tax Directorate for activities noted above to the extent resources are available.

CUSTOMS ACTIVITIES

- Upgrading customs systems to Automated System for Customs Data (ASYCUDA) World.
- Assistance in conducting assessments of all border facilities.
- Assistance in analyzing, and supporting implementation of, new legislation and regulations.
- Conducting training activities.
- Assistance in establishing a Customs Cooperation Council involving the international trade community, to encourage compliance.
- Providing support for entry into the World Customs Organization.
- Providing basic inspection, communications, and transportation equipment.
- Assistance in enhancing customs operations and procedures.
- Assistance in enhancing professionalism through:
 - a. developing procedures to limit negative discretionary actions;
 - b. developing and implementing a Customs Code of Ethics and Conduct; and
 - c. establishing and providing training for an Ethics Council in the Ministry of Planning and Finance.
- Coordinating with other pertinent government agencies and assistance providers to ensure that maximum development results are achieved for São Tomé and Príncipe.

2. Policy and Working Level Counterparts in the STP-MoPF. UST-OTA will designate two advisors who will act as project coordinators, one for components 1, 2 and 4 (the “Tax and Doing Business components”), and one for component 3 (the “Customs component”), who will be the main representatives of UST-OTA in São Tomé and Príncipe and who will direct the implementation of the Program. Each project coordinator will be responsible for the conduct of monitoring and evaluation within his or her respective component(s). Each project coordinator will be his or her counterpart’s main interlocutor with regard to the component(s) for which he is responsible. The project coordinator and the working level counterpart will cooperate closely, communicate and meet frequently and collaborate to realize the work plan. The project coordinator will consult extensively with the working level counterpart when preparing, revising and reporting on the work plan.

UST-OTA’s principal policy counterpart for the Program will be the Minister of Planning and Finance, who will give general direction and organizational support to the project coordinators. Each project coordinator will be accountable to the Minister of Planning and Finance for technical assistance and results. Each project coordinator will meet with the Minister at least once every month during any month in which the project coordinator is in São Tomé and Príncipe, or more frequently, if needed. The Minister will approve each project coordinator’s work plan.

For the Tax and Doing Business components, the working level counterpart will be the Director of the Tax Directorate. For the Customs component, the working level counterpart will be the Director of the Customs Department.

3. Implementation and Work Plans. The Program will be implemented under the

immediate direction of the two project coordinators, who will be the main representatives of UST-OTA in São Tomé and Príncipe and who will, in turn, coordinate the activities of other advisors who will be present in São Tomé and Príncipe intermittently, as required, to achieve the purposes of this Memorandum of Understanding and associated work plans. The project coordinators, in cooperation with their counterparts in the STP-MoPF tax and customs administrations, will prepare personal work plans to achieve the technical assistance goals. A work plan will include specific activities to be performed by the advisors, the products of those activities, a schedule for starting and completing the activities, and indicators of progress in realizing the modernization objectives of the STP-MoPF. The initial work plan should be completed within three weeks after commencement of the Program, marked by first arrival of the project coordinators in São Tomé and Príncipe. Work plans may be revised at any time but must be reviewed, and revised, if necessary, in accordance with progress, experience and priorities, at least every quarter.

4. Coordination. The project coordinators, in coordination with STP-MoPF counterpart officials, will determine the need for specialized additional technical assistance to fulfill the technical assistance goals outlined above and will request such assistance from in the form of additional advisors from UST-OTA or other expert organizations. The project coordinators will coordinate the activities of other advisors who will be present in São Tomé and Príncipe intermittently, as required, to achieve the purposes of this Memorandum of Understanding and associated work plans. In providing such technical assistance, advisors (including the project coordinators) may consult directly with other government ministries and organizations, as well as other advisors. Any of the advisors may provide information or make presentations to private and official organizations as approved and requested by counterpart STP-MoPF officials and the appropriate project coordinator.

5. Conditions.

a. The project coordinators will report to work at their respective counterpart offices on dates and on a schedule established by mutual agreement between the project coordinators and the STP-MoPF counterparts. UST-OTA will provide the following logistical and other support for the project coordinators and advisors:

- Suitable housing;
- Business travel and local transportation;
- Local security;
- Suitable office furnishings and equipment;
- Mobile telephone handsets and charges; and
- Local office support staff.

b. The STP-MoPF counterpart administration will provide, at its expense, the following logistical support for the project coordinator and his or her advisors and staff:

- Appropriate identification and authorization to enter their administration building at reasonable hours for work, including weekends.

- Suitable office space at the tax administration and customs administration that is within reasonable proximity to the STP-MoPF working-level counterparts;
- Telephone and telephone line with the capability of making international calls; and
- Electrical and internet connections.

The cost of international calls will be paid or reimbursed by UST-OTA.

c. With regard to vehicles and other capital items purchased in support of the Program for use by personnel of, or conveyed to, the STP-MoPF, the STP-MoPF will document the use of such capital items. Capital items will be used exclusively for Program activities, and in no instance for personal use (including commuting to or from work) or for any other use not pertaining to the Program. In the case of vehicles, the STP-MoPF will maintain a daily log recording each activity undertaken in such vehicles, the daily beginning and ending odometer readings, and the date and times of each activity, and on a weekly basis will give a copy of the logs to the office of the counterpart UST-OTA project coordinator. The STP-MoPF will maintain vehicles in good condition and will pay the costs of fuel and other expenses to maintain and operate the vehicles. STP-MoPF will obtain collision insurance covering the value of the vehicles and providing proof of such insurance to UST-OTA.

d. Employees and agents of UST-OTA will not disclose to any person or organization any taxpayer or tax declaration information of which they may become aware during the course of work under this Memorandum of Understanding, except in accordance with law. UST-OTA will contract with an outside party to monitor and evaluate the effectiveness of the activities undertaken by UST-OTA and the STP-MoPF under this Memorandum of Understanding. The STP-MoPF will, to the extent permissible under law, furnish any information requested by such outside party in furtherance of its monitoring and evaluation.

e. Assistance provided under this Memorandum of Understanding will be subject to audit and inspection by authorized representatives of the United States Government.

f. Assistance funded under this Memorandum of Understanding will be used only for the purposes stated herein, and if such assistance is no longer needed for such purposes, such assistance may be used for other purposes as may be agreed upon UST-OTA in consultation with MCC.

g. Commodities acquired under the Program, whether by the United States, its recipients (and their subcontractors or subgrantees) or its contractors (and their subcontractors or subgrantees), that are financed with United States assistance under this Memorandum of Understanding, will be exempt from taxation, including value-added taxes (VAT), sales tax and customs duties, imposed by São Tomé and Príncipe. The STP-MoPF will provide reimbursement within four months from the date of assessment to the Government of the United States or its agents (including recipients and contractors and subrecipients and subcontractors) for, at a minimum, VAT, sales tax and customs duties that are imposed. Commodities include any material,

article, supply, goods, or equipment. In addition, the STP-MoPF will make available for the benefit of the Program any other applicable tax exemptions that are allowed in São Tomé and Príncipe. If taxation, including VAT, sales tax or customs duties are imposed upon commodities purchased with United States assistance, and any such VAT, sales tax and customs duties are not fully reimbursed to the Government of the United States, United States law requires withholding of 200 percent of the amount of such unreimbursed VAT, sales tax and customs duties from future United States assistance allocated to the government of São Tomé and Príncipe.

United States Treasury
Office of Technical Assistance

Ministry of Planning and Finance

/ s /

/ s /

W.L. McDonald
Deputy Assistant Secretary
for Technical Assistance Policy

Maria dos Santos Lima da Costa Tebus Torres
Vice Prime Minister and Ministry of Planning
and Finance

Date:

Date:

Witnessed by:

/ s /

Malik M. Chaka
Director, Threshold Programs
Millennium Challenge Corporation

Date:

*The foregoing Memorandum of Understanding was signed and witnessed in São Tomé
on November 9, 2007.*

(This page is not part of the Memorandum of Understanding.)