

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: **99432**

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Operation Name	Economic Governance and Competitiveness (II)
Region	AFRICA
Country	Sao Tome and Principe
Sector	Central government administration (60%);Other domestic and international trade (40%)
Operation ID	P151500
Lending Instrument	Development Policy Lending
Borrower(s)	SAO TOME AND PRINCIPE
	Democratic Republic of São Tomé and Príncipe Sao Tome and Principe
Implementing Agency	
	Ministry of Finance and Public Administration Largo das Alfândegas Caixa Postal 168 Sao Tome and Principe Tel: 2221083
Date PID Prepared	August 25, 2015
Estimated Date of Appraisal	November 2, 2015
Estimated Date of Board Approval	November 25, 2015
Corporate Review Decision	<i>To be decided</i>

I. Key development issues and rationale for Bank involvement

São Tomé and Príncipe is a small island state, low-middle income country. According to the 2012 census, São Tomé and Príncipe (STP) has a population of 178,739 people. Gross National Income is estimated at USD1,200 in PPP terms, while per capita GDP stands at USD1,672. Poverty incidence is estimated at 60 percent of the population and 51.4 percent of the households. STP is a multi-party democracy and a unitarian state. It is divided in six districts plus the autonomous region of Príncipe. STP's economy is based on services and primary sector, with an almost inexistent industrial sector. Main economic activities are tourism, retail, transports, communication and construction. Its main export product is cocoa, while imported goods account for the bulk of consumed goods, including the oil needed to generate power in the country, leading to a structural trade and balance of payment deficit.

Among STP's main challenges are to spur growth from a small economic base, maintain macroeconomic stability and ensure that the most vulnerable population benefit from growth. It is estimated that growth rates need to reach six percent in order for poverty to be reduced over time in STP, however, such growth rates will not come from the current array commodity production primary sector, due to its small scale. In addition, oil prospects are not

as concrete as before. Most of the population also lacks the needed skills to take advantage of the opportunities that might have been brought by growth. Lastly, as underscored by successful development experiences of small-island states, macroeconomic stability is key to buffer the country from shocks and allow private sector to flourish.

This DPO is helping to address the country's challenges by supporting budget and debt management reforms, efforts to improve accountability and business environment reforms. This operation is supporting measures to increase the comprehensiveness of the budget information and therefore ensure better informed fiscal policy decisions. It also supports reforms to improve debt management such as instituting a binding debt management strategy and increase the array of debt instruments. Finally, the operation recognizes the centrality of the private sector as the engine of growth by supports significant reforms to streamline, reduce time and cost of registering business, getting business licenses, tourist visas and clearing customs procedures.

This operation resumes the Bank engagement with the country after a brief intermission with good medium-term perspectives. The country has abided with all HIPC and IDA conditions and is able to receive Bank support again. In addition, the new joint Bank-IMF Debt Sustainability analysis (DSA) allowed the country to contract loans with a 35 percent conditionality as opposed to the previous 50 percent. On the political front, a new majority government was elected in late 2014 formed by a single party, which gives more stability and support to the reform program.

II. Proposed Objective(s)

The purpose of operation is to assist the country to: (i) strengthen economic governance, with a focus on improving the transparency, monitoring and accountability of public resources, improving the management and reporting of statistics, promoting fiscal stability, and strengthening public debt management; and (ii) support broad-based growth by improving the investment climate, with a focus on simplifying business regulations and reducing the cost of international trade, and by promoting economic diversification.

III. Preliminary Description

The DPO is supporting the government in bolstering macroeconomic stability and strengthening the foundation for private sector growth. Policy actions and support given throughout the preparation of the project has catered to government needs and priorities on better macroeconomic management such as on developing a debt strategy and laying the foundations for private sector growth with the support for the policy framework and the actual deployment for the single window for international trade and business registration.

The first pillar is structured around the support to strengthen economic governance, ranging from better budget preparation and comprehensiveness, improved debt management practices and increased accountability through the requirement to prepare and publish the Government general accounts. The prior actions for this pillars are listed below:

Prior Action #1: *The Recipient has further improved the comprehensiveness of the 2015 budget documentation by including an explanation of budget implications of new public policy initiatives, with estimates of the budgetary impact of all major revenue and expenditure changes.*

Prior Action #2: *The Recipient's Council of Ministers has: (i) submitted to the Court of Accounts the financial statements of the State for 2013 (Conta Geral Do Estado); and (ii) has published them in the Recipient's public portal.*

Prior Action #3: *The Council of Ministers has adopted a medium-term debt management strategy.*

Prior Action #4: *The Council of Ministers has enacted a Decree that establishes regulations and procedures to issue Treasury bills and the Central Bank has made the first issuance of Bilhetes do Tesouro.*

Prior Action #5: *The Recipient has completed and published the results of the population and housing census.*

The second pillar is structured around the support to private sector development through reforms to improve the business environment such as single window for opening new businesses and foreign trade transactions, as well as support to the tourism and fishing industry. The prior actions for this pillars are listed below:

Prior Action #6: *The Recipient has enacted a Decree mandating the routine and systematic public disclosure of all new fishing agreements and of all fishing licenses no later than one month after the signature of the relevant agreement or the issuance of the relevant license.*

Prior Action #7: *The Recipient has made operational an e-Registry of business permits covering all key licenses and procedures that makes this information publically accessible online.*

Prior Action #8: *The Recipient has instituted and made operational the single window for foreign trade.*

Prior Action #9: *The Recipient has established and has been processing visas through its established electronic visa system.*

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

Policies supported by this DPO series are expected to generate neutral to positive poverty and social impacts in the medium-term. Better PFM and debt management practices will allow for a more stable and solid macroeconomic environment, shunning away shocks that normally hit disproportionately the poor. Debt management policies will underpin debt sustainability, help to avoid over-indebtedness, which would put a pressure on the budget, displacing pro-poor expenditures. Better PFM practices will also permit increased oversight on public finances, such as in the submission and disclose of the government accounts. This will be of redoubled importance in the case oil drillings proved to be successful. The second pillar will support poverty reduction by improving the business environment which in turn will generate jobs and income opportunity for the population of STP. Lastly, the resources provided by this operation will furnish the government crucial fiscal space, allowing it to maintain expenditures on essential services while pursuing the longer-term poverty-reduction objectives set forth in the PRSP-II.

Environment Aspects

Policy actions supported by the DPO series are unlikely to have significant impacts on the country's environment, forests, or other natural resources. The conclusion of an environmental screening of the proposed reforms, undertaken as per the requirements of OP 8.60 and using the Bank's standard Toolkit for DPOs,¹ determined that the reforms generally fall within the "Blue" category, meaning that their environmental effects will be modest or negligible. The policies supported by the DPO primarily address institutional reforms. As described below the focus of the reforms is on transparency and accountability in the use of public resources, improvements in the efficiency of public expenditures, and enhancements to the investment climate.

V. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
IDA Grant	4
Borrower/Recipient	
IBRD	
Others (specify)	
	Total

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¹ This environment assessment used the 2008 Framework "Assessing the Environmental, Forest, and other Natural Resource Aspects of Development Lending – A World Bank Toolkit."