



SAO TOME AND PRINCIPE CAS COMPLETION REPORT REVIEW

The CAS Completion Report (CASCRC) provides an internally consistent evaluation of the Bank's assistance in Sao Tome and Principe during the period FY01-05. It acknowledges that the basis for the CAS formulation was weak and that the Bank's strategy was not adequately aligned to the country's development situation. For each of the CAS objectives, it examines progress, reviews the Bank's lending and non-lending activities and discusses results in the light of available evidence. This allows the CASCRC to draw lessons from implementation of the CAS, lessons with which OED agrees.

Actual Bank lending in support of the objectives of the FY01-05 CAS was lower than envisaged in the CAS, but it adhered broadly to plans in its strategy, composition and objectives. Most of the planned non-lending activities were carried out and, starting from a small base, a fairly large amount of economic and sector work was undertaken. Implementation was, however, weak and in most cases the specific CAS objectives were not achieved. Bank assistance was relatively more effective in helping to improve domestic resource mobilization. In most other areas, outcomes were unsatisfactory, and overall outcome is rated moderately unsatisfactory.

Introduction

1. The stated goal of the FY01-05 CAS was to support the Government's efforts in "(1) sustaining strong economic growth to raise incomes and reduce poverty; and (2) broadening access to social services and improving their quality." The CAS did not, however, make explicit the intermediary objectives which the Bank's assistance was designed to influence, and with a few exceptions, lacked monitoring indicators by which to measure progress and outcomes. Moreover, the CAS was not built on a solid analytical base. Owing to the Bank's limited engagement in Sao Tome and Principe (STP), little formal economic and sector work (ESW) had been undertaken in the decade preceding the CAS. Consequently the Bank lacked an important analytic dimension by which to formulate its strategy.

2. Actual Bank commitments in support of the CAS objectives, of which the Public Resource Management Credit (PRMC) and its technical assistance component (PRM-TA) were the centerpiece, amounted to US\$21.5 million, lower than planned (Table 1). However, the lending program broadly adhered to plans in its strategy, sectoral composition, and objectives.

3. The knowledge base for Bank operations improved during the CAS period. By the time of Board consideration of the CAS several studies were ongoing, covering a broad range of relevant areas, and most of them were completed by FY01. The CAS did not envisage any additional analytical work beyond these studies; however, subsequently, several major reports were prepared including a Country Economic Memorandum (CEM), a Poverty Diagnostic and Gender Assessment. Others are ongoing, including the Diagnostic Trade Integration study. The CAS Completion Report (CASCRC) notes that while the more recent ESW has been of relatively high quality and effective in guiding

policy discussion, in the earlier part of the period the impact of ESW had been limited due to inadequate follow-up from the Bank and lack of government ownership.

Table 1: FY01-05 – Proposed versus Actual Program

Approval	Project	Planned	Status	Gross Commitment	Purpose	
					Obj. I	Obj. II
<i>New Lending</i>						
FY01	Public Resource Management Credit (PRMC)	7.5	Closed (FY04)	7.5	x	
	Public Resource Management TA (PRMTA)	2.5	Closed (FY05)	2.5	x	
FY03	Social Sector Support	8.0	Slipped to FY05	6.5		X
FY05	Governance Capacity Building (Petroleum Support)	10.0	Ongoing	5.0	x	
Total		28.0		21.5		

Note/ Objective I: sustaining strong economic growth to raise incomes and reduce poverty; Objective II: broadening access to social services and improving their quality.

CAS Implementation by Objectives¹

Objective I: Sustaining Strong Economic Growth to Raise Incomes and Reduce Poverty

4. Between 2000 and 2003 real GDP grew at an average rate of 3.9 percent per annum, and 1.5 percent per annum in per capita terms, with construction and services making the largest contribution to growth.² Inflation averaged 9.8 percent per year. Contribution from the agriculture sector, where the poor are concentrated, was modest, however. Growth weakened in 2004, with inflation rising to 12.8 percent and the overall fiscal deficit widening to a projected 26 percent of GDP. More recent data on poverty are not available, but the 2000/01 household budget survey suggests that poverty remains widespread, at 54 percent of the population.

5. The CAS called for progress in six broad areas in support of the growth and poverty reduction objective. Progress was made toward the objective of *improved domestic resource mobilization* although most of the performance indicators were not fully met.³ The ratio of tax revenue to GDP increased from 16.1 percent in 2000 to 19.5 percent in 2002 and to an estimated 20.5 percent in 2003, but this was below its target of 22 percent. The increase in revenue collection was to lead to a more sustainable fiscal position but fiscal consolidation was not achieved. Reduction in ad hoc tax exemptions helped improve transparency, however.

6. Progress toward the objective of *restructuring current expenditure* was mixed. The first performance indicator, to limit primary spending⁴ to 18 percent of GDP by 2002, was not achieved. Primary spending remains high, at about 37 percent of GDP in 2002 compared

¹ Discussion in this section draws on ICR reviews.

² This is also helping to reduce the dependence of the economy on the cocoa sector.

³ The CASC notes (para.17) that these indicators were introduced retroactively by the PRMC supervision team.

⁴ Excluding interest obligations and foreign-financed capital expenditures.

with 26 percent in 2000. The second indicator, increased share of total expenditure allocated to health and education, had no specific target but, owing to the HIPC initiative, the share of public expenditures allocated to the social sectors increased from 5 percent in 2001 to 7.7 percent in 2003. However, it is difficult to assess from the data the extent to which the poverty focus of government expenditure has improved. Civil service reform, the third indicator, was unsuccessful. Fewer civil servants than planned were retrenched and at a cost far higher than foreseen.

7. *Rationalization of the public enterprise sector and continued strengthening of the incentive framework* were seen as necessary to correct market distortions and create the conditions for private sector development. Progress in these areas was mixed. Some enterprises have been liquidated but the privatization of major public enterprises, including the national airline company and the power and water supply enterprise, has not yet occurred;⁵ and, except for the telecommunication sector, no significant progress was made in strengthening the legal and regulatory framework for private investment. A plan for the rationalization of the land tenure system, seen as essential for broad-based growth, was not adopted;⁶ and the rural financial system was not strengthened.

8. Limited progress was also made toward the objective of *increasing and diversifying agriculture production*. Agricultural output grew at the average rate of 2.8 percent per annum during 2000-03, barely above the population growth of 2.5 percent, and lower than the average of 4 percent in 1998-99. Some progress was made on land redistribution, with 27,000 ha redistributed (compared to the target of 20,000) and the number of estate laborers was reduced. Most other intermediary objectives—private sector participation, increased investments in the cocoa sector, effective marketing system, strengthened support services, rural road improvements, and increased productivity—were not achieved. Partly as a result of the lack of complementary measures and low prices, under-utilization and abandonment of the distributed land increased. These shortcomings can also be attributed to the fact that anticipated programs that were to be financed by other donors did not materialize.

9. Toward the end of the CAS period, attention was devoted to *building financial and budgetary capacity in the oil and judiciary sectors*. With Bank support, the first round of bidding was completed, a National Petroleum Agency (NPA) was established, and the Oil Revenue Management Law, which sets out the policy framework for the management of oil revenues, was finalized. But it is too early to assess the impact of these results.

10. Lending in support of the economic growth and poverty reduction objective included the PRMC (FY01) and PRM-TA (FY01), and the then ongoing Agriculture Privatization and Smallholder Development Project (FY92). The Governance Capacity Building TA project (FY05) was recently added to the program to help support implementation of the PRSP, strengthen public expenditure management, and build

⁵ After further review by Bank-financed TA, privatization of the power and water supply enterprise was postponed by mutual agreement between the Bank and the Government.

⁶ More than 90 percent of the land continues to be in the hands of the State.

capacity for an efficient management of the emerging oil sector. OED assessed the outcome under the domestic resource mobilization component of the PRMC as moderately satisfactory but, in light of the limited progress in other areas of reforms, rated the overall outcome of the credit unsatisfactory, with negligible institutional development impact and highly unlikely sustainability. OED also rated the outcome of the Agriculture Privatization and Smallholder Development Project unsatisfactory with negligible institutional development impact and highly unlikely sustainability. At the request of the Government, the focus of the PRM-TA was re-oriented toward strengthening capacity to manage the anticipated oil resources. As the ICR for the PRM-TA is still under preparation, the project has not yet been reviewed by OED.

11. The completed studies on agriculture policy, budget planning and management, civil service reform and public utilities reform were relevant to the growth objective. This analytical work has not been independently reviewed but its impact does not seem to have been strong in light of the limited achievements in these areas. The recently completed CEM and Poverty Diagnostic, and the ongoing Diagnostic Trade Integration Study have undoubtedly helped strengthen the knowledge base. But because the Study Fund⁷ was not created as planned, studies relating to issues such as private sector development and diversification of agriculture production, were not carried out. This was unfortunate because progress has been slow in these areas.

Objective II: Improve Access and Quality of Social Services

12. Data on STP's social indicators are scarce and so assessment of progress is difficult. STP appears in the 2004 UNDP Human Development Report as a medium human development country, ranked 123 out of a total of 177 countries in the human development index (HDI). The limited available data show that while STP's education and health indicators compare favorably with the averages for Sub-Saharan Africa (SSA), they are in great need of further improvement.

13. However, progress was mixed with respect to the *human resource development* objectives in the CAS. The primary performance indicators in education, to raise the gross primary enrolment rate to 90 percent in 2002 and achieve universal enrolment by 2005, do not appear to have been met although primary enrolment may have increased. Net primary completion was reported at 68.5 percent in 2003.⁸ In health some progress was made in reducing malaria fatality rate among under-five children, although the number of reported infection cases increased. In other areas, which matter for both quality and access to services—such as textbooks and supply of education materials, construction and rehabilitation of health facilities, and supply and distribution of essential drugs—little progress was made.

⁷ A Study Fund was initially planned under the PRM-TA to help support policy reform studies, sectoral strategies and simulation models.

⁸ See Sao Tome and Principe: A Country Economic Memorandum. World Bank, 2004.

14. Lending in support of the human development objectives consisted of the closed Health and Education Project (FY01) and the ongoing Social Sector Support Project (FY04). Implementation of the closed project had many substantial shortcomings and its outcome was rated moderately unsatisfactory by OED, with modest institutional development impact and sustainability likely only for those activities that were implemented with some success. It is too early to judge the impact of the Social Sector Support Project, which is designed to support STP's progress toward the Millennium Development Goals (MDGs).

15. Non-lending activities mentioned in the CAS included the ongoing Public Expenditure Reviews (PERs) in education and health which were, however, not completed. Several social studies, a Gender Assessment and Poverty Diagnostic, all completed recently, appear to be of high quality and are likely to provide a strong analytical base in guiding dialogue with the Authorities.

Overall OED Assessment

16. Relative to the economic stagnation through much of the 1990s, STP's economic performance over the FY01-05 CAS period represents a notable improvement. The rebound in GDP growth was a significant outcome even though per capita growth is still low. On balance, however, many of the CAS objectives were not achieved, impeded in part by political turmoil, such as the coup attempt in 2003. But Bank assistance was far too ambitious in relation to the resources allocated to the country. Implementation was weak with inadequate supervision/follow-up in many cases. In most areas outcomes have been unsatisfactory including, in particular, agriculture growth and rural development, essential for increasing the incomes of the poor (see para. 7 on the failure to carry out land tenure reform). There has, however, been some success, such as in telecommunication reform, as a result of the Bank's non-lending assistance. Based on all of these results the outcome of Bank assistance during this period was moderately unsatisfactory.

Assessment of the CAS Completion Report

17. The CASCRC provides an internally consistent evaluation of the Bank's assistance in STP during FY01-05. It discusses the strengths and weaknesses of the CAS and the relevance of the Bank's strategy in relation to STP's development situation. For each of the CAS objectives, progress is examined, the Bank's lending and non-lending activities are reviewed, and results are discussed in the light of available evidence. This allows the CASCRC to draw lessons from the implementation of the CAS, which are reflected in the new CAS and with which OED agrees. However, the evaluation of outcomes is constrained, in some cases, by the lack of indicators and data.

Findings and Lessons

18. Improvements in macroeconomic policies, supported by favorable external conditions, contributed to the growth recovery in STP during the FY01-05 period. These policies, however, weakened toward the end of the period with inflation and the fiscal



deficit rising, while structural reforms in key areas progressed slowly, giving mixed signals about the sustainability of the recovery.

19. An important lesson, one that is also highlighted in the CASCRC, is that the lack of deep and sustained Bank involvement in STP contributed strongly to the limited progress toward the CAS objectives. Through much of the CAS period, the Bank pursued wide-ranging objectives with few resources, and was still building the knowledge base that was needed to constructively engage the Authorities and build consensus around the reform program.

20. The Government has prepared a full PRSP (FY05) and, in light of the limited progress made in the previous CAS period, the CASCRC recommends development policy grants to deliver Bank assistance in support of the Government's reforms. Experience suggests that this will demand far more consistent and sustained Bank involvement in STP than has been the case in the past which, in turn, will require solid ESW and better monitoring and evaluation arrangements. The fact that the country is expected to experience a large increase in revenues from oil in the future, initially in the form of signature bonuses, will compound the challenge for the Bank to engage the country in a dialogue. It will be most important to ensure that once oil revenues become available they are used well. Given the country's small size, delivering this assistance while engaging the Authorities is likely to entail high transaction costs. The CASCRC clearly recognizes this issue, and OED agrees with its call for creative thinking on how to improve the effectiveness of the Bank to help address the unique development challenges facing small states such as STP.

Annex Table 1: Sao Tome and Principe - Economic and Social Indicators, 1998-2004

Series Name	San Tome & Principe							Average				
	1998	1999	2000	2001	2002	2003	2004	Sao Tome	Sub-Sah. Africa	Seychelles	Cape Verde	Guinea-Bissau
GDP growth (annual %)	2.5	2.5	3	4	4.1	4.5	3.8*	3.5	3.3	0.9	6.1	-2.3
GNI per capita, Atlas method (current US\$)	270	270	290	290	300	320	..	283.3	485.0	7256.0	1321.0	143.3
GDP per capita growth (annual %)	0.33	0.38	0.91	1.93	2.07	2.5	1.3	1.3	0.9	-0.3	3.3	-5.1
Agriculture, value added (% of GDP)	21.31	20.55	20.47	20	20	19	16	18.9	18.8	3.0	10.3	62.9
Exports of goods and services (% of GDP)	29.67	35	33.06	36.29	43.72	42.06	39	35.0	30.5	73.3	27.6	27.1
Imports of goods and services (% of GDP)	72.47	84.3	82.57	93.26	94.6	111.16	105	86.1	31.8	81.0	63.0	47.7
Industry, value added (% of GDP)	16.67	16.96	17.05	17	17	18	13	16.0	30.2	30.0	18.1	12.7
Services, etc., value added (% of GDP)	62.02	62.49	62.48	63	63	63	71	65.1	50.7	67.1	71.6	24.6
Current account balance (% of GDP)	-25.65	-34.68	-41.15	-44.75	-45.34	..	..	-37.8	..	-14.5	-11.2	-3.5
Total Debt Service (% of exports of goods and services)	32.19	25.98	25.13	23.4	31.81	..	..	27.5	13.1	9.0	7.7	20.0
External debt (% of GNI)	717.4	756.46	724.29	722.38	717.92	..	..	718.2	71.0	67.5	60.2	398.8
Gross domestic savings (% of GDP)	-7.01	-10.3	-6.04	-27.07	-24.28	-37.9	-18	-13.4	16.8	22.9	-15.3	-6.6
IBRD loans and IDA credits (PPG DOD, current million US\$)	61.3	60.7	58.9	61	65.6	..	..	63.2	38022.5	3.0	114.0	235.6
Expenditure, total (% of GDP)	103.88	108.31	105.72	104.8	107.97	..	..	..	25.0	..	..	..
Overall budget balance, excluding grants (% of GDP)	..	..	..	..	..	..	..	..	..	..	..	..
Overall budget balance, including grants (% of GDP)	..	..	..	..	..	..	..	..	-3.0	..	..	..
Inflation, consumer prices (annual %)	..	..	..	..	..	..	..	..	..	4.0	2.2	2.7
Immunization, DPT (% of children ages 12-23 months)	73	77	82	92	92	..	..	73.2	55.3	96.8	72.0	57.7
Improved sanitation facilities (% of population with access)	..	..	95	..	..	..	..	..	36.0	..	..	..
Improved water source (% of population with access)	..	..	91	..	..	..	..	79.0	58.0	87.0	80.0	59.0
Life expectancy at birth, total (years)	..	..	65.05	..	65.79	..	66	66.0	47.0	73.0	69.0	45.5
Mortality rate, infant (per 1,000 live births)	..	..	..	..	75	..	..	75.0	101.0	12.0	28.0	129.0
Population growth (annual %)	2.14	2.09	2.05	2.01	1.97	1.93	2	2.0	2.4	1.3	2.9	3.0
Population, total (in thousands)	142	145	148	151	154	157	160.6	151.1	635107.4	81.8	446.5	1409.3
School enrollment, preprimary (% gross)	33.52	33.05	33.04	33.85	..	..	..	25.6	13.0	103.0	56.3	3.0
School enrollment, primary (% gross)	85.46	..	..	97.13	..	..	..	119.3	85.2	115.4	123.6	70.0
School enrollment, secondary (% gross)	..	..	..	39.17	..	..	..	39.0	26.0	112.2	66.0	18.0
Urban population (% of total)	37.51	37.57	37.63	37.69	37.75	37.81	50	47.6	33.4	64.6	63.3	32.4

*Figure from CASCI.

Source: WB SIMA as of April 12, 2005.

Annex Table 2: OED Project Ratings (Exit FY98-04)

Exit FY1999-2004

<i>Exit FY</i>	<i>Proj ID</i>	<i>Total Evaluated (No)</i>	<i>Net Commitment</i>	<i>Outcome</i>	<i>Sustain-ability</i>	<i>Inst Dev Impact</i>
FY01	AGRIC SECTOR	1	10.1	Unsat.	Highly Unlikely	Negligible
FY04	ST - Public Resource Management	1	5.3	Unsat.	Likely	Modest
FY01	HEALTH & EDUCATION	1	11.0	Mod. Unsat.	Likely	Modest

Note: Unsat. = Unsatisfactory; Mod. Unsat.= Moderately Unsatisfactory.

Exit FY 1999-2004

<i>Region</i>	<i>Total Evaluated (\$M)</i>	<i>Total Evaluated (No)</i>	<i>Outcome % Sat (No)</i>	<i>Inst Dev Impact % Subst (No)</i>	<i>Sust. % Likely (No)</i>
Sao Tome	26.42	3	0.00	0.00	66.67
AFR	13,427.46	397	63.10	37.91	52.37
World Bank	115,230.58	1,561	75.07	47.72	70.20

Annex Table 3: Sao Tome Principe—IBR/IDA Net Disbursements and Charges, 1999-2005
(in USD thousands)

FY	Gross Disbursement	Repayment	Net Disbursement	Interest	Fees	Net Transfer
1999	377.58	-	377.58	42.36	-	335.22
2000	1,026.71	331.59	695.12	444.33	-	250.79
2001	4,999.49	502.98	4,496.50	428.66	-	4,067.84
2002	1,577.17	812.87	764.30	451.00	-	313.31
2003	975.33	1,075.92	(100.59)	493.83	-	(594.42)
2004	3,162.05	1,135.46	2,026.59	501.42	15.50	1,525.16
2005	1,945.94	695.28	1,250.66	332.50	5.66	918.16
Total	14,064.27	4,554.10	9,510.17	2,694.10	21.16	6,816.07

Source: WB Controller's website as of April 12, 2005.

Annex Table 4: Sao Tome Principe—Analytical and Advisory Work, 1999-2005

Document Type	Document Title	Date	Report no.
Poverty Reduction Strategy Paper	Interim Poverty Reduction Strategy Paper & Assessment	04/12/2000	20311
Country Assistance Strategy Document	Country Assistance Strategy	10/10/2000	21031
Sector Report	Country Gender Assessment	06/30/2004	29300
Country Economic Memorandum	STP: Country Economic Memorandum	09/01/2004	29681
Poverty Reduction Strategy Paper	PRSP and Joint Assesment	03/03/2005	31276

Source: WB Imagebank as of April 13, 2005.

Annex Table 5: Sao Tome Principe—Millennium Development Goals

	1990	1995	2001	2002
1. Eradicate extreme poverty and hunger	2015 target = halve 1990 \$1 a day poverty and malnutrition rates			
Population below \$1 a day (%)	..	33.0 (1994)	..	..
Poverty gap at \$1 a day (%)	..	..	..	..
Percentage share of income or consumption held by poorest 20%	..	..	..	..
Prevalence of child malnutrition (% of children under 5)	..	17.0 (1999)	12.9	..
Population below minimum level of dietary energy consumption (%)	..	..	..	..
2. Achieve universal primary education	2015 target = net enrollment to 100			
Net primary enrollment ratio (% of relevant age group)	..	..	97.1	..
Percentage of cohort reaching grade 5 (%)	..	..	61.5	..
Youth literacy rate (% ages 15-24)	..	..	..	..
3. Promote gender equality	2005 target = education ratio to 100			
Ratio of girls to boys in primary and secondary education (%)	..	..	92.1	..
Ratio of young literate females to males (% ages 15-24)	..	..	..	..
Share of women employed in the nonagricultural sector (%)	..	..	..	..
Proportion of seats held by women in national parliament (%)	..	7.0	..	..
4. Reduce child mortality	2015 target = reduce 1990 under 5 mortality by two-thirds			
Under 5 mortality rate (per 1,000)	..	..	..	118.0
Infant mortality rate (per 1,000 live births)	..	..	..	75.0
Immunization, measles (% of children under 12 months)	71.0	74.0	75.0	85.0
5. Improve maternal health	2015 target = reduce 1990 maternal mortality by three-fourths			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	..
Births attended by skilled health staff (% of total)	..	..	78.6	..
6. Combat HIV/AIDS, malaria and other diseases	2015 target = halt, and begin to reverse, AIDS, etc.			
Prevalence of HIV, female (% ages 15-24)	..	..	..	..
Contraceptive prevalence rate (% of women ages 15-49)	..	..	..	..
Number of children orphaned by HIV/AIDS	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	..	..	132	130.0
Tuberculosis cases detected under DOTS (%)	..	..	..	..
7. Ensure environmental sustainability	2015 target = various (see notes)			
Forest area (% of total land area)	28.1	..	28.1	..
Nationally protected areas (% of total land area)	..	0.0	0.0	..
GDP per unit of energy use (PPP \$ per kg oil equivalent)	..	..	..	..
CO2 emissions (metric tons per capita)	0.6	0.6	0.6	..
Access to an improved water source (% of population)	..	..	..	..
Access to improved sanitation (% of population)	..	..	..	..
Access to secure tenure (% of population)	..	..	..	..
8. Develop a Global Partnership for Development	2015 target = various (see notes)			
Youth unemployment rate (% of total labor force ages 15-24)	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	19.2	19.7	36.3	54.4
Personal computers (per 1,000 people)	..	..	..	..
General indicators				
Population	115000	132000	151000	154000
Gross national income (\$)	49.5 million	44.3 million	44.5 million	45.5 million
GNI per capita (\$)	430	340	290	300
Adult literacy rate (% of people ages 15 and over)	..	..	..	..
Total fertility rate (births per woman)	5.1	4.8	4.5	4.4
Life expectancy at birth (years)	62.2	63.6	65.1	65.8
Aid (% of GNI)	104.2	210.6	88.4	56
External debt (% of GNI)	285.9	611.8	722.4	717.9
Investment (% of GDP)	15.6	68.1	29.9	26.6
Trade (% of GDP)	86.9	120.7	129.5	138.3

Source: World Development Indicators database, April 2004.

Note: In some cases the data are for earlier or later years than those stated.

Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8 targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.