Statement by Girmai Abraham  
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**Sao Tome and Principe CAS**  

The Democratic Republic of Sao Tome and Principe, Africa's second smallest nation, is confronted by almost all the development challenges that characterize a small island economy, with few of the advantages that are often associated with such countries. As such, while it is forced to contend with the limited human resources, narrow resource base and vulnerability to external shocks that are a consequence of its remote location, it lacks the tourist industry that often keeps small islands afloat economically. The result is extreme poverty for most of the 145,000 inhabitants of the island, and economic prospects that appear bleak, at least for the foreseeable future.

Institutional and human capacity limitations have helped to perpetuate the low level of development of these islands, and have prevented the country from taking advantage of the immense potential that the pristine environment and rich biodiversity offer for ecotourism. They have also contributed to a decline in cocoa exports, the country's mainstay, and prevented it from broadening its export base. A sharp deterioration in the country's social indicators is another consequence of its limited human resource base, and health and educational standards, in particular, have dipped below the regional average.

Given these circumstances, it is not surprising that Sao Tome and Principe has been heavily dependent on external aid -- for up to 95% of its public investment program, according to the CAS document. Taken together with its heavy dependence on cocoa for its export earnings and its high indebtedness, Sao Tome is highly vulnerable to the vagaries of the external environment -- both in terms of fluctuating commodity prices and the external aid climate. In recognition of this vulnerability, the government's decision to strengthen domestic resource mobilization, nurture the private sector and attract foreign direct investment is entirely appropriate and deserves IDA support. However, macroeconomic and structural reforms are important prerequisites, and the government has rightly given these areas the highest priority.
The CAS document makes several hints about preparations for an impending oil windfall in Sao Tome and Principe but never treats this in any detail. We would be interested in knowing how much exploration has been done, what proven resources have been discovered, and how soon the country can expect to begin to benefit from this important resource. This is a particularly important issue because oil windfalls do not always translate into improved conditions for the people of a country, especially where the country faces severe structural and capacity weaknesses, such as confront Sao Tome and Principe. IDA support at this time will be most crucial if we are to ensure that oil wealth for the nation translates into higher social standards for its people. The document also makes several references to a maritime dispute with Nigeria which could risk distracting the government from fully implementing its reform program. We would appreciate some more background information on this, and what impact it could have on oil production.

The reality for Sao Tome is a continued reliance on aid for the foreseeable future. Much as this perpetuates the country's vulnerabilities, there is very little scope for much else at this point. As such, we should be careful not to have unrealistic expectations about the extent to which private sector development and domestic resource mobilization can reverse the country's fortunes in the medium term. Special attention has to be paid, therefore, to aid coordination so as to ensure that all external aid flows to the country are effectively utilized. Sao Tome and Principe's indebtedness level is already unsustainably high, and the donor community should consider increasing the grant element of its aid to the country so as to minimize the accumulation of further debt. Furthermore, every effort should be made to ensure that Sao Tome quickly becomes eligible for debt relief under the HIPC Initiative. The government's renewed commitment to reform should ensure that its proposed medium-term strategy for 2000-2002 is implemented successfully, and we trust that the country will soon be able to benefit from HIPC debt relief.

The CAS envisages that IDA lending will be limited to the existing portfolio of two projects and very little new lending in the coming years. Economic and Sector Work is also expected to be somewhat limited, "given the limited administrative resources and the need for selectivity." It would seem to us that Sao Tome and Principe has one of the strongest cases for active IDA involvement, and should be able to count on its development partners to assist its efforts to implement its comprehensive program of reform. It appears that the donor community has opted to adopt a "wait and see" approach to the country until the implications of its upcoming elections and possible commencement of oil production begin to unfold, and until the government has demonstrated its commitment to reform. In the meantime, however, the people of Sao Tome and Principe continue to suffer from deteriorating social and economic conditions. We would like to see a more proactive assistance strategy for the country, with new lending for education, health and capacity building. IDA does not necessarily have to take the lead in this endeavor, and we are pleased to note the role being played by the UNDP, AfDB and IFAD, among others. However, we expect to see a more effective donor-coordinating effort from the Bank.

We can endorse the two projects under consideration today. The rationale for considering them as two separate projects instead of one project with two components is a little unclear to us, and perhaps staff can explain this. Together these projects should help the government's efforts
to maintain macroeconomic stability while also improving social standards and reducing poverty through its economic reform program. We wish the authorities well in the implementation of the projects, and of the reform program in general.