Statement by Terrie O’Leary
Date of Meeting: November 2, 2000


**Background**

Sao Tome and Principe is an island nation of 145,000 people which suffers from many of the problems that affect small island states, i.e. remoteness, limited institutional capacity, a narrow resource base, vulnerability to shocks, and entrenched poverty. In 1999, growth averaged 2.4 percent, inflation was 12.6 percent at end-1999 (down from 80 percent at end-1997), and the budget deficit was 3.4 percent of GDP.

Sao Tome and Principe is a HIPC country. Its’ public external debt was US $296 million at end-1999, or 627 percent of GDP. During 1996-1999 Sao Tome and Principe stopped servicing of debt to official bilateral creditors (except France and Cape Verde), which meant that arrears continually increased in that period. In May of this year, however, the Paris Club granted Sao Tome and Principe a rescheduling of its bilateral debt on Naples terms. Since 1999, all non-reschedulable external arrears have been eliminated and all external debts to multilateral institutions serviced. Sao Tome and Principe is expected to reach its HIPC decision point before year-end 2000.

In 1998-99, Sao Tome and Principe implemented a Staff Monitored Program (SMP). Following a decade of decline and deteriorating social indicators, the SMP has helped to strengthen fiscal performance, stabilize the exchange rate, and lower inflation. Several structural policies were implemented including an end to price controls, trade liberalization, civil service reform, and the privatization of some government enterprises.
Country Assistance Strategy

The International Development Agency’s (IDA) strategy for assistance to Sao Tome and Principe is to support the Government in the pursuit of the objectives set out in the interim PRSP: sustaining growth to raise incomes and reduce poverty, and broadening access to social services and improving their quality.

IDA’s lending program for Sao Tome and Principe remains limited and is likely to continue as in the past with one project expected to be financed every two to three years. The US $7.5 million Public Management Reform Credit and its corresponding US $2.5 million Technical Assistance Program should help to remedy some institutional and economic management capacity problems.

Public Resource Management Credit (PRMC) and Public Resource Management Technical Assistance Project (PRMTA)

The PRMC and PRMTA would together provide US $11 million (US $7.5 million and US $2.5 million, respectively) for economic reforms in Sao Tome and Principe.

The PRMC reforms have three objectives: to improve domestic resource administration (via improvements to the tax system, particularly tax administration), to strengthen public expenditure management by restructuring public expenditures (particularly the civil service wage bill), and to continue to implement a program of reforms and privatization for public enterprises.

The PRMTA is to finance policy reform studies, research on sectoral strategies, and simulation models. This work will be needed towards the preparation of the full PRSP.

The PRMC will be disbursed in three tranches: two core tranches and one floating tranche. The first core tranche will be disbursed when the credit is approved; the second tranche will be released once certain conditionalities have been met in approximately one year’s time. The floating tranche is expected to be released by February 2002, but in the event that performance is unsatisfactory, it will be cancelled.

Comments

We agree with the goals of the CAS, and with the way in they are to be implemented. We would underline the importance of good governance and institutional reforms to Sao Tome and Principe’s economic development. Much needed private sector development will not occur unless public sector management and transparency continue to improve.

We also emphasize the importance of poverty reduction for Sao Tome and Principe. Recent growth has not yet been translated into a higher standard of living. The social sector needs in this country are enormous and must be viewed as the underlying reason for all other development activities.
We have in the past spoken of the affects that a large number policy actions have brought to bear on small nations, Sao Tome and Principe not being an exemption. We have stressed that in such cases the focus should be on the quality of conditionalities rather than the quantity.

We support both the PRMC and the PRMTA, however we are concerned with the scope of the planned public service retrenchment and its impact. Our concerns rest mainly with the fact that in most small states, the public sector is the major partner in all economic activity. Its usual overbearing task is that of providing the basic core services, especially health and education to its people. This is especially prominent in cases where the private sector is not sufficiently developed to provide such services. In 1999 the civil service wage bill made up 48 percent of current (non-interest) government expenditures. Reducing the size of the wage bill is important but the environment in which reform is taking place must be considered in the discussion of alternatives for the provision of core public services. While the necessity for reform is obvious, we worry about the impact the reforms may have on ordinary Sao Tomeans given the fact that so many of them rely on the government for employment. We understand however that the retrenchment of the 532 civil servants will be done in a phased manner and that the government will provide training as well as leave packages for them through financing by the European Union.

We are pleased to see the high level of government ownership of this program, and the transparency provisions (regular audit of the Central Bank and commercial bank accounts into which project funds flow) to ensure productive use of IDA resources.