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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED

PUBLIC RESOURCE MANAGEMENT AND GOVERNANCE REFORM
DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 2.7 MILLION
(US$4.2 MILLION EQUIVALENT)

TO THE

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

April 20, 2011

Poverty Reduction and Economic Management AFTP1
Country Department AFCS2
Africa Region

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

Government Fiscal Year
January 1–December 31

Currency Equivalents
(US$1 = 17,981 Dobras as of December 31, 2010)

Currency Unit
Dobra

Weights and Measures
Metric System

ABBREVIATION AND ACRONYMS

AfDB	African Development Bank
BCSTP	Banco Central de São Tomé e Príncipe
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Report
DeMPA	Debt Management and Performance Assessment
DSA	Debt Sustainability Analysis
DTIS	Diagnostic Trade Integration Study
DPO	Development Policy Operation
EEZ	Exclusive Economic Zone
EITI	Extractive Industries Transparency Initiative
EMAE	Empresa de Agua e Electricidade (Water and Electricity Company)
ENCO	Empresa Nacional de Petróleo (National Oil Supplier)
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion and Results Report
IDA	International Development Association
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standards
IGF	Inspecção Geral de Finanças (General Inspection of Finances)
IMF	International Monetary Fund
INE	National Statistical Institute
IFRS	International Financial Reporting Standards
ISN	Interim Strategy Note
JDA	Joint Development Agency
JDZ	Joint Development Zone
JSAN	Joint Staff Assessment Note
LDP	Letter of Development Policy
MCC	Millennium Challenge Corporation

MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MFIC	Ministry of Finance and International Cooperation
MIGA	Multilateral Investment Guarantee Agency
MoU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
NOA	National Oil Account
NPA	National Petroleum Agency
ODA	Official Development Assistance
ORML	Oil Revenue Management Law
PAD	Public Accounting Directorate
PEFA	Public Expenditure and Financial Accountability
PEMFAR	Public Expenditure Management and Financial Accountability Review
PER	Public Expenditure Review
PFM	Public Finance Management
PNRMD	Public and Natural Resource Management Development
PRGF	Poverty Reduction and Growth Facility
PRMG	Public Resource Management and Governance Reform
PRSP	Poverty Reduction Strategic Paper
SDR	Special Drawing Rights
SOE	State-Owned Enterprise
STP	Democratic Republic of São Tomé and Príncipe
UNDP	United Nations Development Program
WFP	World Food Program
WTO	World Trade Organization

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THE DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE
PUBLIC RESOURCE MANAGEMENT AND GOVERNANCE REFORM
DEVELOPMENT POLICY GRANT

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PROGRAM DOCUMENT

Date: 04/20/2011 Country: São Tome and Príncipe Operation: Public Resource Management and Governance Reform (PRMG) Development Policy Grant Operation ID: P123374 Team Leader: Marco Hernandez Sector Manager/Director: John Panzer/Marcelo Giugale Acting Country Director: Olivier Godron	Lending Instrument: Development Policy Operation Board Approval Date: May 19, 2011 Effectiveness: June 30, 2011 Closing Date: February 28, 2011 Sectors: General public administration sector (100%). Themes: Public expenditure, financial management and procurement (P); Other public sector governance (P). Environmental screening category: N.A.

Special Development Policy Lending:	[ ] Yes	[X] No
Crisis or Post-Conflict Situation (exception to OP8.60):	[] Yes	[X] No
Programmatic:	[] Yes	[X] No
Deferred Drawdown Option:	[ ] Yes	[X] No
Subnational Lending:	[ ] Yes	[X] No

Operation Financing Data
[ ] IBRD Loan [] IDA Credit [X] Grant [ ] Other: Total Bank Financing: US$4.2 million equivalent Proposed terms: Grant

Tranche Release Information			
List binding conditions as stated in the **Legal Agreement**.			
Tranche 1	**Description** No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the appropriateness of the Recipient's macroeconomic policy framework.	**Amount** US$4,200,000 equivalent	**Expected Release Date** 07/25/2011

Triggers
The Recipient's Council of Ministers has published on the Recipient's Public Portal a bill of law that approves the 2011 budget in preparation for its submission to the National Assembly.
The Recipient's Council of Ministers has presented to the National Assembly the bill of law for the 2011 budget specifying: (a) the expenditure items that correspond to poverty reduction priorities in social sectors; and (b) that the share of expenditures that correspond to poverty reduction priorities is at least 35 percent of total expenditures (compared to an average of 30 percent for the 2008-2010 period).
The Recipient's Public Accounting Directorate is operational, as evidenced by (a) the recruitment of a Director of Public Accounting and Department Heads for Accounting Norms and Procedures and for Monitoring and Analysis; and (b) the allocation of a permanent operational budget of at least 180 million Dobras (about US$10,000) as per the provisions in the Recipient's 2011 Budget Law.
The Recipient's Ministry of Finance and International Cooperation has: (a) carried out and completed the inventory of existing mobile public assets for at least 90 out of the existing 120 ministerial entities that have mobile assets; (b) published this inventory in its public portal; and (c) completed and approved a manual of operations to manage the Recipient's mobile public assets.
The Recipient's Council of Ministers has submitted to the Presidency a decree regulating performance-based assessments of public enterprises.
The Recipient's Council of Ministers has submitted to the National Assembly a bill of law that regulates Public Debt Management specifying the processes and procedures for contracting new public debt.

The Recipient's Ministry of Finance and International Cooperation: (a) created a Directorate of International Cooperation; and (b) submitted to the donor community a first draft of a Memorandum of Understanding to strengthen aid coordination specifying procedures to: (i) determine which Recipient's institution shall be responsible for managing donor meetings and aid information; (ii) schedule donor meetings; and (iii) report and share information on foreign aid.

Does the operation depart from the CAS in content or other significant respects?	[ ] Yes [X] No
Does the operation require any exceptions from Bank policies?	[ ] Yes [X] No
Have these been approved by Bank management?	[ ] Yes [X] No
Is approval for any policy exception sought from the Board?	[ ] Yes [X] No
Operation Development Objectives: The overall objective of the PRMG DPO is to assist the Government of São Tomé and Príncipe to improve public sector effectiveness. This objective will be achieved by: (i) raising the transparency and accountability in the management of public resources with a focus on improving budget transparency and accountability and the implementation of pro-poor expenditures, improving the management of public accounts and assets, and strengthening the oversight framework for public enterprises; and (ii) promoting sustainable economic policies by strengthening the fiscal policy framework including the management of public debt, and by improving donor coordination.	

PROGRAM SUMMARY

THE DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

PUBLIC RESOURCE MANAGEMENT AND GOVERNANCE REFORM DEVELOPMENT POLICY GRANT

Recipient	Democratic Republic of São Tomé and Príncipe.
Implementing Agency	Ministry of Finance and International Cooperation.
Financing Data	IDA Grant of SDR 2.7 million (US$4.2 million equivalent).
Operation Type	Stand-alone single tranche operation. Standard International Development Agency terms.
Main Policy Areas	The Public Resource Management and Governance Reform (PRMG) development policy operation supports the implementation of the government's reform program, focusing on: (i) improving budget transparency and the implementation of pro-poor expenditures; (iii) strengthening the management of public accounts and assets; (iv) enhancing the oversight and financial controls of public enterprises; (v) strengthening the framework for managing fiscal policy including public debt; and (vi) enhancing donor coordination. This grant also supports the preparation of new PRSP based on an updated poverty profile originating from a 2010 household survey and an analysis of growth diversification options.
Key Outcome Indicators	• The 2011 budget proposal, the approved 2011 Budget Law, as well as the March, June, and September Quarterly Budget Implementation Reports for 2011 are published in the Government's website. • Budget execution of pro-poor expenditures for 2011 is at least 90 percent. • Pilot public accounting statistics for 2011 (up to September 2011) are produced. • By December 31, 2011, the Ministry of Finance and International Cooperation publishes an updated database of mobile public assets for all ministries in the Government's website. • A diagnosis study of the financial practices for at least two State-Owned Enterprises is completed. • As of December 31, 2011, all outstanding public debt is published in the Government's website, and all new public debt is signed by the Minister of Finance. • At least one donor roundtable has been conducted to improve aid harmonization and effectiveness and to update the database on external assistance.
Program Development Objectives and Contribution to the Interim Strategy	The overall objective of the PRMG DPO is to assist the Government of São Tomé and Príncipe to improve public sector effectiveness. This objective will be achieved by: (i) raising the transparency and accountability in the management of public resources with a focus on improving budget transparency and accountability and the implementation of pro-poor expenditures, improving the management of public accounts and assets, and strengthening the oversight framework for public enterprises; and (ii) promoting sustainable economic policies by strengthening the fiscal policy framework including the management of public debt, and by improving donor coordination. The program development objectives are consistent with the objectives of the Interim Strategy Note 2011-2012.

Risks and Risk Mitigation	Four main risks could influence the expected outcomes of the operation: (i) external factors, such as the continuing slow recovery of the global economy, increasing international oil and food prices, and shortfalls in donor support, could have a deterring impact on economic growth, reduce government resources, and affect the Government's ability to conduct its reform program—This risk is being mitigated by the Government's commitment to achieve IMF-ECF targets, which may entail further fiscal policy adjustment through additional expenditure restrain, the acceleration of reforms aimed at improving public revenue management, and strengthened cooperation with donors; (ii) weak human, institutional, and managerial capacity could slow down the pace of implementation—This risk is being mitigated in the design of the project by addressing the findings from an institutional capacity assessment that was carried out, which in particular suggests limiting the number of sectors to be supported by the operation, and through technical assistance financed by the authorities; (iii) political instability could lead to policy reversals or slippages in structural reforms that could affect the Government's ability to maintain a stable macroeconomic environment and focus expenditure on poverty reducing priorities— Early implementation of key policies, bolstered by the strong mandate received by the new Government in the recent legislative elections held in August 2010, and the overall consensus among all political parties on the relevance of the PFM reforms and macroeconomic stability mitigate this risk; and (iv) fiduciary risks related to the use of public funds remain as internal and external control mechanisms remain weak—This risk is being mitigated through the public finance management reforms underway that increase transparency and accountability of public resources. Overall, the project's risks are also being mitigated by the degree of the government ownership of the proposed measures, and its commitment to advance its reform agenda, in particular public finance management, as well as by an active and supportive policy dialogue with Bank and IMF staff. In addition, various donors are providing technical assistance to improve capacity-building and ensure full implementation of reforms in the public financial management area.
Project ID Number	P123374.

THE DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE
PUBLIC RESOURCE MANAGEMENT AND GOVERNANCE REFORM (PRMG) DEVELOPMENT POLICY GRANT

I. INTRODUCTION AND OVERVIEW

1. **This program document proposes a Public Resource Management and Governance Reform (PRMG) Grant in the amount of US$4.2 million (about 2 percent of GDP) to the Democratic Republic of São Tomé and Príncipe (STP).** The proposed grant is a follow up development policy operation (DPO) to the Public and Natural Resource Management and Development (PNRMD) DPO, approved in 2008. The proposed PRMG operation supports the objectives set out in the Government's Program that are in line with STP's poverty reduction strategy. It builds on the achievements and lessons of the PNRMD and other related projects, notably the Capacity Building Technical Assistance (CBTA) project approved in 2004. The PRMG operation is designed as a stand-alone operation, consistent with the approach in the Bank's Interim Strategy Note for 2011-12. The PRMG grant supports the continued progress and consolidation of reforms supported by the preceding PNRMD DPO, as well as an IMF program, and helps to consolidate macroeconomic stability. These sustained reforms could pave the way for programmatic DPO support in the future, should this become part of the Bank's program in the next Country Assistance Strategy.

2. **The proposed PRMG operation supports the Government's effort to mitigate the economic and poverty impact of the global economic slowdown.** The sharp rise in international fuel and food prices in 2008, together with the on-going international economic and financial slowdown, have impacted adversely on STP's economy and fiscal outlook. Growth slowed down from an average of 6 percent over 2001-2008 to 4 percent in 2009, following a sharp decline in FDI, tourism receipts, foreign assistance, and oil signature bonuses that did not materialize. This growth slowdown is challenging efforts to reduce the incidence of poverty which remains widespread and has added fiscal stress. The PRMG grant will provide additional fiscal resources to support and complement, in coordination with other donors, the Government's effort to maintain its public expenditure programs in priority sectors, including education, health, and agriculture, which aim to deliver basic services to the population.

3. **The PRMG operation supports critical public finance management reforms to raise public sector effectiveness on fiscal consolidation.** Uncertainties surrounding the outlook for potential oil production underscore the importance of addressing fiscal policy management. In this context, the Government aims to accelerate fiscal consolidation to maintain macroeconomic stability and support growth. Improved public finance management remains a critical requirement to raise public sector effectiveness when fiscal consolidation limits available resources. Government objectives supported include: (i) raising the transparency and accountability of budget preparation, improving the execution and control of public financial management, strengthening the alignment of public expenditures with poverty reduction activities, and improving the performance of public enterprises; and (ii) promoting sustainable economic policies by strengthening the fiscal policy framework and improving coordination with donors. The PRMG objectives broadly coincide with key recommendations of the Public Expenditure Management and Financial Accountability Review (PEMFAR), the Public Expenditure and Financial Accountability (PEFA) Review, the Debt Management Performance Assessment (DeMPA), and the recently-completed Country Economic Memorandum (CEM).

4. **This operation will further strengthen institutional capacity to implement the PRSP and strengthen coordination with donors.** The new PRSP under preparation focuses on pro-poor growth

and improved results monitoring. To better coordinate its implementation, the authorities, with support of this operation, aim at developing in close collaboration with other donors a coordination framework to foster information exchange around budget implementation and supervision of the PRSP implementation.

II. COUNTRY CONTEXT

5. **São Tomé and Príncipe (STP) is a small and fragile state.** An archipelago of just over 1,000 square kilometers, STP is one of the smallest economies in Africa with about 160,000 inhabitants and a gross national income (GNI) per capita of US$1,140 (2009). The country faces many development challenges due to its small size and insularity, limited institutional capacity, and aid dependency. As in other small island states, STP cannot take advantage of economies of scale in the provision of infrastructure, services, and economic activities. This translates into: (i) high costs per unit of government and utility provision services; (ii) little flexibility of the economy to adapt to shocks; and (iii) few opportunities for risk diversification within the domestic market.

6. **To face large poverty, the authorities have been implementing a PRSP since 2003.** A PRSP Unit was made operational in 2005 to supervise PRSP implementation. A Committee was appointed in 2008 to develop a new Development Strategy, which is expected to be finalized in 2011, after the poverty profile is updated. The new strategy will be based on a results-oriented pro-poor growth strategy, and given the uncertainty about petroleum production prospects the authorities have emphasized the importance of promoting private sector led growth to reduce poverty.

7. **STP has experienced a decade with the highest GDP growth since independence**. Growth has averaged 6 percent between 2001 and 2009, compared to an average of 1.4 percent over the 1990-2000 period, fostered by rising world cocoa prices, bonus payments for petroleum exploration, and buoyant activity in the tourism and construction sectors led by FDI in anticipation of potential oil production. GDP per capita improved on average 4.2 percent annually during the decade.

8. **Economic growth has been fueled by the surge of the services sector.** Services account for about 60 percent of GDP. The public sector is the main services provider (28 percent of GDP) followed by the trade and transport sectors (27 percent). The primary sector accounts for about 20 percent of GDP, and its share in GDP has declined in the last two decades, mainly due to the reduction in the agricultural subsector (notably cocoa production). Despite this decline, the agriculture sector still has a critical social role as it employs one-quarter of the population and provides about 55 percent of staple food. The fisheries sector employs around 5 percent of the population (mostly informal) and accounts for about 3 percent of GDP and is one of the main sources of food and income. To respond to these challenges, the new PRSP will place a higher profile on raising agricultural productivity to support growth and poverty reduction.

9. **Economic diversification remains a challenge.** STP's narrow export base is composed of two products: cocoa and tourism. Cocoa exports have decreased by 71 percent in the past twenty years associated to lower production. Tourism has replaced cocoa as the primary source of foreign exchange, with US$9.1 million in 2009 representing 4.8 percent of GDP and over 40 percent of total exports earnings. STP is very open and imports most of the goods and services consumed reflecting the country's dependence on outside sources to satisfy its internal demand. A current account deficit has been financed with grants and debt relief (around 31 percent of GDP over 2001-2009), and rising FDI (including signature oil bonuses) in tourism, construction and oil exploration (around 25 percent of GDP combined over 2001-2009). The economic slowdown reduced the current account deficit from 51.2 percent of GDP in 2008 to 44.8 percent of GDP in 2009. Oil signature bonuses and

SDRs allocation under IMF programs have increased international reserves to US$48.1 million at end-2009 (equivalent to 6.6 months of imports), compared to US$24.7 million in 2006.

A. SOCIAL CONTEXT IN SÃO TOMÉ AND PRÍNCIPE

10. **Poverty continues to be pervasive.** There is very limited data on poverty. The last household survey (2001) estimated poverty incidence at 54 percent (including 15 percent in extreme poverty). Poverty in 2001 remained largely a rural phenomenon, with 65 percent of the rural population living below the poverty line and 22 percent below the extreme poverty line. The Government is finalizing a new household survey and will update the poverty profile in 2011.

11. **Authorities have made continued efforts to implement the PRSP and achieve the Millennium Development Goals (MDGs).** The 2009 UNDP Human Development Report ranks São Tomé and Príncipe 131st out of 182 countries, comparable to oil producing middle income countries in the region such as Namibia (128) and South Africa (129). Sector analysis and administrative data indicate that there has been an improvement since 2001, notably in health and education indicators that remain above the Sub-Saharan region average (see Table 1). Although many social indicators have improved recently, they remain weak and progress toward achieving the MDGs is slow and difficult to measure (see Annex 6).

Table 1: Social Indicators for STP and Comparators

	STP	Cape Verde	Cameroon	St Lucia	Sub-Saharan Africa (i)
Life expectancy and birth, total (years)	66	71	51		52
Mortality rate, under-5 (per 1,000)	63	29	35	20	133
Birth rate, crude (per 1,000 people)	33	24	15		38
Primary Completion Rate, total (%)	85	92	92	98	64

Source: World Development Indicators 2010.
Note: (i) Average of Sub-Saharan African developing countries.

12. **Substantial progress has been maintained in education and health.** STP received Education for All-Fast Track Initiative endorsement in 2007. Structural reforms have increased the official primary net enrollment ratio, which is within reach of the universal primary completion rate by 2015. However, quality of education is a concern that reflects a low level of teachers' qualification and the limited learning time associated with a triple shift regime. The delivery of health services has also improved substantially, particularly maternal health and child health care. Maternal mortality has dropped significantly. This is largely the result of an increase in the proportion of births attended by skilled professionals. STP has been a success story on the malaria front, reducing the incidence of the disease in children under five years old, primarily as a result of the use of bed nets, and the treatment of malaria cases. Mortality from malaria has dropped to close to zero in 2009. HIV prevalence among pregnant women dropped from 5.4 percent in 2006 to an estimated 1.5 percent in 2009. These gains notwithstanding, public delivery of social services remains constrained by the inability of Government and stakeholders to assess the degree to which strategies are implemented and their impact. The 2008 IMF-Bank Joint Staff Assessment Note (JSAN) signaled poor data collection, compilation, interpretation and dissemination and an inadequate evaluation and monitoring system for the MDGs. In addition, the PEMFAR and the CEM highlight that social expenditures have a limited impact due to sector strategies that are not fully consistent with the annual budget allocations and the PRSP.

B. POLITICAL CONTEXT IN SÃO TOMÉ AND PRÍNCIPE

13. **There is a broad political consensus for reform.** The country has consolidated democratic rule since 1991, where the political system is characterized by coalition arrangements. Despite

frequent government turnover, there has been a broad consensus among political parties that sector reforms and macroeconomic stability are critical elements to foster growth and reduce poverty. On the other hand, frequent changes in government have contributed to a slower the pace of implementing reforms. Despite external shocks, substantial reforms have been sustained and in some instances (notably procurement legislation in the petroleum sector) reforms have been accelerated. The new Government that took office in August 2010 remains committed to reforms, notably in public sector governance. The new Government has reorganized responsibilities between ministries, and appointed a few independent ministers. In 2006, President Fradique de Menezes, leader of the *Movimento Democrático das Forças da Mudança* (MDFM), was reelected for his second and last tenure. Presidential elections are foreseen in 2011.

C. RECENT ECONOMIC DEVELOPMENTS IN SÃO TOMÉ AND PRÍNCIPE

14. **Commitment to structural reforms and macroeconomic stability allowed STP to receive debt relief and achieve high growth.** Structural reforms aimed at: (i) pursuing prudent fiscal and monetary policies; (ii) improving the efficiency of public spending; (iii) liberalizing the economy by reforming the import tariff structure, preparing for liberalization of the telecoms sector, and privatizing a number of public enterprises; (iv) developing new strategies in health and education; and (v) building institutional capacities, especially in the nascent petroleum sector. These reforms had positive results. In 2007, STP reached the Completion Point of the Enhanced HIPC Initiative and received debt relief in the amount of US$314 million. Successful implementation of these reforms and a buoyant external environment, characterized by a booming activity in the tourism and construction sectors and the arrival of signature oil bonuses, led to a high economic growth that averaged 6.2 percent during 2006-08.

15. **Difficulties to control inflation led the authorities to strengthen fiscal discipline.** Economic policy loosened as a result of high budget inflows (mainly from the arrival of oil bonuses), growing social demands, and a very volatile political environment. In a context of a benign external environment, current expenditures increased substantially to accommodate social demands from 14.7 percent of GDP in 2000 to an average of 27.3 percent in 2006-07. The wage bill reached an average of almost 9 percent of GDP in 2006-07 compared to around 5 percent in 2002. In addition, food and fuel prices were on an increasing trend. As a result, annual inflation was larger than 25 percent during this period. Concerns about fiscal sustainability, particularly given uncertainty in the arrival of future oil bonuses, led the Government to strengthen fiscal and monetary discipline. As a result of prudent macroeconomic policies, supported by an IMF Poverty Reduction and Growth Facility (PRGF) program, the Government reduced the annual domestic primary fiscal deficit from around 15 percent of GDP in 2004 to 7.5 percent of GDP in 2008, financed mainly by oil signature bonuses and privatization receipts.

16. **As it embarked on fiscal consolidation, STP's economy was hard hit by two consecutive external shocks: (i) the sharp increase in international food and fuel prices in mid-2008; and (ii) the international economic and financial slowdown since 2009.** The food and fuel crisis had a substantial effect on the population. The World Food Program (WFP) estimated an increase in the number of vulnerable people that needed its support (those for whom food is inadequate or at the limit) by 10-15 percent only one year after the onset of the crisis.[1] In response to these shocks, the Government launched an investment program in 2009 financed with the proceeds of the privatization

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[1] Before the crisis, the share of vulnerable people was estimated by the WFP at 23 percent (35,615 people) of the population.

of ENCO,[2] the fuel import company, with the purpose of increasing food security, and boosting agricultural and infrastructure development. This program provided farmers immediate access to improved seeds and supplies and increased food production. Furthermore, the global economic slowdown since 2009 also had serious repercussions for STP. Growth slowed down to 4 percent in 2009 following a sharp decline in foreign direct investment, tourism receipts, and foreign assistance, although limited external portfolio and exposure to toxic financial assets kept the country's financial system remained relatively unaffected.[3]

17. **These external shocks limited the capacity of the authorities to maintain the pace of fiscal consolidation in 2009.** The growth slowdown, and oil signature bonuses that did not materialize translated into lower Government revenues that the new corporate and personal income tax laws introduced in 2009 (aimed at simplifying tax rates to enhance compliance), were not been able to offset.[4] The domestic primary deficit widened to 8.2 percent of GDP in 2009.

18. **In 2010, the authorities accelerated fiscal consolidation.** Supported by an IMF-ECF program, the authorities accelerated fiscal adjustment since March 2010 based on the reduction of non-essential current expenditures, containment of the wage bill, and the enhanced enforcement of tax collection. Fiscal performance improved during 2010, but the Government's initial objective of reducing the annual domestic primary fiscal deficit to 4.5 percent of GDP was not achieved. This is mainly due to lower than expected revenue collection at the beginning of 2010, which was explained by delays in finalizing the declaration forms for implementing a new income tax law.[5] In response to these delays, the Government strengthened the enforcement of tax laws, increasing the collection of tax arrears. At the same time, the authorities further contained discretionary spending. As a result, domestic primary expenditures performed well during the year, and the annual domestic primary fiscal deficit declined to an estimated 5.7 percent of GDP in 2010.

19. **To bring additional inflation stability, the Government introduced a new peg exchange rate system in January 2010.** The small-economy problems of managing a floating exchange rate led to an agreement with Portugal (backed by a credit line), STP's main trade partner, on pegging the Dobra to the Euro (anchored at around 24,500 Dobra per Euro) with the aim of achieving price stability and maintaining a stable nominal exchange rate favorable for business development. A fall in food and fuel prices (that make up 67 percent of the consumer price index) as well as the tightening of monetary policy in preparation for the peg, steadily reduced year-on-year inflation from a peak of 37 percent in June 2008 to an estimated 9.5 percent at end-2010.[6] To manage the peg, the Central Bank (BCSTP) introduced a set of guidelines and regulations for foreign exchange operations, and now requires commercial banks to hold reserve requirements only in Dobras, including those related to foreign currency deposits. It is worth noting, however, that the new exchange rate regime has brought

[2] Under pressure to find additional resources to respond to its economic challenges and as part of its medium term strategy in the energy sector, the Government sold in 2008 a 35 percent controlling stake in ENCO to Sonangol, the Angolan oil company, for US$21 million.

[3] STP's financial sector has weathered the global financial crisis due to limited exposure to the world capital markets. The number of banks operating in the country has increased from one to seven in the past decade, and the liquidity position of most commercial banks appears solid. During this period, the Central Bank has strengthened oversight and its internal controls and audit functions, and is working with the IMF and the Bank of Portugal to further strengthen the regulatory framework and its institutional capacity.

[4] STP's domestic revenue ratio remains low, at 15 percent of GDP in 2010; it compares to an average level of 17.4 percent for fragile countries, and 22.7 percent for Sub-Saharan Africa in 2009.

[5] As further discussed below, the tax laws introduced in 2009 needed to be accompanied by an expansion of the tax base. In this regard, the Government is taking measures to expand the register of taxpayers with support from the IMF.

[6] Supply disruptions due to a drought and election-related spending contributed to an uptick in inflation during 2010, but the Government reduced budget expenditures and tightened fiscal and monetary policies.

new challenges since it requires improved coordination and consolidated fiscal policy, flexible labor and capital markets, and enhanced liquidity management.

20. **The international reserve position has strengthened.** Thanks in part to the special allocation of SDRs and augmentation of access under the IMF-ECF, international reserves have doubled with respect to their level at end-2006, and are now over US$47 million, sufficient to finance more than six months of potential imports. The strong international reserve position has provided the authorities the necessary monetary space to maintain a stable fixed exchange rate throughout 2010. This was evident when the Central Bank used its strong reserve position to reduce exchange-rate effects stemming from the ongoing Euro Zone sovereign crisis.

Table 2: Macroeconomic Indicators and Medium-Term Outlook, 2006-2013

	2006	2007	2008	2009	2010	2011	2012	2013
				Actual		Projected		
	(Annual change in percent, unless indicated)							
National income and prices								
GDP at constant prices	6.7	6.0	5.8	4.0	4.5	5.0	6.0	6.0
Consumer prices								
End of period	24.6	27.6	24.8	16.1	9.5	6.0	5.0	4.0
Period average	23.1	18.5	26.0	17.0	12.5	7.7	5.5	4.5
	(Percent of GDP, unless otherwise specified)							
Government finance								
Total revenue, grants, and oil signature bonuses	36.9	161.9	48.4	32.3	33.4	43.6	29.1	28.6
Of which: tax revenue	17.2	16.5	16.4	15.0	16.2	15.8	16.0	16.3
Non-tax revenue	3.7	2.8	1.6	2.2	1.4	2.2	2.2	2.1
grants	16.0	121.3	30.4	15.1	15.9	13.6	10.8	10.2
oil signature bonuses	0.0	21.3	0.0	0.0	0.0	12.0	0.0	0.0
Total expenditure and net lending	50.7	40.3	33.5	51.4	41.3	51.3	40.0	38.4
Of which: personnel costs	8.6	9.0	8.7	8.2	8.5	8.4	8.4	8.3
non-wage noninterest current expenditure	16.3	15.7	13.0	12.1	11.6	10.0	10.4	10.2
treasury funded capital expenditures	3.3	1.2	1.4	4.1	2.5	2.2	1.5	1.6
donor funded capital expenditures	16.6	10.5	7.4	25.3	17.7	29.3	18.3	17.0
Domestic primary balance	-10.7	-8.5	-7.5	-8.2	-5.7	-4.0	-3.5	-3.0
Overall balance (commitment basis)	-13.8	121.6	14.9	-19.1	-7.9	-7.7	-11.0	-9.9
External sector								
Current account balance								
Including official transfers	-27.5	-37.5	-37.7	-28.5	-33.8	-40.4	-41.7	-39.9
Excluding official transfers	-54.3	-49.0	-51.2	-44.9	-51.6	-54.4	-53.8	-51.2
PV of external debt	160.2	11.9	11.2	19.2	25.7	31.3	33.7	34.9
External debt service (percent of exports)	33.8	19.2	0.8	5.1	-0.4	4.5	3.7	5.4
Export of goods and non-factor services (US$ millions)	17.2	13.4	20.0	20.6	22.8	24.8	27.7	31.8
Gross foreign reserves								
Months of imports of goods and nonfactor services	4.8	4.2	7.5	6.6	6.1	5.3	5.2	5.3
Millions of U.S. dollar	24.7	26.3	46.6	48.1	47.2	42.8	45.1	48.4
National Oil Account (US$ millions)	8.6	14.9	12.2	9.8	7.9	32.4	28.0	24.3
Memorandum Item								
GDP								
Billions of dobras	1,546	1,942	2,513	3,079	3,641	4,006	4,389	4,830
Millions of U.S. dollars	125	144	172	189	196	217	229	245
Privatisation account (million US dollars)	0	0	21	6	1	0	0	0

Sources: São Tomé and Príncipe authorities and IMF staff estimates and projections (March 2011).

21. **All in all, despite suffering a succession of shocks throughout 2008-10, STP has avoided major macroeconomic imbalances and growth is estimated to edge from 4 percent in 2009 to 4.5 percent in 2010 (compared to 5.8 percent in 2008).** Although FDI declined in 2010, rising externally-financed public investment projects and elections-related spending supported economic activity. Over the years, STP authorities have demonstrated a satisfactory track record in maintaining prudent macroeconomic policies that are sustainable over the medium-term.

22. **To raise public sector effectiveness the Government hastened reforms in public finance management.** During 2008-10, the Government introduced new legislation to improve budget execution, tax collection, public procurement, public administration, and petroleum governance. Other structural reforms aimed at improving market competition (drafting a new commerce code, simplifying business registration procedures, and revising labor laws), are in progress, but begun with some delay because the Government's attention was diverted to addressing the exogenous shocks.

23. **Performance of State-Owned Enterprises (SOEs) constrains economic growth and fiscal management, and the authorities have taken steps to address recurring problems.** The Government privatization program in 2000-01 left it the only shareholder of four fully state-owned enterprises considered essential in developing key economic sectors.[7] However, the weak financial situation of SOEs has translated into higher contingent liabilities and transfers from the Government that make it difficult to maintain fiscal management. Reduced investment and poor operation and maintenance expenditures have led to irregular and poor quality service provision and payment arrears from these utility companies. This is particularly evident in the case of the electricity and water company, EMAE: STP suffers from low levels of electrification (60 percent) and sanitation coverage (25 percent), and blackouts are frequent, representing annual losses of about 4 percent of GDP. To improve fiscal management in the energy sector, the Government has begun to address recurring problem of arrears accumulation between the Government, the electricity and water company EMAE, and the oil supplier ENCO. In 2010, the Government cleared its arrears with EMAE up to end-2009.[8] EMAE was paid a total of about US$5.8 million (3 percent of GDP), including about US$1.6 million to fully clear arrears accumulated over previous years. This payment enabled EMAE to partially clear its arrears with ENCO, which in turn was able to settle its fuel tax obligations to the Government. Further steps to resolve these issues are scheduled for 2011 (see paragraph 26).

D. MACROECONOMIC OUTLOOK

24. **Growth is projected to rise to 5 percent in 2011 and to 6 percent during 2012-13.** Growth will continue to rely on oil exploration activities, especially in the new offshore areas, investment in construction, and tourism receipts. The small economic expansion in 2011 is projected to be driven by a modest increase in FDI supporting major private sector projects (e.g., the deep-sea water port). The growth projections assume a continuation of prudent fiscal policies, appropriate levels of capital expenditure and PRSP implementation, and continued donor support. Risks to the medium-term growth outlook include further delays in private sector projects, and lower-than-expected external project grants through the budget. Continued prudent monetary policy supported by budgetary restraint is expected to reduce annual inflation to 6 percent by end-2011 and to 4 percent by end-2013. The fixed exchange rate regime is expected to lower inflation expectations.

[7] These companies are EMAE (Energy and Water services), ENASA (Airport services), ENAPORT (Port services), and Correios (Postal services). The Government also participates in the capital of a few other enterprises: 49 percent of CST Telecom, 40 percent of Banco International STP, and 30 percent of Air São Tomé.

[8] As of end-March 2010, EMAE's total debt to ENCO amounted to US$12 million (6.3 percent of GDP).

25. **STP will bolster fiscal consolidation to maintain macroeconomic stability and support growth.** In recent years, STP has been able to finance sizeable domestic primary fiscal deficits thanks to the presence of oil signature bonuses and privatization receipts. However, these resources are dwindling. The authorities will accelerate fiscal adjustment in the context of the ECF building on ongoing efforts to expand the register of taxpayers, enhance the enforcement of tax laws, and improve customs administration. On the expenditure side, the Government will better prioritize spending (especially on goods and services and transfers) and will contain expenditures. Capital expenditures will remain stable, mainly financed by foreign aid. Overall, the domestic annual primary fiscal deficit is projected to decline to 4 percent of GDP in 2011 and to reach 3 percent of GDP by end-2013.

26. **The Government aims to prevent the recurrence of overruns and arrears.** Reforms will include the rationalization of foreign missions and the restructuring of the scholarship program. With regards to the energy sector, additional payments by the Government are expected in 2011 to settle arrears between the Government, EMAE, and ENCO. The 2011 Budget provides a more realistic budget for government utility payments, and the Government has started to tackle structural problems underlying EMAE's weak financial position, with assistance from the Bank and the IFC. In addition, an automatic price adjustment mechanism for petroleum products is scheduled for implementation in 2011 to allow retail prices to adjust to international prices.

27. **The Government is also keen on strengthening public expenditure efficiency to implement its pro-poor program.** This is being complemented with improved policies to maintain tighter control over the level of public spending and ensure fiscal and debt sustainability. These are the two most critical areas in the short run and the focus of this DPO (see Section V-B).

28. **The external current account deficit is projected to decrease from 51.7 percent of GDP in 2010 to an average of 48.5 percent of GDP over 2011-13.** International reserves are expected to amount to US$42.8 million at end-2011 (5.3 months of import coverage). The reduction of the current account deficit is expected to be driven mainly by lower imports of petroleum and food products, and will be financed mainly by foreign aid (14 percent of GDP), and FDI, notably in the construction and tourism sectors (23.5 percent of GDP). With these macroeconomic projections, STP's external debt is expected to remain below its 2007 level. Debt servicing is expected to decrease from 5.1 percent of export earnings in 2009 to an average of 4.6 percent over 2011-2013, at the time when the Government expects to receive US$26 million (12 percent of GDP) in oil signature bonuses. Considering the expected oil signature bonuses and debt cancellation to be granted in 2011, the overall external balance is projected to show a surplus in 2011 (see Table 2 in Annex 2), which would be used to finance external debt service obligations and restore adequate balances in the NOA.

29. **Perhaps the most important medium-term issue affecting STP's macroeconomic outlook is whether or not oil production starts, currently foreseen around 2015.** If petroleum is commercially exploited, a programmed phase out of foreign grants will be needed to ensure a balanced transition to the potential oil era and avoid a drastic reduction in needed funds to breach the interim period. However, in the long run, current fiscal policies are not sustainable if petroleum is not commercially exploited. It is in this context that STP authorities aim to diversify the economy and foster domestic growth. If STP does not start to produce oil in 2015, a large fiscal consolidation would be required (see further below). The oil outlook assumes that a last bonus payment of US$26 million will be disbursed in 2011, which should cover the interim period until oil production starts, even until

2019.[9] In case this last bonus payment is not received, the Government should retrench further current expenditure in 2011.

30. **The Debt Sustainability Analysis (DSA) notes that STP's risk of debt distress will remain high until oil production starts.**[10] Reaching the Completion Point under the Enhanced HIPC Initiative in 2007 led to a drastic reduction of its debt to GDP ratio from over 300 percent of GDP in the 1990s to 50.5 percent of GDP in 2009. Indicators are particularly sensitive to export growth, indicating that diversifying the export base is essential for preserving external debt sustainability. However, a narrow export base, a high dependence on imports, and heavy reliance on external financing render STP's public debt highly vulnerable to exchange rate shocks, and volatility of exports and foreign grants. The February 2011 DSA notes that under a non-oil scenario, reaching a sustainable debt level would require an additional fiscal adjustment equivalent to 2.8 percent of GDP per year during 2011-15 (compared to the baseline). This calls for (i) stronger public financial and debt management; (ii) financing capital expenditures solely on the basis of grants and highly concessional borrowing; and (iii) developing a comprehensive strategy to reduce the cost of doing business, attract investment, and broaden the export base. The PRMG DPO contains key policy actions in this regard, which are described in Section V-B.

31. **The PRMG resources will enhance the Government's ability to protect spending in the priority sectors to help cushion the impact of the crisis on vulnerable households and the poor, while preserving medium-term fiscal sustainability.** Importantly, with support from this DPO, the Government has increased its budget allocation for pro-poor expenditures for 2011 (see paragraph 78). The domestic non-oil primary budget deficit of 4 percent of GDP in 2011 is expected to be fully financed by a small withdrawal from the NOA, as well as other net external financing including debt relief and funds from this operation. The sharp decrease in the use of oil bonuses and of privatization receipts reflects the depletion of the NOA and of the privatization account balance. The proposed PRMG DPO will help finance the deficit, providing support to the achievement of the government objectives in a context of fiscal containment, and ensuring macroeconomic and debt sustainability.

[9] The outlook assumes that a last bonus payment, for blocks 5 and 6 in the JDZ, of US$26 million will be disbursed in late-2011. The authorities are taking steps to reach an agreement with the oil firms involved in these blocks so that this bonus can be received. If this bonus is paid, the NOA balance would suffice to breach the interim period until 2019, assuming US$1.5 million allocation to the budget in 2011, US$4.3 million in 2012, and US$3.7 million in 2013.

[10] The DSA shows that the present value of debt to exports ratio remains in breach of the indicative threshold, and that the present value of debt to GDP ratio will surpass its threshold from 2011 until oil comes on stream.

Table 3: Central Government Operations and Financing Needs, 2006-2012

	2006	2007	2008	2009	2010	2011	2012
						Projected	
				(Billion Dobra)			
Overall fiscal balance, commitment basis	**-213**	**2361**	**374**	**-588**	**-290**	**-397**	**-549**
Grants	247	2357	765	466	577	466	420
Domestic primary balance	**-166**	**-166**	**-188**	**-254**	**-207**	**-239**	**-208**
Overall fiscal balance, cash basis	**-192**	**2367**	**390**	**-588**	**-290**	**-397**	**-549**
Identified financing	**192**	**-2367**	**-390**	**589**	**290**	**318**	**492**
External, net	31	-2336	-465	350	66	663	281
Of which: Project loans	99	39	20	390	102	732	348
Of which: Program loans	24	28	29	0	9	9	10
Domestic, net	162	-31	74	238	224	-345	211
Banking system credit (excluding National Oil Account)	-23	41	-277	165	190	155	120
Of which: Privatization account	0	0	-307	196	77	50	0
National Oil Account	184	-72	44	42	34	-500	92
Non-bank financing	0	0	308	31	0	0	0
Residual Financing Need	0	0	0	0	0	-79	-56

Sources: São Tomé and Príncipe authorities and IMF staff estimates and projections (March 2011).

32. **STP's macroeconomic framework for 2011-2013 is appropriate for the proposed development policy operation.** The Bank's view is based on the broadly favorable macroeconomic performance during 2010. STP's macroeconomic framework is also supported by the IMF-ECF.

E. GOVERNANCE

33. **The authorities are strengthening governance in order to reduce poverty and foster growth.** A large program of public finance management (PFM) strengthening, supported by an IDA project, started in 2004 and focused in improving legislation, building institutional capacity and providing adequate tools to improve budget control and enhance public expenditure transparency and effectiveness. Progress has been considerable and, in particular, STP has: (i) adopted improved legislation to better allocate resources and make them more accountable, including the 2007 Organic Law on Public Finance Management; (ii) improved public institutions to respond better to beneficiaries, including a progressive decentralization of public expenditure; and (iii) introduced better tools to make the public sector more efficient, notably through the interim computerized financial management information system introduced in 2007 (see paragraph 61). In addition, procurement legislation and procedures have been strengthened to enhance public expenditure transparency and effectiveness. These improvements are helping STP to better align limited public resources with pro-poor and human capital enhancement activities to increase productivity, and raise growth.

34. **Petroleum sector governance has been strengthened.** The petroleum sector is critical in STP economy not only in terms of potential exports and growth but also in terms of its impact on the broader policy and governance agenda. To address concerns related to the use of oil revenues, the National Assembly approved the Oil Revenue Management Law (ORML) in 2004. The law established an account–the NOA–in which all oil revenues are deposited directly, introducing specific mechanisms to restrict the amount of such revenues that can be used for annual budgetary expenditures. Capacity and transparency in the petroleum sector has also been built up through the establishment of legislation and institutions that govern the petroleum sector, such as the National Petroleum Agency (NPA), created in 2004. The NPA has enhanced its capacity to analyze and follow-up on petroleum contracts, elaborate policies for the sector, and supervise and regulate the industry both in the Joint Development Zone (JDZ) that STP shares with Nigeria and its own Exclusive Economic Zone (EEZ).

35. **Transparency in the petroleum sector continues to be a key priority in STP.** STP was delisted from the EITI in 2010 due to difficulties to set up the EITI committee in the JDZ shared with

Nigeria; delays were caused by the Nigerian counterparts in designating its representatives to the joint committee.[11] Without own managed operations currently in the EEZ, the STP oil revenues are obtained only from operations in the JDZ. On its own, the Government of STP and all political parties, as well as industry and civil society parties are fully in support of, and ready to implement, the EITI. Indeed, despite being delisted from the EITI, transparency has improved notably, with support from the World Bank, with the creation of the Petroleum Oversight Committee in 2006 and the Public Registration and Transparency Information Office in 2007, which hold and disseminate all public petroleum information in STP. STP has further developed the required legislation and institutions to exploit its EEZ, and is finalizing the environmental regulations for petroleum operations with support from Norway. These efforts have allowed STP to initiate in March 2010 the licensing round of seven blocks in its EEZ following an international competitive bidding process that is expected to conclude in contracts in 2011. Furthermore, the Government has already created an EITI committee for its EEZ and continues to coordinate with Nigeria to form an EITI committee for the JDZ. The World Bank continues to support STP in its effort to implement the EITI in the JDZ and in the EEZ.

36. **Improvements notwithstanding, STP continues to face key governance challenges,** with respect to weak domestic accountability, corruption, and uneven implementation and weak coordination of core reforms. Government effectiveness is ranked poorly and has shown no improvement during recent years. This is particularly worrisome given the key role of the public sector as STP's main employer and economic agent. Furthermore, limited public resources make it urgent to improve the effectiveness and transparency of the public sector to respond with fewer resources to pressing social and economic needs. To respond to this challenge, the authorities aim to accelerate their public finance management reform.

III. THE GOVERNMENT PROGRAM AND PARTICIPATORY PROCESSES

37. **The PRSP adopted in 2003 followed an extensive consultative process**, with representatives of government, political parties, civil society, and other stakeholders in the six districts on the island of São Tomé and on the island of Príncipe. The PRSP was endorsed by the Boards of the World Bank and IMF in April and May 2005, respectively, after the Government strengthened the PRSP's macroeconomic framework. A PRSP unit was set up in 2004 to monitor its implementation, coordinating with Ministries, private sector, and civil society. This PRSP Unit is functional and prepares annual implementation reports that are reviewed by the Bank and IMF although the PRSP is not yet results-oriented and lacks adequate follow-up indicators, which have hampered PRSP supervision. Joint Staff Advisory Notes (JSAN) were presented to the Bank and IMF Boards of Executive Directors in 2006 and 2008, emphasizing the need to undertake further poverty diagnostic, cost and prioritize sector strategies, attract private investment and donor support, enhance institutional capacity to ensure full implementation, monitoring and evaluation of the PRSP, as well as macroeconomic and political stability.

38. **The policies set forth in the Government's medium-term reform program are in line with the PRSP.** The PRSP lays out a strategic plan for poverty reduction based on five pillars: (i) reform of public institutions, capacity building, and promotion of good governance; (ii) accelerated and redistributive growth; (iii) creation of opportunities to increase and diversify income for the poor; (iv) human resource development and access to basic social services; and (v) adoption of mechanisms to monitor, assess and update the strategy. The Government has translated the PRSP into a medium-term program for 2010-14, which was endorsed in elections in August 2010 and approved by the National Assembly in September 2010. This program puts public financial management and

[11] It is worth noting that the JDZ that STP shares with Nigeria is the only JDZ being assessed by the EITI Secretariat.

governance at the forefront of the agenda,[12] and it is supported by the proposed DPO. For the medium-term, the Government aims to: (i) consolidate public financial management reforms, in particular by strengthening budget accountability, transparency, efficiency, and control, and accelerating the organization and production of the public accounts of the State and their submission to the Court of Accounts in line with international best practices; and (ii) improve public debt management as well as strengthening the management of fiscal policy in order to ensure the sustainability of macroeconomic policies. The Government's program also identifies sector strategies. For instance, education and health programs are envisioned in the Government's program focusing on primary education (universal enrolment at the basic education level, and quality improvement) and on primary health.

39. **The Government of STP undertook a comprehensive analysis of the status of its public expenditure management and financial accountability in 2007, with World Bank support.** The analysis relied on three diagnostic tools: (i) the Public Expenditure Management and Financial Accountability Review (PEMFAR); (ii) Country Financial Accountability Assessment (CFAA); and (iii) the Country Procurement Assessment Review (CPAR). The Government of STP has drawn on these analyses in implementing a comprehensive and integrated public financial reform program. These analyses identified key priority actions, which were translated into a comprehensive action plan. While this comprehensive approach was risky (as the capacity of government to address many reform areas at the same time was limited), it has provided an opportunity for achieving key improvements in the quality of public expenditure management that have eluded many of the previous reform efforts.

40. **The proposed operation is consistent with the Government's program and supports its efforts to initiate a new PRSP.** Both the Government and its development partners agree that the 2003 PRSP is now outdated and a new development strategy must be adopted. Preparation of new PRSP is underway led by the Directorate of Planning with a technical committee formed by the PRSP Unit, the Statistics Office (INE), and sectors. The updated version of the PRSP will require first to update the poverty profile based on the new Household Survey (expected to be completed in 2011). The new PRSP will focus on promoting sectors that would create employment and economic opportunities of the poor. Measures that will be emphasized include (i) diversifying both output and exports; (ii) improving economic and political governance; (iii) ensuring macroeconomic and fiscal sustainability; (iv) enhancing the delivery of social services; (v) raising private investment; and (vi) strengthening donor coordination. The Government expects to finalize this new results-oriented PRSP in 2011, and has assured the World Bank that the new PRSP will follow a participatory process. The activities supported by this operation will enhance STP's capacity to better implement medium term strategies by introducing a formal consultative mechanism to coordinate donor assistance.

41. **The Government's commitment to reform is further articulated in the Letter of Development Policy (Annex 1)** and the IMF's Memorandum of Economic and Financial Policies (MEFP) document. The Government's objectives are to consolidate macroeconomic stability, improve public sector efficiency, and raise growth through the implementation of structural reforms. The economic policies will continue to pursue fiscal policy to improve debt sustainability, and maintain fiscal discipline to support the fixed exchange rate regime. The Government program is supported by this operation in two areas: (i) the strengthening public financial management; and (ii) the promotion of sustainable economic policies.

[12] The program states that "*the inefficient management of public goods associated with the malfunctioning of public management is one of the main problems that the country is facing [...] Strengthening governance is therefore a key priority...in particular improving the quality and accuracy of public management*" (*Programa do Décimo Quarto Governo Constitucional de São Tomé e Príncipe*, approved on September 17, 2010, page 3).

The Government Program and Recent Developments in PFM and Economic Management

42. **Considerable progress has been made on improving PFM over the last five years.** PFM reforms have been successfully implemented with the support of the World Bank through two predecessor operations: (i) the CBTA Project, which started in 2004 and closed recently in September 2010; and (ii) the PNRMD DPO which closed in June 2010. Despite substantial progress, however, weaknesses persist in the areas of budget planning and execution, financial reporting, and auditing.

43. **The budget preparation process has been strengthened, but challenges remain.** Notable improvements include the adoption of the Organic Law on Public Finance Management (SAFE Law) in 2007 that replaced the outdated 1986 PFM Law, which eliminated dual budgeting of current and investment expenditures. In 2008 the Government introduced a new budget nomenclature that facilitated budget supervision around programs. In addition, to improve the budget planning process and facilitate the preparation and supervision of the up-coming PRSP, the Government issued a decree in 2008 specifying all budget codes that correspond to PRSP priorities in social sectors (i.e., the pro-poor expenditures). However, both budget formulation and the alignment of the budget with PRSP priorities remain weak as and there is a lack of systematic monitoring of pro-poor expenditures. There is also a lack of consistency between recurrent and investment expenditures that, in practice, follow parallel budget processes as the majority of the investment program is financed by donors, which provides limited information to the Budget Directorate. This complicates the preparation of medium-term expenditure frameworks and multi-year sector allocations. The Government is aware of these challenges and with the support of its development partners will continue to implement reforms to address these issues.

44. **Improved budget tools are having positive impact on budget execution and internal controls**, in particular the Integrated Financial Management Information System (IFMIS), nicknamed *Safinho*, introduced in 2007. This IFMIS shares information between the Budget Directorate (responsible for approving expenditure commitments and issuing payment orders) and the Treasury Directorate (responsible for actual payment and public accounting). This IFMIS incorporated the new budget codes and allowed for the first time a functional classification of operations to be introduced. This system facilitated progressive decentralization of budget execution and was complemented with new procedures in most directorates to improve budget control and enhance public expenditure transparency and effectiveness. To ensure proper management of the IFMIS, an Information Technology Directorate was created in 2008. Efforts to improve Treasury management include the adoption of a methodology for preparing financial programs and cash plans to better connect the cash management system to the resource-mobilization schedule, and new functions of the Treasury Directorate to improve budget controls and supervision of State Owned Enterprise.

45. **However, the current IFMIS is limited by a series of factors**, such as limited exchange information with the Central Bank, the lack of a module for public accounting, and a limited capacity and reliability of the system to expand it further to all sector ministries. In response to these constraints, in 2008 the Government begun developing the SAFE-e system, a more advanced system that incorporates new procedures to prepare the public accounts and uses a more reliable technology, based on a web-based interface.

46. **Transparency in procurement systems has been strengthened** supported by the CBTA and the PNRMD operations. New procurement legislation was approved and training provided in the area of procurement to all ministries' procurement officers. A Procurement Supervisory Body has been staffed and is operational. A Coordination and Assistance Procurement Cabinet created in 2009 centralizes procurement information, assists the decentralized procurement units and assures uniformity and quality across the units. As a result of these improvements, over 90 percent of public

contracts above US$60,000 now follow competitive bidding procedures. Yet, procurement problems exist because of insufficient competition and presentation of bids due to their low value, which has not been sufficient to attract international suppliers. This problem is common in small island countries and deserves further analysis.

47. **Public accounting institutions have been created.** Prior to 2005, the systems of financial recording and reporting of public resources were either non-existent or operated at low levels of efficiency. Government accounts were managed solely with the objective of respecting budgetary ceilings based on the available financial resources. This rudimentary form of record keeping undermined the use of accrual techniques and prevented the construction of reliable General Government Accounts, which makes it difficult to conduct macroeconomic and public financial analyses and, more importantly, hinders effective internal and external fiduciary control. The 2007 SAFE Law adopted a chart of accounts employing double-entry accounting, which permits a more homogeneous and transparent recording of financial transactions, facilitating the analysis of outcomes. This chart of accounts was updated in 2010 to resolve inconsistencies and to better accommodate it to the reality of STP. Furthermore, the Government created the institutions required to prepare the public accounts, notably the Public Accounting Directorate (AD) and the Public Assets Management Directorate in 2009. The latter is in charge of carrying out a survey of State assets and developing a software program to ensure the management of State Assets and has adopted the legislation that defines the terms of the survey of all State assets.

48. **The Government is developing an action plan to prepare annual State financial statements, with support from the World Bank, and has identified technical assistance needs.** Importantly, the "opening balances" for the 2011 fiscal year need to be established and entered into the SAFE-e system. Furthermore, a Public Accounting Manual that sets out the accounting principles, procedures, and accounting tables needs to be prepared, and training to the personnel of the Public Accounting Department needs to be provided to ensure the production of public accounts. For 2011, the Government should run in parallel the SAFE-e and the *Safinho* system. The operation (in parallel) of these two systems should last until the all SAFE-e tests are finalized and the authorities have defined a calendar for when all corrective technical and administrative efforts will be completed. This period of parallel operations could be extended until June-July 2011. All in all, to compensate for the institutional weaknesses of the Public Accounting Directorate to master the accounting principles and the production of accounting statements that will be produced by SAFE, it is necessary that the Public Accounting Directorate receives technical assistance during the first 2 or 3 months of the initial phase of the implementation of the SAFE-e accounting module. Such technical assistance will enable the Government to produce monthly public accounting statistics in 2011 and harmonize them with the statistics of the Central Bank. Following satisfactory progress in this regard, the Government expects to produce pilot public accounts of the State for 2011 by mid-2012.

49. **Revenue administration has been strengthened.** Importantly, the Government strengthened the tax system, with support from the World Bank and technical assistance from the Millennium Challenge Corporation (MCC) and the Government of Portugal. After reviewing its tax legislation in 2006 to bring it in line with international standards, in 2008 the Government begun to strengthen the two main tax regimes: the Corporate and Personal Income tax codes in 2008. Legislation was introduced in 2009 that harmonized taxation between enterprises and individuals, improved the rate structure, and strengthened tax assessment. Corporate tax rates were reduced from 30-45 percent to a single rate of 25 percent, which is closer to regional levels. Progressive personal income taxes now apply to all forms of income, therefore reducing the economic distortions that penalized the formal sector. Exemptions for payments such as scholarships and social security contributions were also introduced which are expected to strong positive impacts on human development. These reforms aimed to reduce distortions and increased revenue buoyancy by simplifying compliance procedures.

With respect to customs, the Government will introduce a new customs code and tariff schedule, deploy of a new version of ASYCUDA, and enhanced port security in order to raise revenues collection. Furthermore, the Government is modernizing its customs facility, and plans to integrate the Treasury, Customs, and other agencies under a common Information Technology (IT) platform.

50. **The Government plans to improve oversight and governance of the public enterprise sector.** The Government's public enterprise reform strategy aims to achieve greater efficiency, transparency, and accountability, and to contain fiscal risks. Supported by this operation, the Governments has submitted to the National Assembly an updated statute governing public enterprises that reinforces the legal framework for monitoring and control of public enterprises. Specific reforms of state-owned enterprises are also on the agenda. The Government has completed, with support from the World Bank and the IFC, a strategy to revitalize the energy sector and promote private sector participation, and an action plan is scheduled to be discussed at the Council of Ministers in 2011.

51. **Maintaining sustainable economic policies is a key STP priority.** Measures identified by the Government aim to improve fiscal policy management to achieve sustainable fiscal deficit levels, strengthen the debt management system, improve the efficiency of public enterprises, and align donor assistance around STP priorities. A key priority is to strengthen the borrowing mandate to the Government in the SAFE legislation, which is currently not appropriately formulated and allows contracting debt that is not adequately approved by the Ministry of Finance. To address these weaknesses, and with support of this operation, the authorities are planning to introduce new legislation to improve public debt management and raise the transparency and accountability of public resources.

52. **The Government's program specifies the importance of improving coordination with donors.** A new unit in the Ministry of Finance (the International Coordination Directorate) is responsible for aid coordination and for the management of information on external assistance. The Government plans to set a formal consultative mechanism to improve the flow of information and better align the priorities of the government priorities with donor strategies, and introducing sector-wide approaches. A key Government priority is strengthening coordination with donors to raise the efficiency of public investment projects and to increase investments in infrastructure and energy, in order to address supply bottlenecks and enhance growth potential. The Government is working with its development partners to accelerate implementation of foreign-funded projects, while safeguarding resources allocated for Treasury-funded investment projects and maintenance.

IV. BANK SUPPORT TO THE GOVERNMENT'S PROGRAM

A. LINK TO ISN

53. **The proposed PRMG program consolidates Bank support to governance reforms in line with the priorities identified in the Bank's Interim Strategy Note (ISN).** The CAS expired in 2009 and the Bank has decided to move ahead with an ISN while the authorities finalize the new PRSP that would serve as the basis for a future Bank strategy with the country. The PRMG program supports policy reforms identified in the Bank's ISN, which covers the period between 2011 and 2012 and that continues to support areas of previous engagement (i.e. deepening reforms in social sectors and public sector governance, and supporting macroeconomic stability and pro-poor growth). In addition, and given the pressing needs and insufficient energy in STP, the ISN incorporates the energy sector as a new area for engagement.

B. COLLABORATION WITH THE IMF AND OTHER DONORS

54. **IMF-Bank programs have been closely coordinated.** The staffs of IDA and the IMF have coordinated the DPO and the ECF program to ensure that they complement each other. PFM measures supported by the ECF program are in large part drawn from the Bank supported PFM reform and the reform program underpinning the proposed operation is consistent with the macroeconomic program supported by the ECF.

55. **IFC-Bank Coordination**. STP became a member of the IFC in October 2008 and since then, IFC is assisting STP in several areas including the revitalization of the energy sector, improving the business environment, and raising tourism prospects. IFC and Bank programs have been closely coordinated. As a result of the IFC-Bank collaboration in analyzing the energy reforms, the Government is considering partnering with IFC (as a transaction advisor) to advance prospects for private sector participation in the sector. STP is not a member of MIGA.

56. **Coordination with other donors.** Coordination among development partners faces challenges because most agencies do not have a representative based in STP (the World Bank included). To improve coordination, the development partner teams are collaborating on mission timings to maximum overlap in the field (see paragraph 93). Like the Bank, both the European Union (EU) and AfDB have been strengthening their engagement with the government in support of the economic reform program over the past five years. There are complementarities between the IMF, World Bank, EU, and AfDB programs that support macroeconomic stabilization and PFM. The World Bank, as of now, is the only donor providing budgetary assistance to STP. The strategic focus, contents, and prior actions of the DPO have been presented to staff of the European Union which may provide budgetary assistance in this area in the future. Bank staff also consulted closely with other major donors such as the AfDB, UNDP, and Portugal, who are providing technical assistance for budgetary management and other reforms. Portugal has a multi-year project that provides technical assistance and training encompassing all areas of the Ministry of Finance and International Cooperation and including a resident macroeconomic advisor. The MCC has supported STP with a threshold project of US$7.4 million to raise revenue collection (tax and customs compliance) and improve the business environment.[13]

57. **European Union.** The EU has been implementing its Tenth European Development Fund (2008-13) (EUR17.1 million). EU assistance to STP includes projects in the transport sector[14] (EUR13.3 million), the international trade sector[15] (EUR 1.3 million), the public finance sector (EUR 0.5 million), and other projects.[16] With regards to public finances, the EU is proving technical assistance to: (i) prepare the public accounts of the State; and (ii) strengthen the planning process in sector ministries including health, education, agriculture and water and sanitation.

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[13] The MCC threshold program assists the Government to improve tax revenues, strengthen administrative capacity at the Tax and Customs Directorates, and foster private sector growth by improving administrative and regulatory business registration procedures. Expected outcomes include an increase in the number of registered taxpayers, stronger collection of accumulated arrears, streamlined customs procedures, and reduced time and cost of reducing businesses. Upon successful completion of the reforms in these areas STP will become eligible for full MCC support.

[14] The EU continues to support STP to maintain its road network, and is also training civil society groups to develop small rehabilitation works. The EU support also aims to strengthen institutional capacity in the newly created Transport Planning Unit (*Unidade de Planificaçao do Sector dos Transportes*) to prepare a sector strategy.

[15] Concerning international trade, the EU is supporting two areas: (i) the elaboration of a commercial strategy for STP; and (ii) a cluster-type initiative to strengthen the top five exporting clusters in STP (foreseen as coffee, cacao, flower, vanilla, and pepper).

[16] Other EU assistance includes a food security project (EUR1.7 million), a solid waste management project (EUR0.6 million), and a project to fight non-transmissible diseases (EUR0.4 million).

58. **AfDB.** The current AfDB's Results-Based Country Strategy Paper (RBCSP) supports the Government's efforts to implement the PRSP in order to reach the MDGs. AfDB is now preparing a new RBCSP for the period 2011-2014. AfDB's country allocation for 2005-2009 of US$6.8 million was in the form of grants, which supported two pillars: (i) poverty reduction in rural areas; and (ii) promotion of governance in Public Finance Management. The first pillar promoted the diversification of the country's economic base, especially with regards to the agricultural and rural sectors, and reinforced operations in the social sectors. Under this pillar, the livestock development support project-phase II was approved in May 2006. The second pillar supported macroeconomic and governance reforms through an institutional support project on governance and a technical assistance on the PRSP process. These helped to improve public finance management and institutional capacity to prepare the country for the forthcoming oil era. Given the considerable needs for institutional capacity building, the AfDB have financed strategic economic and sector studies such as the Country Governance Profile, and the joint study with the World Bank on the integrated fiduciary assessment. Furthermore, the AfDB have financed regional capacity building initiatives, within CEMAC, ECCAS, the African Portuguese-speaking countries, and the small island states.

59. **UNDP.** The objective of the 2007-11 strategy of the UNDP is to support the Government at local and central levels to promote human development, gender equality and reduce poverty by two thirds by 2015. The strategy, financed by US$2.5 million of own resources and US$2.8 million of additional resources, focus on three areas: (i) poverty reduction to reach the MDGs and tackle HIV/AIDS; (ii) good governance to the benefit of potential oil revenues; and (iii) environment and energy management for sustainable environment. The United Nations is also the leading agency supporting the Government in strengthening external assistance coordination and in assisting the Government to develop a Memorandum of Understanding that would create a formal mechanism to coordinate donor assistance.

C. RELATIONSHIP WITH OTHER BANK OPERATIONS

60. **The PRMG program takes forward critical policy objectives of previous Bank operations, notably the CBTA (US$5 million, approved by the Board in 2004) and the PNRMD DPO (US$8 million, approved by the Board in 2008).**[17] Key targets in both operations were largely met for a majority of outcomes (see further below). The PRMG program supports the next phase of reforms in line with the recommendations set forth in the Implementation Completion and Results Reports (ICR) of the PNRMD and CBTA operations. These identify key priorities such as preparing the financial statements of the State, and raising transparency and accountability in budget formulation and execution, and improving the performance of public enterprises. The promotion of sustainable economic policies, regardless of whether or not oil production materializes in the medium term, takes a more prominent role in the proposed PRMG DPO as the Government embarks on strengthening debt management and coordination with donors. The PRMG program also continues to monitor progress in preparing a new results-oriented development strategy.

61. **CBTA.** The Bank's US$5 million 2004-2010 Capacity Building Technical Assistance project supported reforms in public finance management, petroleum management, and PRSP implementation. CBTA aimed to support growth and poverty reduction through modernizing and building up capacity in financial and budgetary management and supervision; and through strengthening basic institutional and legal infrastructure in the finance and the natural resources and environment ministries. CBTA consisted of three components: (i) petroleum sector; (ii) public finance; and (iii) support for PRSP implementation. It assisted in the preparation of legislation and the development of institutions,

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[17] The Bank is working with the STP authorities on a US$14.7 million Central African Backbone (CAB) project that has the objective to improve broadband network services and reduce telecommunications prices in STP.

capacity, and tools to raise STP's public finance management. CBTA also helped build the institutional and legal framework to formulate policies, and supervise and regulate the petroleum sector. CBTA closed on September 2010 and was rated Moderately Satisfactory on its overall performance.

62. **PNRMD.** Annex 4 summarizes the extent to which the proposed PRMG ("DPO 2") operation takes forward several of the policy objectives of PNRMD ("DPO 1") operation. The PNRMD (a single tranche DPO of US$6 million) was approved by the Board in August 2008. STP's vulnerability to external shocks materialized in 2008 prompting additional Bank assistance through a Supplemental Financing of US$2 million, which was approved by the Board in August 2009. PNRMD's objectives were to develop institutional capability, introduce modern techniques and approaches in public financial management, and raise public sector efficiency. It also aimed at increasing transparency in the petroleum sector, and developing mechanisms to ensure that the benefits of future oil extraction materialize optimally within standards of good governance. PNRMD closed on June 2010 and was rated Moderately Satisfactory on its overall performance.

D. LESSONS LEARNED

63. **Move towards budget support.** The 2006-09 CAS analysis of previous Bank achievements in STP and the 2011-2012 ISN suggest budget support as an instrument to assist the country given its small size and limited institutional capacity. The previous CAS and the ISN emphasize that development policy operations based on capacity building activities should be considered more effective and efficient in delivering Bank's assistance. Development policy operations also provide more leverage to the small amount of IDA resources available to STP. The critical issue is to ensure an appropriate design and timing of such operations, building on lessons learnt.

64. **The following lessons learned are as documented in the Implementation Completion and Results (ICR) report for PNRMD DPO, which rated the development outcome to be moderately satisfactory**, the risks to the development outcome to be negligible, the Bank's performance to be moderately satisfactory, and the Borrower's performance to be moderately satisfactory. The PNRMD's ICR identifies the following lessons:

- ***Long-term Bank commitment must be ensured and public governance reforms need to be consolidated.*** Fragile economies beset by persistent poverty and weak or non-existent PFM systems such as STP require continuous technical and financial external support and the Bank should ensure such assistance continues. The Bank continues its support to STP with the proposed DPO, which aims to consolidate and further strengthen PFM in order to maintain fiscal discipline, and to improve the effectiveness of public resources to achieve its poverty reduction objectives.
- ***Critical capacity constraints should be identified and technical complexities should not be underestimated.*** During preparation of the PRMG program an institutional capacity assessment was carried out, and identified the following: (i) objectives should be focused and not very ambitious, given the limited capacity in some areas (i.e., public accounting); (ii) sophisticated procedures (including software) in a low capacity country are difficult to manage. To strengthen these areas, the government has committed to finance with domestic resources a set of critical technical assistance and the Bank has drafted terms of references to assist in its implementation.
- ***Key documents should be translated*** into the local language. The team discussed key documents (including Aide Memoires and the policy matrix) with the authorities in Portuguese to better assist them in the understanding and implementation of the DPO.

- ***Need to strengthen the M&E system in STP.*** This DPO provides an effective use of M&E systems by basing the operation on relevant, precise, quantifiable to the extent possible, and easy to monitor indicators and program goals that help track information from all government agencies and ministries.
- ***Strengthen donor coordination.*** The PNRMD ICR highlighted that future DPOs would benefit from having a formal donor coordination mechanism that ensures adequate program and project coordination and implementation. The prior actions in the proposed DPO support such a donor coordination mechanism as a conduit for pledging donor contributions in support of STP's agenda, and for reducing transaction costs for the already overstretch authorities (see paragraphs 92 and 93).
- ***STP needs to develop a new results-oriented strategy*****.** The proposed DPO supports STP to adopt a results-oriented PRSP based on sound analysis and consultative process to ensure that STP's development objectives are met.

65. **Lessons learnt from Bank-wide analytical work on small island states.** The Bank has an extensive knowledge base on small states. Small states are characterized by: (i) high per unit cost of government services, which implies that public resource management needs to be particularly effective; and (ii) little flexibility of the economy to adapt to shocks, which implies that the Government must ensure the sustainability of economic policies. As shown in Annex 7, the experience of Cape Verde reveals that structural vulnerabilities common to small island states may be overcome by consolidating reforms aimed at raising the efficiency of investment and foreign aid to support economic growth and engender domestic savings, and by implementing sound fiscal and monetary policies, among other reforms. In line with these findings, this DPO supports policies that are cognizant of STP's institutional capacity and aim to improve public resource management and to promote sustainable economic policies.

C. ANALYTICAL UNDERPINNINGS

66. The PRMG DPO policy triggers and benchmarks draw upon key recommendations of the Public Expenditure Management and Financial Accountability Review (PEMFAR), the European Union's Public Expenditure and Financial Accountability Review (PEFA), the Debt Management Performance Assessment (DeMPA), and the Country Economic Memorandum (CEM).

67. **PEMFAR.** The 2007 PEMFAR provides a comprehensive assessment of STP's public financial management systems and capacities. The Country Financial Accountability Assessment (CFAA) component of the PEMFAR includes recommendations to address key weaknesses in public sector management and accelerate reforms in the areas of budget preparation, execution, reporting and control. These recommendations were translated into an action plan that was implemented with the assistance of the CBTA and the PNRMD. The Public Expenditure Review (PER) component of the PEMFAR highlights the need to strengthen overall governance and ensure the sustainability of fiscal policies. The PER also highlights the need to improve the legal framework for assessing the performance of SOEs, and to strengthen the database of financial information of SOEs. The Government is following these recommendations in the drafting of public financial management regulations as well as economic management and supervision legislation.

68. **PEFA.** The 2010 PEFA pointed to weaknesses in financial accountability in the public sector and listed a number of priorities for 2010 and beyond, notably: the publication of an annual statement of public accounts; the need to raise the transparency and accountability of public resources; and the modernization of accounting systems and routines.

69. **DeMPA.** The 2008 DeMPA report provides a useful baseline of debt management performance indicators for STP after the HIPC Completion Point. Debt management in STP is weak and debt indicators show that STP does not meet the minimum requirements for adequate debt management although it is improving in some areas. In particular, the DeMPA highlights the need to improve the debt legal framework and debt managerial structures.

70. **CEM.** The recently-completed Country Economic Memorandum identifies the constraints to growth and identifies public financial management and public governance as priority areas for reform in STP. Particular focus is given to raising public expenditure effectiveness, and enhancing the resilience of the economy through sustainable economic policies. Specifically, STP would need to improve macroeconomic stability, which is an overarching constraint, for which the Government would need to accelerate fiscal consolidation to support the peg to the Euro, and increase the flexibility of the labor and capital markets to better adjust to external shocks. Furthermore, the business climate needs to be improved by eliminating red tape, by improving the effectiveness of public financial management, and by expanding the tax base. These efforts should be accompanied by investments in human capital and infrastructure. All of which would help reduce the fiscal deficit and eliminate market distortions, while fostering competition and investment, and creating jobs.

V. THE PROPOSED GRANT OPERATION

A. OPERATION DESCRIPTION

71. **Program Development Objectives.** The overall objective of the PRMG DPO is to assist the Government of São Tomé and Príncipe to improve public sector effectiveness. This objective will be achieved by: (i) raising the transparency and accountability in the management of public resources with a focus on improving budget transparency and accountability and the implementation of pro-poor expenditures, improving the management of public accounts and assets, and strengthening the oversight framework for public enterprises; and (ii) promoting sustainable economic policies by strengthening the fiscal policy framework including the management of public debt, and by improving donor coordination. The program development objectives are consistent with the objectives of the Interim Strategy Note 2011-2012. The specific program outcomes and expected results are presented in the policy matrix in Annex 3.

72. **Benefits.** This single tranche IDA financing will strengthen the institutional infrastructure needed to improve the public sector's capacity to better deliver key services and support growth. The work of the departments involved in public financial management would be facilitated as a result of the PRMG operation. Ultimately, the main benefits of this operation will accrue to all São Tomeans in terms of better-targeted public expenditures that reduce poverty, and strengthened macroeconomic stability in support of economic growth.

73. **Good practice principles in conditionality.** Box 1 provides information on how good principles on conditionality have been applied in STP. It demonstrates the appropriateness of the reform program, especially given the government's extensive participation in its design.

Box 1: How Good Practice Principles on Conditionality are being Applied to the Operation

Principle 1: ***Reinforce Ownership***

- The new Government has received a strong mandate in the August 2010 elections with 26 out of 55 seats in the National Assembly (2 seats short of a majority)
- The new government has succeeded in mustering support in the National Assembly to adopt in September 2010 its Government Program that aims to improve public governance. The country has proven a positive policy reform track record in PFM and macroeconomic management with the implementation of the Capacity Building Technical Assistance Project, the PNRMD Grant, the 2005-2008 IMF-PRGF, and the ongoing IMF-ECF since 2009.
- The Bank has had extensive discussions with the authorities on the policy options and the Government departments identified the critical reforms needed to accelerate implementation of the PFM reforms. Where not enough analysis was available (i.e. reform of energy tariffs to ensure public expenditure sustainability) the Bank has agreed with the authorities to support further analysis.
- The authorities has sworn their commitment to the reform though a set of critical technical assistance that will be financed with domestic resources from the public budget.

Principle 2: ***Agree up front with the government and other financial partners on a coordinated accountability framework***

- The accountability framework (e.g. policy matrix) for measuring progress under the program has been prepared and discussed with ministries involved at the technical levels. The country's leadership was regularly informed of the plans and progress during negotiations.
- Other donors (UNDP, EU) do not currently provide budget support but this operation has been discussed with them in order to strengthen the PFM's monitoring and evaluation system, as well as the governance reforms. The activities supported by this operation will benefit other donors who wish to use budget support in the medium term.

Principle 3: ***Customize the accountability framework and modalities of Bank support to country circumstances***

- This operation focuses on measures to address immediate bottlenecks in public resource management and governance, which closely reflect urgent priorities in economic management. The focus on PFM and governance reforms also takes into account the country's limited institutional capacity to undertake a broad range of reforms in areas where not enough analysis was available, such as reforming the regulatory environment or improving the business environment.

Principle 4: ***Choose only actions critical for achieving results as conditions for disbursement***

- There are 7 prior actions, which aim to assure early improvement in PFM and governance.
- Actions that improve the sustainability of fiscal policies will have positive spillover effects on economic growth.

Principle 5: ***Conduct transparent progress reviews conducive to predictable and performance-based financial support***

- The preparation of this operation follows the lessons learned from the PNRMD and the Bank support has been coordinated to be incorporated into the 2011 Budget.
- One program review is planned. They will review program progress taking into account the limited indicators available in the country and the short period available to have visible impacts (1 year).

B. POLICY AREAS

74. The Public Resource Management and Governance Reform (PRMG) operation is designed to provide additional fiscal resources to São Tomé and Príncipe (STP) to protect priority sector spending and support fiscal consolidation and public sector reforms in the aftermath of the global economic slowdown. The PRMG operation supports the continued implementation of the 2011 Government's reform program. It supports policy measures aimed principally at (i) raising transparency and accountability in the management of public resources; and (ii) promoting sustainable economic policies by strengthening the fiscal policy framework and improving donor coordination. This grant will also support preparation of new PRSP based on an updated poverty profile originating from a 2010 household survey and an analysis of growth diversification options.

75. This section provides a discussion of STP's medium-term reform program around the issues of focus in the proposed PRMG DPO. This operation consolidates reforms supported by previous Bank operations, notably the PNRMD and CBTA. Considerable progress has already been realized in these areas over the past few years and the Government's interest is to accelerate implementation of PFM reforms and ensure the sustainability of economic policies. In addition, the authorities aim to

conclude a new PRSP. Next, the Program Document summarizes the policy background and issues, prior actions, key next steps,[18] expected results, and performance and monitoring indicators.

a. Raising the Transparency and Accountability of Public Resources

76. **The PRMG supports the Government's efforts to consolidate the PFM reforms underway.** This operation aims to consolidate and accelerate reforms in PFM, which have been recognized to be time-consuming and challenging for a small country at this level of development. The PFM policies supported in this DPO are those identified as critical by the PEMFAR and the PEFA reports, including: (i) increasing the transparency and accountability of budget preparation; (ii) improving the management of public accounts and assets; (iii) improving the performance of public enterprises; and (iv) improving payroll management.

Increasing the Transparency and Accountability of Budget Preparation

77. **STP suffers from a lack of transparency and accountability concerning budget formulation.** The 2010 PEFA report notes that the budget proposal is submitted to the National Assembly for approval but it is not available for public discussion. Meanwhile, the 2010 Open Budget Index ranks STP 94^{th} out of 94 countries as neither the budget, nor its quarterly reports, are available to the public. To increase budget accountability and better align the budget to the Government's strategy, the Government created in 2008 (with support from the PNRMD DPO) budget expenditure items that correspond to poverty reduction priorities in social sectors (i.e., pro-poor budget codes). However, pro-poor expenditures were not specified in the budget and were not open to public debate.

78. **The Government is taking measures to promote an informed debate on how public expenditures are prioritized through transparency and accountability in public resource management.** With support from this operation, the Government improved transparency and accountability by publishing the 2011 budget proposal in the Government's website. In addition, to facilitate the supervision of pro-poor expenditures and strengthen the financial implementation of the PRSP, the 2011 budget proposal specifies pro-poor expenditures during 2007-10, and the proposed amount for 2011. The Government will consider revising the pro-poor budget codes in the future to bring them in line with the new PRSP. Importantly, following PRSP objectives, the Government is committed to raising pro-poor expenditures substantially in 2011, in comparison to previous years. In the medium-term, the Government plans to publish the Budget Laws and the Quarterly Implementation Reports in the Government's website. Moreover, it plans to strengthen the links between budget allocations and policy priorities by publishing pro-poor expenditures. The purpose of this initiative is to clearly identify intended beneficiaries of public expenditures, and monitor specific expenditure allocations aimed at promoting pro-poor growth.

Prior action 1: The Recipient's Council of Ministers has published on the Recipient's Public Portal a bill of law that approves the 2011 budget in preparation for its submission to the National Assembly.

Prior action 2: The Recipient's Council of Ministers has presented to the National Assembly the bill of law for the 2011 budget specifying: (a) the expenditure items that correspond to poverty reduction priorities in social sectors; and (b) that the share of expenditures that correspond to poverty reduction priorities is at least 35 percent of total expenditures (compared to an average of 30 percent for the 2008-2010 period).

[18] The "key next steps" are part of the Government's medium-term program and are not considered for disbursement of this operation.

Improving the Management of Public Accounts and Assets

79. **Significant challenges remain regarding the management of government accounts and assets.** The most critical area is the lack of production of the annual financial statements. This means that an external audit cannot be conducted by the Court of Accounts, weakening public sector accountability. The lack of annual financial statements has resulted from the technical complexities of developing and making operational the SAFE-e system, but more importantly it reflects limited institutional capacity in public accounting that has delayed the development of critical elements such as the opening of the accounts, and selection of the accounting standards, among other things.

80. **An important step to making the SAFE-e system operational and producing the annual financial statements of the State is making the Public Accounting Directorate (PAD) operational**, with appropriate budget and personnel allocations. To this end, with support from this operation, the Government has recruited a Director of Public Accounting, and has made the PAD operational with staff (Department Heads and technical staff) and an equipped office space. The 2011 Budget Law assigns resources for training activities for PAD's staff. In the medium-term, the PAD will be responsible for preparing a public accounting manual that sets out the accounting principles, procedures, and accounting tables. The Government will also train personnel of the Public Accounting Directorate to ensure the production of the annual financial statements. As a result of these activities, the PAD plans to adopt an accounting framework with Generally Accepted Accounting Principles (GAAP) and to undertake yearly internal controls of the financial accounts. These measures will ensure that all budgetary, financial and asset operations are recorded in a reliable and consistent manner in the public accounts, and that public accounting statistics are harmonized with the statistics of the Central Bank. Once the authorities have published a first set of financial statements, the next step would be to submit them to the external auditor for a financial audit. The Government expects to prepare pilot public accounts for 2011 by mid-2012.

Prior action 3: The Recipient's Public Accounting Directorate is operational, as evidenced by (a) the recruitment of a Director of Public Accounting and Department Heads for Accounting Norms and Procedures and for Monitoring and Analysis; and (b) the allocation of a permanent operational budget of at least 180 million Dobras (about US$10,000) as per the provisions in the Recipient's 2011 Budget Law.

81. **Government institutions also suffer from a lack of information on public assets and formal guidelines to manage them.** Given that foreign assistance finances over 80 percent of the public investment program, the authorities estimate that an important portion of public assets is not properly registered and that it may be used for private benefit, thereby undermining public sector accountability. STP lacks a registry of public assets, and staff at the new Public Assets Management Directorate lacks guidelines to monitor and control assets.

82. **In response to these challenges, the Government is improving the management of assets.** With support from this operation, the Directorate of Public Asset Management (created in 2008 with separate functions from the existing Treasury Directorate), has carried out a very comprehensive inventory of existing mobile public assets for most sector ministries, which will provide critical information needed to prepare the public accounts of the State. A software system has been developed to record this inventory of public assets, and the Government has provided training to all ministries on this new software. Furthermore, the authorities have prepared a manual of operations for the

management of assets.[19] Both the inventory and the manual of operations are important elements in designing a more effective public management system by creating a centralized database of public assets, and improving the procedures for monitoring, controlling, and replenishing public assets. Existing problems of inadequate use of public assets are expected to be reduced, thereby improving the accountability of the public sector. Given the technical complexity associated with managing assets, the development of this manual of operations is a key step in improving the management of public assets, and will also contribute to the preparation of public accounting statistics. In the medium-term, the Government also plans to complete an inventory of mobile public assets for all autonomous agencies, including the National Assembly, the Presidency, and the Supreme Court.

Prior action 4: The Recipient's Ministry of Finance and International Cooperation has: (a) carried out and completed the inventory of existing mobile public assets for at least 90 out of the existing 120 ministerial entities that have mobile assets; (b) published this inventory in its public portal; and (c) completed and approved a manual of operations to manage the Recipient's mobile public assets.

Improving the Performance of Public Enterprises

83. **Public enterprises suffer from a lack of accountability, and their performance penalizes the private sector and puts at risk fiscal sustainability.** In addition to taking measures to prevent the recurrence of overruns and arrears emerging from public enterprises (see paragraphs 23 and 26), the Government is embarked on a reform program to strengthen internal controls, and provide a legal framework for performance-based assessments of results. In 2008, the *Inspecção Geral de Finanças* (IGF) carried out a diagnostics study of the financial status of the four fully owned state enterprises as of December 31, 2007. In addition, the Government has recently conducted analytical work in some SOEs (notably water and energy, and airport services) to assess their financial problems and possible remedies. However, supervision of public enterprises, now governed by an outdated 1978 Law, suffers from several problems including weak controls mechanism, both internally and externally. Furthermore, the existing legislation does not appropriately cover SOEs that formally fall under the financial supervision of the Treasury that, in practice, has no capacity for this task.

84. **With support from this operation, the Government aims to strengthen its legislation governing public enterprises**, and to set clear managerial structures for better administrative and financial controls of public enterprises. With support from this operation, the Government has drafted a new law that would update the 1978 Law, setting forth procedures and managerial structures concerning the internal organization of public enterprises, financial monitoring and controls, financing of public enterprises, and private-sector participation. This legislation provides a framework for conducting results-based performance assessments of public enterprises, and for remunerating the executives in these public enterprises through performance bonuses. Performance assessments would depend on an evaluation by the Ministry in charge of the sector, which will be based on the degree of responsibility of staff, the characteristics of the institution, and the financial performance of the institution. The use of bonuses aims to provide incentives to managers to improve the financial performance of public enterprises. In the medium-term, the Government plans to carry out a diagnostics study of the financial practices of SOEs. This activity will involve the Ministry of Finance and International Cooperation and line ministries in charge of the sector.

Prior action 5: The Recipient's Council of Ministers has submitted to the Presidency a decree regulating performance-based assessments of public enterprises.

[19] This manual of operations guides the management of non-real state public assets by establishing procedures for: (i) maintaining an updated database of non-real state public assets (including entry/exit and amortization principles); (ii) conducting a financial monitoring of such assets; and (iii) preparing periodic reports for asset management.

Improving Payroll Management

85. **Weak budget controls in public service management hinder fiscal consolidation.** The payroll management has been strengthened, notably in 2009, when staff salaries started to be paid via bank transfers. However, payroll management is undermined by lack of complete personnel records and personnel database, and by the lack of reconciliation between distinct personnel information at the MFIC and the Ministry of Public Administration (MoPA). This lack of centralized information on Government employees coupled with a lack of rigorous checks may allow "ghost/shadow workers" to enter the payroll, leading to public sector inefficiency and over-spending.

86. **The Government is addressing weaknesses in payroll management to improve public sector effectiveness.** To address these challenges, the Government plans to complete a general headcount of Government employees by May 2011. In the medium-term, the Government plans to set up a system so that payroll records of Government employees are updated on a regular basis. Specifically, the Government plans to integrate payroll registry into the SAFE-e system by December 2011. Furthermore, the authorities plan to update the civil service statute by December 2011 to better align salary increases with productivity increases via performance evaluations. This would allow the public service to attract and retain essential technical, professional and managerial staff, while managing the performance of civil servants more effectively through a framework of planned objectives and standards.

b. Promoting Sustainable Economic Policies

87. **The policies supported in this DPO that aim to promote sustainable economic policies address critical areas identified in the CEM and the DeMPA reports**, including: (i) strengthening fiscal policy management; and (ii) strengthening donor coordination.

Strengthening Fiscal Policy Management

88. **Fiscal policy management is the most critical area to ensuring the sustainability of the STP's economic policies.** The lack of a clear fiscal policy framework has resulted in persistent deficits and pro-cyclical economic policies, rising debt levels, and, over time, a loss in policy credibility. To address these concerns, the Government has designed a set of measures to ensure that fiscal policy contributes to overall macroeconomic stability. These measures aim to adopt a fiscal responsibility framework to limit unsustainable deficit levels, strengthen the debt management system, and align donor assistance around STP priorities.

89. **The Government plans to develop a Fiscal Responsibility Framework in line with international best practices.** The Government recognizes that current procedural and transparency rules for fiscal management are insufficient to ensure the sustainability of fiscal policy in STP, in particular given the recent establishment of a fixed exchange regime. Accordingly, the Government aims to prepare a Fiscal Responsibility Framework to avoid pro-cyclicality in fiscal policy. In particular, such a framework would make the budget process more hierarchical by providing procedural rules to guarantee fiscal compliance and avoid misuse of political discretion in budgetary allocation and execution. It would also provide provisions to limit or suspend the rule if special circumstances happen (such as "escape clauses" during exogenous shocks). A Fiscal Responsibility Framework will, on the one hand, increase public sector accountability by setting medium term commitments for fiscal deficit and public debt, and on the other hand, it will facilitate multi-annual budgeting, thereby raising public expenditure effectiveness. To this end, the Ministry of Finance and International Cooperation plans to seek authorization from the Council of Ministers to develop a

Fiscal Responsibility Framework and to launch this process. In the medium-term, the Government expects to discuss this Fiscal Framework with civil society and STP's development partners, and this framework is expected to be adopted in 2012.

90. **An inadequate debt management system hinders debt sustainability.** Successful macroeconomic and structural reforms led STP to reach the Completion Point under the Enhanced HIPC Initiative in 2007. However, the February 2011 Debt Sustainability Analysis (DSA) points out that STP's risk of debt distress remains high and that substantial fiscal adjustment would be required to ensure debt sustainability. The 2008 DeMPA finds that this high risk of debt distress is in part due to the institutional environment governing debt management. Indeed, STP does not meet the minimum DeMPA requirements for debt management in most categories, notably the legal framework and the managerial structures. The borrowing mandate to the Government in the SAFE legislation is not well formulated and allows contracting debt that is not adequately approved by the MFIC. Furthermore, the regulation of loan guarantees is not clear or comprehensive, since it only deals with guarantees to state-owned enterprises. Also, although debt management is formally under control of the Debt Management Directorate, several other entities also manage debt.

91. **To address weaknesses in debt management, the authorities are strengthening the legal framework for debt management,** as well as building capacity in the Debt Management Directorate. With support from this operation, the Government has submitted to the National Assembly a bill of law that set clear managerial structures for debt-related transactions. This legislation provides a strong borrowing mandate for contracting new public debt that can only be approved by the MFIC and requires endorsement by the National Assembly. Furthermore, it provides clear managerial structures for contracting public debt (by only allowing the MFIC to manage public debt decisions), as well as regulations of loan guarantees for all public entities. The key objective for the medium-term is to assure strict implementation of best transparency practices by publishing details of all public debt in the Government's website. The authorities will also prepare a Debt Strategy that will complement the legislation by setting debt management objectives with specific concessionality targets, which is expected to improve the predictability and the alignment of debt procedures with fiscal policy goals.

Prior action 6: The Recipient's Council of Ministers has submitted to the National Assembly a bill of law that regulates Public Debt Management specifying the processes and procedures for contracting new public debt.

Strengthening Donor Coordination

92. **Despite heavily reliance on official development assistance (ODA), STP has a weak donor coordination system that reduces aid effectiveness and hinders fiscal sustainability.** Even though over 80 percent of the Government's public investment (PIP) is supported by donors, there is no formal consultative mechanism that coordinates donor assistance around government priorities and strategy. Sector-wide approaches and direct budget support are seldom used and parallel mechanisms for implementing donor assistance (rather than through Government institutions) are common. As a result, the Government has limited information and control over ODA, which hinders budget preparation, undermines government accountability, weaken project sustainability and overall reduces public sector efficiency and the overall impact of ODA. Furthermore, it undermines fiscal sustainability as recurrent expenditures of donor projects are not adequately planned for. It is also worth mentioning that in the past five years there has been a considerable shift from the share of Treasury-financed capital investments, relative to total capital expenditures, towards a reliance on donor-financed capital investments (see Table 1). This shift in the type of financing for capital investments calls for stronger coordination with donors. Importantly, the current lack of access to

reliable and standardized donor assistance information inhibits basic coordination and planning. This is a weakness for the development of a medium-term budgetary framework.

93. **The new Government aims to adopt a new cooperation framework to strengthen donor coordination and raise aid effectiveness.** The Government has reorganized its structure to add the cooperation competences to the Ministry of Finance, which became the Ministry of Finance and International Cooperation in 2010. Also, with assistance from the United Nations, it has started to create three thematic groups to strengthen donor coordination (namely governance, access to basic services, and infrastructure and food security) to address STP's development challenges. The Government has also prepared a draft Memorandum of Understanding (MoU) to harmonize donor assistance around STP's strategy. This MoU is expected to foster exchange of information around the government strategy, creating guiding principles that support (rather than substitute for or duplicate the functions of) Government ministries and agencies. This MoU represents a structural change in how the Government approaches aid coordination, by allowing periodical exchange of information through a formal consultative mechanism, fostering debate, and improving medium-term expenditure planning. In the medium-term, the Governments plans to update the MoU based on donor comments, and to request donors to review and sign the MoU, which is expected by 2012. Furthermore, the Government plans to create a single database of external assistance to ensure that donor-financed projects are adequately registered (e.g., planned results, actual results, commitments, disbursement, and where possible, pipeline projects and expenditures). These measures will complement the preparation of the new PRSP.

Prior action 7: The Recipient's Ministry of Finance and International Cooperation: (a) created a Directorate of International Cooperation; and (b) submitted to the donor community a first draft of a Memorandum of Understanding to strengthen aid coordination specifying procedures to: (i) determine which Recipient's institution shall be responsible for managing donor meetings and aid information; (ii) schedule donor meetings; and (iii) report and share information on foreign aid.

94. **The full program supported by the proposed PRMG operation is set out in the Policy Matrix (Annex 3) and prior actions are summarized in Box 2.** The prior actions listed below support the Government in its effort to implement its reform program, following assurances that it is committed to carry on with its implementation. During implementation, the Government will need to maintain satisfactory macroeconomic performance.

Box 2: Prior Actions[20]

Outcomes Sought	Prior Actions
A. Raising the Transparency and Accountability of Public Resources	
Increase the transparency and accountability of budget preparation so that the budget reflects the priorities of the Government	The Recipient's Council of Ministers has published on the Recipient's Public Portal a bill of law that approves the 2011 budget in preparation for its submission to the National Assembly.
	The Recipient's Council of Ministers has presented to the National Assembly the bill of law for the 2011 budget specifying: (a) the expenditure items that correspond to poverty reduction priorities in social sectors; and (b) that the share of expenditures that correspond to poverty reduction priorities is at least 35 percent of total expenditures (compared to an average of 30 percent for the 2008-2010 period).
Improve the management of public accounts and assets	The Recipient's Public Accounting Directorate is operational, as evidenced by (a) the recruitment of a Director of Public Accounting and Department Heads for Accounting Norms and Procedures and for Monitoring and Analysis; and (b) the allocation of a permanent operational budget of at least 180 million Dobras (about US$10,000) as per the provisions in the Recipient's 2011 Budget Law.
	The Recipient's Ministry of Finance and International Cooperation has: (a) carried out and completed the inventory of existing mobile public assets for at least 90 out of the existing 120 ministerial entities that have mobile assets; (b) published this inventory in its public portal; and (c) completed and approved a manual of operations to manage the Recipient's mobile public assets.
Improve the performance of public enterprises	The Recipient's Council of Ministers has submitted to the Presidency a decree regulating performance-based assessments of public enterprises.
B. Promoting Sustainable Economic Policies	
Strengthen fiscal policy management	The Recipient's Council of Ministers has submitted to the National Assembly a bill of law that regulates Public Debt Management specifying the processes and procedures for contracting new public debt.
Strengthen donor coordination	The Recipient's Ministry of Finance and International Cooperation: (a) created a Directorate of International Cooperation; and (b) submitted to the donor community a first draft of a Memorandum of Understanding to strengthen aid coordination specifying procedures to: (i) determine which Recipient's institution shall be responsible for managing donor meetings and aid information; (ii) schedule donor meetings; and (iii) report and share information on foreign aid.

VI. OPERATION IMPLEMENTATION

A. POVERTY AND SOCIAL IMPACT

95. **Limited poverty information available.** There is a relative paucity of data on poverty with the most recent household survey dating back to 2001, which hinders the Government in its strategy to fight poverty. Although administrative indicators (education and health) suggest that poverty is decreasing, according to the World Food Program, the 2008 economic downturn has led to an increased the number of vulnerable people (those for whom food is insufficient or at the limit) from 23 percent of the population before the crisis to around 35 percent in 2008. This operation will support the National Statistics Office in finalizing a household survey that will update the poverty profile in 2011. This new information will help the government to better target pro-poor expenditures and estimate the impact of key reforms on poverty.

[20] The Government has agreed upon and implemented these prior actions before the presentation of the operation to the Bank's Board of Executive Directors.

96. **The actions supported by this Grant are expected to have positive poverty and social impacts.** Notably, supported by this operation, the budget allocation for pro-poor expenditures has increased relative to previous years. Also, as spelled out in the PRSP, weak public financial management systems and poor governance are perceived to be critical causes of poverty. Joint World Bank and IMF staff assessments of STP's PRSP have emphasized the need for the poverty strategy to be more explicit on key priorities and budgetary allocations. Indeed, weak Public Financial Management (PFM) has led to inefficiency, limited control and loss of impact of limited public resources. To achieve faster poverty reduction, the PRMG program will provide US$4.2 million to help implement the Government's economic reform program. First, PFM reforms will help ensure that domestic and external resources are used effectively and more transparently, and that the budget can be used as a tool for poverty reduction by improving the accountability system and enhancing the external oversight of public resources. Second, the revision of the PRSP will update the poverty reduction goals in line with the new macroeconomic framework and will foster a growth strategy that benefits the poor through more employment and increasing income.

B. ENVIRONMENTAL ASPECTS

97. **Policy actions supported by the PRMG Grant are not likely to have significant positive or negative effects on the 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, is that the reforms are not likely to be significant from an environmental point of view. The policies supported under this Grant address primarily institutional reforms. The focus of the reforms is on transparency and accountability or public resources, on the efficiency of public expenditures, and on promoting good governance. If environmental impacts arise, they are expected to be beneficial for STP. Strengthening public resource management and promoting sustainable economic policies is expected to lead to more efficient use of public resources, which may indirectly generate environmental benefits by encouraging the adoption of modern technologies which use resources more efficiently than those they replace. Similarly, improving the performance of public enterprises is expected to result in lower subsidies to public enterprises such as the electricity and water utilities, which will in turn force the utilities to raise prices to reflect costs of services and to operate more efficiently.

C. IMPLEMENTATION, MONITORING AND EVALUATION

98. **Implementation entity.** The Ministry of Finance and International Cooperation (MFIC) will be responsible for overall implementation of PRMG as well as for reporting progress and coordinating actions among other concerned ministries and agencies. The MFIC has experience in coordinating and implementing DPO programs as evidenced by the successful implementation of the PNRMD DPO.

99. **Need to improve the monitoring and evaluation (M&E) system of the country.** STP has an inadequate system for monitoring and evaluating the implementation of the PRSP with limited administrative and technical capacity and insufficient coordination between stakeholders, such us the PRSP Unit, the Directorate of Planning, and the National Statistical Institute (INE). Furthermore, it does not have adequate data on poverty indicators. The operation will also strengthen the M&E system to better monitor PRSP implementation and will emphasize stronger donor coordination aligned to the PRSP.

100. **Program Monitoring.** Following the previous success with the PNRMD DPO, the review of the program objectives will be based on relevant and easy-to-monitor indicators. A half-year review of the program will be carried out. Most of the policy areas of the proposed operation have benefited in the past from the monitoring system in place under the CBTA and PNRMD. In addition, the proposed

operation will benefit from the monitoring system of the ongoing IMF ECF, notably on the macroeconomic performance. An Implementation Completion and Results Report will be issued within six months following the closing date of the operation.

D. FIDUCIARY ASPECTS

101. **The Government is strengthening its fiduciary management.** Public financial management and fiduciary issues are covered as part of the operation in Section V, Raising the Transparency and Accountability of Public Resources. There are also solid analytical underpinnings to this operation, including a 2007 PEMFAR. STP's fiduciary framework is adequate overall to receive the proceeds of the grant. Government's commitment to PFM reforms is exemplified by actions already taken, particularly in light of the implementation of the PFM reform program already underway which the Government is committed to continuing with support from this operation. STP's fiduciary framework, together with the Government's commitment to reforms, is adequate overall to support this operation.

102. **The IMF has prepared a safeguards report and considered the adequacy of the Central Bank's financial management practices as well as the foreign exchange environment.** Under the IMF's safeguards assessment policy, the Central Bank of São Tomé and Príncipe was subject to a full safeguards assessment with respect to the PRGF arrangement approved in on August 1, 2005. The assessment, which was completed on August 2, 2004, found vulnerabilities in the area of financial reporting, internal audit and internal control. Measures to strengthen the control framework and help safeguard Fund resources were agreed with the authorities. Some recommendations have been implemented, including contracting annual external audits, endorsing plans to modernize the Central Bank's internal audit function, and adopting International Financial Reporting Standards (IFRS) as the bank's accounting framework. Although slow progress has been realized in the implementation of IFRS, recent annual audited financial statements have been made public, and the implementation of these recommendations is being monitored by IMF staff.

E. DISBURSEMENT

103. **A single-tranche of SDR 2.7 million (US$4.2 million equivalent) will be disbursed upon grant effectiveness and following the Recipient's request for withdrawal of proceeds of the grant.** The grant will follow the Bank's standard disbursement procedures for development policy operations. The grant will be disbursed against satisfactory implementation of the DPO program, the appropriateness of the country's macroeconomic policy framework. Once the operation is approved by the Board and becomes effective, and following the Recipient's request for withdrawal of proceeds of the grant, the Bank will disburse the proceeds of the grant to a foreign currency account maintained at the Central Bank of São Tomé and Príncipe and forming part of the official reserves of São Tomé and Príncipe. The Recipient shall provide confirmation to the Bank that upon deposit of the grant into said account, an amount equivalent to the grant proceeds from the Bank has been credited in the Recipient's budget management system, with an indication of the exchange rate applied, where applicable. The conversion from the foreign currency to the local currency will be based on the prevailing exchange rate on the date that the funds are credited to the budget management system. The Central Bank of STP will not impose any charges or commissions on the Recipient for these transactions.

104. If the proceeds of the grant are used for ineligible purposes as defined in the Financing Agreement, IDA will require the Recipient to, promptly upon notice from IDA, refund an amount equal to the amount of said payment to IDA. Amounts refunded to the Bank upon such request shall

be cancelled. The administration of this grant will be the responsibility of the Ministry of Finance and International Cooperation.

F. RISKS AND RISK MITIGATION

105. The PRMG DPO has significant country, macroeconomic and institutional capacity risks, all of which reflect STP's economic vulnerability and low limited institutional capacity.

106. **The first risk will be the maintenance of a stable macroeconomic environment should the expected external assistance does not materialize or the global recession continues.** Increasing international oil and food prices and shortfalls in donor support and FDI associated with the global economic slowdown could have a deterring impact on economic growth, reduce government resources, and affect its ability to conduct its reform program. The Government is committed to keeping macroeconomic stability and to continue implementation of the ECF program signed with the IMF. A shortcoming of the new fixed exchange rate regime is that the Government would not be able to use monetary policy to address exogenous shocks. In this context, the Government is aware that fiscal adjustment through additional expenditure restrains, and the acceleration of reforms aimed at improving revenue management, would be necessary o mitigate this risk. As part of this operation, the Government will develop a fiscal responsibility framework and a Public Debt Management Law that specifies the processes and procedures for contracting new debt. Both reforms, in addition to the existence of the National Oil Account which limits the share of future oil receipts that can be spent, shows the strong level of commitment of the new Government to achieve economic stability. This commitment will continue to be supported and monitored by the IMF and the Bank.

107. **The second risk is weak institutional capacity.** Capacity constraints in the public sector could delay implementation of the reform program. Despite significant improvement in term of capacity building in the MFIC and the Ministry of Planning and Development, major constraints to the implementation of reforms remain. Following the findings from the institutional capacity assessment (presented in Annex 8), this risk is further mitigated by (i) sustaining reforms that have started generating stronger capacity in public financial management and governance; (ii) concentrating on a limited number of policy areas; (iii) completing a institutional capacity assessment that highlights the main constraints; (iv) focusing on strengthening donor harmonization to reduce the number of activities to be implemented by the Government and better target donor assistance; (v) and agreeing with the government on critical technical assistance required to overcome the weaknesses identified in the institutional capacity assessment, to be financed with domestic resources.

108. **The third risk is political.** A long period of regional and legislative elections has culminated in a smooth change of leadership, but the Government does not possess a majority in the National Assembly which could lead to political stalemate and difficulties to maintain a stable macroeconomic environment, notably before presidential elections take place in 2011. This risk is partially mitigated by the strong commitment and the broad consensus among the major political parties on the need to advance economic reforms and maintain macroeconomic stability, as proved by the important laws that have already been passed in the past despite the Government not having an absolute majority in the National Assembly.

109. **The fourth risk is fiduciary.** Despite the Government's continued efforts to reinforce public finance management, some fiduciary risks concerning the use of public funds remain as internal and external control mechanisms are weak. Following the lessons learnt from the previous PNRMD Grant, this DPO aims to improve accountability and strengthen control mechanisms. Indeed, this risk is further mitigated by improving fiduciary standards and notably by producing public accounting statistics as a prelude for the preparation of the public accounts of the State. These are central

objectives of the Government's program, which builds on PFM reforms already in course to improve financial control, including stronger procurement practices. This PRMG program will continue to sustain improvement in budget implementation and fiscal reporting.

110. Overall, the project's risks are also being mitigated by the degree of the government ownership of the proposed measures, and its commitment to advance its reform agenda, in particular public finance management, as well as by an active and supportive policy dialogue with Bank and IMF staff. In addition, various donors are providing technical assistance to improve capacity-building and ensure full implementation of reforms in the public financial management area.

Annex 1: Letter of Development Policy
(Translation of the Portuguese version dated March 31, 2011)

São Tomé, March 31, 2011

To Mr. Robert B. Zoellick
President of the World Bank Group
1818 H Street, NW
WASHINGTON D.C. 20433
USA

Mr. President,

1. On behalf of the Government of the Democratic Republic of São Tomé and Príncipe, I have the pleasure of submitting to you the policy document of the Public Resource Management and Governance Reform Development Policy Grant of US$4.2 million. This development policy grant will support São Tomé and Príncipe in its ongoing reform program and to assist in sustaining our achievements so far.

2. São Tomé and Príncipe (STP) is in need of this support to continue the implementation of its economic and social reform program that is based on the 2010-2014 Government Program and on our Poverty Reduction Strategy Paper (PRSP).

3. This operation will also support us in our efforts to finalize a new Poverty Reduction Strategy Paper (PRSP). The policies and reforms of the new PRSP will be formulated in a participatory manner and we aim to incorporate a new growth diversification strategy. We will also frame it on an update macroeconomic framework that will take into account the most recent developments and prospects in the petroleum sector. The PRSP will focus on the need to raise the level of economic growth and employment creation. In particular, our authorities are committed to strengthen the reform agenda focusing on removing bottlenecks to growth, particularly in energy, infrastructure, and private sector development. We are finalizing a Household Survey that will inform the new PRSP, and we will complete this survey and update the poverty profile by August 2011. Updating the poverty profile will help us to establish a close link between the objectives of the PRSP and the Millennium Development Goals, thereby strengthening the monitoring and assessment mechanisms of our development strategy. A draft results-oriented PRSP will be completed by October 2011.

4. This Grant will contribute towards advancing two key areas of STP's economy: (i) improving public resource management through greater transparency and accountability of public expenditures; and (ii) promoting sustainable economic policies by strengthening the fiscal policy framework and the donor coordination framework.

A. SÃO TOMÉ AND PRÍNCIPE'S REFORM PROGRAM

Overview

5. Our Government has been implementing policy measures in line with the objectives of set forth in the PRSP, and has achieved important results. Since 2005, structural reforms have

included policies aimed at pursuing prudent fiscal and monetary policies, improve the efficiency of public spending, and build institutional capacities particularly in the petroleum sector. Our authorities liberalized the economy by encouraging trade and by privatizing a number of public enterprises. Moreover, new strategies in health and education have strengthened human capital. With the support from International Financial Institutions, STP was able to swiftly attain the HIPC Initiative's Completion Point in 2007. These reforms also led to a rise in investor confidence and an increase in economic activity in the services sector, particularly tourism.

6. Notwithstanding the hardships of the current external environment, macroeconomic discipline has been in line with the objectives agreed under the IMF's Extended Credit Facility (ECF) program that we have been implementing since 2009. Thanks to the successful implementation of reforms, STP has reduced its annual domestic primary fiscal deficit significantly, bringing it down from 10.7 percent of GDP in 2006 to an estimated 5.7 percent of GDP in 2010. Our Government plans to reduce the annual domestic primary fiscal deficit further to 4 percent of GDP in 2011 and to 3 percent by 2013. We have also seen a drastic improvement in other key economic indicators. In particular, annual inflation has been reduced from a peak of 37 percent in 2008 to an estimated 9.5 percent at end-2010.

7. Our authorities are committed to continue to strengthen macroeconomic performance in order to safeguard international reserves and the exchange rate peg. The funds made available by your institution will provide necessary financing to support key public expenditures in 2011. The budget targets and priorities for this year have been agreed with the IMF as part of the triennial program supported by the ECF, and with the World Bank. Importantly, our Government has increased the share of pro-poor expenditures in our budget from an average of 30 percent between 2008 and 2010 to over 37 percent in 2011.

8. This operation will also enable us to consolidate the reforms in public finance management that were supported by the World Bank's 2004-2010 Technical Assistance Capacity Building Project. In September 2010, the National Assembly approved the 2010-2014 Government Program which supports reforms that aim to develop the institutions and capacities to fully implement the Organic Law for Public Finance Management (SAFE Law) that was approved in 2007, particularly in relation to raising the transparency and accountability of the budget, and improving the management of public accounts and assets. In addition, this operation would support us to promote stronger fiscal policy management and improved donor coordination.

9. Our reforms up to now have achieved broad based support. As we forge ahead with the program, we continue to carefully consult with our partners in civil society, the opposition, and the private sector in order to ensure that the people of São Tomé and Príncipe have a sound understanding of the rationale of the structural reforms and their benefits.

Macroeconomic and Budgetary Framework

10. Overall, despite the occurrence of exogenous shocks, STP has maintained a stable macroeconomic framework in close coordination with our development partners. Prudent macroeconomic policies followed by structural reforms made it possible to establish the conditions for a sustainable economic recovery. Annual average real GDP growth exceeded 6 percent between 2000 and 2008, which and led to a sustainable improvement in income per capita for the first time since independence.

11. However, two external shocks in 2008 and 2009 caused a reversal of the rising trend underway. First, there was the increase in international food and fuel prices. Soon afterwards, a global

financial crisis erupted and a deep global recession followed it. These shocks resulted in a slowdown in economic activity, which shows the fragility of the gains obtained during previous years and the need to continue working with our partners to build up the resilience of the economy. In response to the crisis, our authorities sought external assistance to increase externally-financed public investment projects, which boosted economic activity, and continued to accelerate structural reforms. As a result, economic growth picked up slightly from 4 percent in 2009 to an estimated 4.5 percent in 2010. In January 2010, we pegged the exchange rate to the Euro and we have maintained a stable exchange rate (anchored at around 24,500 Dobra per Euro) even in the context of the Euro Zone sovereign crisis.

12. These achievements notwithstanding, São Tomé and Príncipe's economy remains vulnerable due to its high level of debt relative to exports, dependence on foreign aid, and the relatively narrow export base. Our medium-term macroeconomic outlook shows a rebound in economic activity, subject to global economic uncertainties. Growth is expected to rise to 5 percent in 2011, and to 6 percent in 2012 and 2013. Annual inflation is expected to continue on its downward trend and to reach 5 percent by end-2012. We also expect to reduce the domestic primary deficit to 3 percent by 2013, while preserving pro-poor expenditures in the social sectors. Risks to our medium-term outlook include exogenous shocks that may impact terms of trade and tourism and disrupt external financing from foreign investors or development partners. The focused implementation of our program will enhance our country's attractiveness to investors and foster the development and diversification of production and exports, thus reducing our vulnerability.

B. PROGRAM ADOPTED IN THE CONTEXT OF BUDGET SUPPORT

13. The policy actions summarized below support key components of the 2010-2014 Government Program, and aim to consolidate the implementation of our reform agenda. They focus primarily on improving the transparency and accountability of public expenditures and on promoting sustainable economic policies. These areas are important to realize overarching objectives, that is, economic growth and poverty reduction as well as governance and institutional enhancements. As previously mentioned, reforms in these two areas, launched several years ago, have already demonstrated positive impacts on economic growth in STP. We plan to continue making progress in these areas over the next few years.

Transparency and Accountability of Public Expenditures

14. We have increased the transparency and accountability of budget preparation. In November 2010, we published in its public portal the 2011 budget proposal that was submitted to the National Assembly for approval to promote an informed public debate on how public expenditures are allocated. To further increase the transparency and accountability of the budget, we published the approved 2011 Budget Law in March 2011, and will also publish the Quarterly Budget Implementation Reports for 2011. The first Quarterly Budget Report for 2011 will be published by April 15, 2011.

15. We have enhanced the monitoring system for poverty reduction. In 2008, supported by a World Bank operation, we created budget expenditure items that correspond to poverty reduction priorities (i.e., pro-poor budget codes). To increase the accountability of the budget and to better align public expenditures to our strategy, we have specified the allocation for all pro-poor expenditures in the 2011 budget. Our authorities' goal is to clearly identify intended beneficiaries of public expenditures, and to monitor specific expenditure allocations aimed at promoting pro-poor growth. In this regard, our budget now includes a historical record of pro-poor expenditures for all pro-poor

budget categories (the 2011 budget shows pro-poor expenditures from 2007 to 2011). Our Quarterly Budget Implementation Reports will also specify pro-poor expenditures. In line with our authorities' commitment to tackle poverty, the share of pro-poor expenditures in the 2011 budget proposal represents over 37 percent of total expenditures, a notable increase with respect to the average of 30 percent for the period between 2008 and 2010. By end-2011, our Government commits to execute at least 90 percent of pro-poor expenditures.

16. Our Government aims to improve the management of public accounts and assets in preparation for the production of annual financial statements. We have been working on this reform for several years. Progress has been achieved with the creation of public accounting institutions and the adoption of key legislation governing public financial management. Our country still lacks annual financial statements, but we are taking steps to produce these financial accounts at the soonest. The Ministry of Finance and International Cooperation has been developing a Computerized Integrated Financial Management Information System (SAFE-e). The SAFE-e will allow budget execution, and the production of financial accounts. The development of the SAFE-e was delayed due to technical complexities, but a pilot version of this system has been completed and it is currently being tested.

17. Since January 2011, the Public Accounting Directorate has been operational, with a dedicated budget and an equipped office space. Our Government has appointed a Director of Public Accounting as well as two Department Heads and technical staff. Training in public accounting is currently being provided for the staff at the Public Accounting Directorate. Moreover, a public accounting manual that sets out the accounting principles and procedures to produce the annual financial statements according to Generally Accepted Accounting Principles (GAAP) is being prepared. This manual will be completed and adopted by August 2011. By December 2011, our Government will produce monthly public accounting statistics (up to September 2011) and will harmonize these statistics with those of the Central Bank. Going forward, by July 2012 our Government will finalize the preparation of the annual pilot financial accounts for 2011. Starting in 2013, our Government will undertake yearly audits of the financial accounts to ensure that all budgetary, financial, and asset operations are recorded in a reliable and consistent manner.

18. We are also improving the management of assets. We carried out an inventory of existing mobile public assets in all ministries and we have published this inventory in our Government's public portal to promote an informed public debate on this issue. Formal guidelines on how to manage non-real estate public assets have been prepared. A software system has been developed to record this inventory of public assets, and we aim to integrate this software to the SAFE-e system. The Ministry of Finance and International Cooperation will create a single database with centralized information on non-real public assets per Ministry by December 2011. These policy actions represent important steps for improving the monitoring, controlling, and replenishing of public assets. Future actions include the completion an inventory of non-real state public assets for all autonomous agencies, including the National Assembly, the Presidency, and the Supreme Court, which is expected to be completed by May 2011. This information will be critical in the production of public accounting statistics.

19. Realizing fiscal consolidation will also depend on strengthening public enterprises which currently suffer from weak finances. In this regard, our Government has drafted a bill of law regulating performance-based assessments of public enterprises and submitted it to the Presidency for approval. This law sets clear managerial structures for better administrative and financial controls of public enterprises. Going forward, our Ministry of Finance and International Cooperation will complete a diagnosis study of the financial practices of State-Owned Enterprises by October 2011. This diagnosis will inform an evaluation of the implementation of the Public Enterprise legislation, which we will undertake in 2012.

20. We are also committed to addressing weaknesses in payroll management and will complete a general headcount of Government employees by May 2011. Future actions to improve the payroll management include the integration of payroll registry into the SAFE-e system, which is expected to be completed by September 2011. Our Government will also update the civil service statute to better align salary increases with productivity increases by proposing performance evaluations. A draft of this new civil service statute is expected to be finalized by December 2011.

Promotion of Sustainable Economic Policies

21. Our Government will develop a Fiscal Responsibility Framework in line with international best practices to avoid pro-cyclicality in fiscal policy. This framework would set medium-term commitments for fiscal deficit and public debt, thereby facilitating multi-annual budgeting and raising public expenditure effectiveness. Our Ministry of Finance and International Cooperation will prepare a draft Fiscal Responsibility Framework by October 2011, and it expects to present this draft to key stakeholders including labor unions, NGOs, employer associations, and donors by November 2011.

22. Our Government is fully aware of the importance of ensuring debt sustainability after HIPC and MDRI debt relief. In this context, we continue to build capacity in the Debt Management Directorate. Our authorities have submitted to the National Assembly, for approval, a Debt Management Law. This law will clarify the institutional responsibilities for public debt management, including by specifying that the borrowing mandate exists solely with the ministry in charge of public finances, with oversight by the National Assembly. Starting in November 2011, our Government will begin publishing the details of all public debt in its public portal. Our Government will also prepare a Debt Strategy, including an action plan to further strengthen debt management, by October 2011. We are confident that these policy actions will improve the predictability and the alignment of debt procedures with fiscal policy goals.

23. Our Government is aware that realizing fiscal consolidation would also depend on resolving structural problems with the state-owned utility company (i.e., the water and electricity company EMAE). In this regard, our Government will prepare an action plan to improve governance and supervision capacity in the utility sector by September 2011, in addition to proposing an appropriate tariff structure in early-2012 that would allow EMAE to recover its operational costs.

24. Concerning donor coordination, our Government has changed its managerial structures by assigning donor coordination functions to the new Ministry of Finance and International Cooperation. A Directorate of International Cooperation, now part of the Ministry of Finance and International Cooperation, has prepared a draft "Memorandum of Understanding" and will discuss this Memorandum at a donor meeting scheduled on April 8, 2011. Our aim is to raise aid effectiveness and to foster exchange of information with donors around our development strategy. Going forward, our Ministry of Finance and International Cooperation will create a single database of external assistance and will organize annual donor roundtables. This database on external aid will be launched by September 2011. Furthermore, our Government will present its 2012 budget proposal at a donor roundtable which will be scheduled in October 2011.

Implementation of the Program

25. The monitoring of the program will be performed by our Ministry of Finance and International Cooperation, namely the Budget Directorate, which will be assisted by the various technical Directorates such as Public Accounting, Treasury, Assets, International Cooperation, etc.

Assistance will also be provided by our Ministry of Planning and Development, Ministry of Public Administration, our PRSP Unit, and our National Statistics Institute. The abovementioned bodies have participated in the management of the preceding programs, including the two previous programs supported by World Bank, and the two programs supported by the IMF. Our Ministry of Finance and International Cooperation will also coordinate with donors that provide financial support to São Tomé and Príncipe to ensure the successful implementation of its reform program. Our Ministry of Finance and International Cooperation will be responsible for the monitoring of the bodies involved in the program, and will produce two progress reports that will be transmitted to the World Bank. These reports will inform about the reform progress in the areas supported by the budget support operation. The first progress report will be submitted to the World Bank in September 2011, and the second report will be submitted in December 2011.

C. CONCLUSION

26. Our program of public resource management and governance reform will consolidate progress already achieved, and ensure improvements in transparency and accountability of public expenditures. We expect to see notable improvements in the management of public finances in the budget and accounting sphere, but also considering the supervision exercised by domestic and international agents over the execution of the State budget. In addition, our reform program will promote sustainable economic policies by strengthening fiscal policy management and donor coordination. All of this would be particularly important given the uncertainties in the international environment. Furthermore, we attach particular importance to the preparation of a new PRSP that will guide our strategy in the coming years and provide the elements for pro-poor growth.

27. The Government of the Democratic Republic of São Tomé and Príncipe is hereby seizing this opportunity to reiterate its strong commitment to undertaking necessary reforms actions to promote economic growth and modernize our country. Our Government is convinced that the efficient and satisfactory execution of its reform program will contribute towards boosting the national economy onto a healthy and sustainable basis in view of poverty reduction. In this context, the support of The World Bank would be important to successful implementation of STP's continued reform agenda. In light of the macroeconomic reforms already carried out, the fixed objectives in this program, and the results achieved during the previous years, which are very encouraging, our Government requests the favorable consideration of its financing request aimed at the approval of the Public Resource Management and Governance Reform Development Policy Grant of approximately US$4.2 million and the provision of significant budgetary support for financing our economy.

REPÚBLICA DEMOCRÁTICA DE S.TOMÉ E PRÍNCIPE

(Unidade – Disciplina – Trabalho)

MINISTÉRIO DAS FINANÇAS E COOPERAÇÃO INTERNACIONAL

GABINETE DO MINISTRO

CARTA DE POLÍTICA DE DESENVOLVIMENTO

São Tomé, 31 de Março de 2011
Ref.: Nº.390/MFCI-GM/2011

Exmo. Sr.
Dr. Robert B. Zoellick
Presidente do Grupo do
Banco Mundial
1818 H Street NW
WASHINGTON D.C. 20433
EUA

Exmo. Senhor Presidente,

1. Em nome do Governo da República Democrática de São Tomé e Príncipe, cumpre-me submeter à apreciação de V. Exa. o documento sobre política relativo à Subvenção de USD 4,2 milhões em apoio à Política de Desenvolvimento da Gestão de Recursos Públicos e Reforma da Governação. Esta subvenção à política de desenvolvimento constituirá um apoio a São Tomé e Príncipe no seu programa de reformas actualmente em curso, contribuindo para sustentar os progressos até agora efectuados.

2. São Tomé e Príncipe (STP) necessita deste apoio para prosseguir com a implementação do seu programa de reformas económicas e sociais, baseado no Programa do Governo 2010-2014 e na nossa Estratégia Nacional de Redução da Pobreza (ENRP).

3. Esta operação apoiará também os nossos esforços para concretizar um novo documento para a Estratégia Nacional de Redução da Pobreza (ENRP). As políticas e reformas da nova ENRP serão formuladas numa perspectiva participativa e pretendemos incorporar uma nova estratégia de diversificação do crescimento. Será também formulada segundo um quadro macroeconómico actualizado que terá em consideração os mais recentes desenvolvimentos e perspectivas do sector do petróleo. A ENRP concentrar-se-á na necessidade de elevar o nível do crescimento económico e da criação de emprego. As nossas autoridades têm um particular empenho na consolidação do programa de reformas tendentes a resolver os entraves ao crescimento, particularmente nas áreas da energia, infra-estruturas e do desenvolvimento do sector privado. Estamos a finalizar um Inquérito às Famílias que informará a nova ENRP e completaremos este inquérito e actualizaremos o perfil da pobreza até Agosto de 2011. A actualização do perfil da pobreza ajudar-nos-á a estabelecer uma estreita relação entre os objectivos da ENRP e as Metas de Desenvolvimento do Milénio, reforçando assim os mecanismos de monitorização e avaliação da nossa estratégia para o desenvolvimento. Uma proposta para uma ENRP orientada para resultados será completada até Outubro 2011.

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4. Esta Subvenção contribuirá para promover duas áreas-chave da economia de STP: (i) o melhoramento da gestão dos recursos públicos através de uma maior transparência e responsabilização nas despesas públicas; e (ii) a promoção de políticas económicas sustentáveis, através do reforço do enquadramento da política fiscal e do quadro de coordenação dos doadores.

A. PROGRAMA DE REFORMAS DE SÃO TOMÉ E PRÍNCIPE

Síntese

5. O nosso Governo tem vindo a implementar medidas políticas consistentes com os objectivos estabelecidos na ENRP, com resultados importantes. Desde 2005, as reformas estruturais têm contemplado orientações que visam a consecução de políticas fiscais e monetárias prudentes, maior eficácia na despesa pública e o reforço de capacidades institucionais, particularmente no sector do petróleo. As nossas autoridades liberalizaram a economia encorajando o comércio e privatizando uma série de empresas públicas. Além disso, novas estratégias para a saúde e a educação têm reforçado o capital humano. Com o apoio de Instituições Financeiras Internacionais, STP conseguiu rapidamente alcançar o Ponto de Conclusão da Iniciativa para PPME, em 2007. Estas reformas resultaram também num aumento da confiança de investidores e no crescimento da actividade económica no sector dos serviços, em particular do turismo.

6. Não obstante as dificuldades da actual conjuntura externa, a disciplina macroeconómica mantém-se em linha com os objectivos acordados ao abrigo do programa de Mecanismo de Crédito Prorrogado (ECF) do FMI, que temos vindo a implementar desde 2009. Graças à bem-sucedida implementação de reformas, STP reduziu consideravelmente o seu défice fiscal primário anual interno, de 10,7 por cento do PIB em 2006, para um resultado estimado de 5,7 por cento do PIB em 2010. O nosso Governo tem planos para reduzir ainda o défice fiscal primário anual para 4 por cento do PIB em 2011 e para 3 por cento até 2013. Temos também registado uma drástica melhoria quanto a outros indicadores económicos fundamentais. Em particular, a redução da inflação anual, de um máximo de 37 por cento em 2008, para um resultado estimado em 9,5 por cento no final de 2010.

7. As nossas autoridades estão resolutamente empenhadas em continuar a reforçar o desempenho macroeconómico, de forma a salvaguardar as reservas internacionais e indexação das taxas de câmbio. Os fundos disponibilizados pela vossa instituição fornecerão o financiamento necessário para apoio a despesas públicas essenciais, em 2011. As metas e as prioridades orçamentais para o corrente ano foram acordadas com o FMI, como parte do programa trianual apoiado pelo ECF, e com o Banco Mundial. Significativamente também, o nosso Governo aumentou a quota da despesa pró-pobres no nosso orçamento, de uma média de 30 por cento entre 2008 e 2010, para mais de 37 por cento em 2011.

8. Esta operação irá também permitir a consolidação das reformas na gestão das finanças públicas que foram apoiadas pelo Projecto de Assistência Técnica para o Reforço de Capacidades, do Banco Mundial, no período 2004-2010. Em Setembro 2010, a Assembleia Nacional aprovou o Programa do Governo para 2010-2014, o qual apoia reformas que visam desenvolver instituições e capacidades no sentido de implementar integralmente a Lei do Sistema de Administração Financeira do Estado (Lei SAFE), que foi aprovada em 2007, particularmente no que respeita ao aumento de transparência e responsabilização no orçamento e à melhoria da gestão das contas e bens públicos. Adicionalmente, esta operação constituirá um apoio a uma mais sólida gestão da política orçamental e melhor coordenação de doadores.

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9. Até ao presente, as nossas reformas têm alcançado uma base de apoio alargada. À medida que avançamos com o programa, continuamos a consultar criteriosamente os nossos parceiros na sociedade civil, na oposição e no sector privado, de forma a garantir que o povo de São Tomé e Príncipe terá uma compreensão clara dos princípios subjacentes às reformas estruturais e os seus benefícios.

Enquadramento Macroeconómico e Orçamental

10. Em termos globais, e apesar da ocorrência de choques exógenos, STP tem mantido um quadro macroeconómico estável, em estreita coordenação com os nossos parceiros de desenvolvimento. Políticas macroeconómicas prudentes, seguidas de reformas estruturais, tornaram possível criar as condições para uma recuperação económica sustentável. O crescimento médio anual do PIB excedeu os 6 por cento entre 2000 e 2008, o que conduziu a uma melhoria sustentável do rendimento *per capita*, pela primeira vez desde a independência.

11. No entanto, dois choques externos, em 2008 e 2009, vieram causar uma inversão na tendência de subida em curso. Foi primeiro o aumento dos preços internacionais dos alimentos e dos combustíveis. E, pouco depois, eclodiu a crise financeira global, com a profunda recessão global que se lhe seguiu. Destes choques resultou um abrandamento da actividade económica que demonstra a fragilidade dos ganhos obtidos nos anos anteriores e a necessidade de continuar a trabalhar com os nossos parceiros para solidificar a resiliência da economia. Em resposta à crise, os nossos dirigentes procuraram ajuda externa para aumentar os projectos de investimento público financiados externamente, para impulsionar a actividade económica, e continuaram a acelerar as reformas estruturais. Em consequência, o crescimento económico recuperou ligeiramente, de 4 por cento em 2009 para um valor estimado de 4,5 por cento em 2010. Em Janeiro 2010 indexámos a taxa de câmbio ao Euro e temos mantido uma taxa de câmbio estável (fixada em cerca de 24.500 dobras por euro) mesmo no contexto da crise da dívida soberana na Zona Euro.

12. Não obstante estas conquistas, a economia de São Tomé e Príncipe continua muito vulnerável, devido ao seu elevado nível de dívida relativamente a exportações, dependência da ajuda externa e a reduzida base de exportações. O crescimento deverá subir para 5 por cento em 2011 e para 6 por cento em 2012 e 2013. Esperamos também poder reduzir o défice primário interno para 3 por cento até 2013, mantendo no entanto a despesa pró-pobres nos sectores sociais. Os riscos para as nossas perspectivas a médio prazo incluem choques exógenos que podem ter impacto sobre o comércio e o turismo e perturbar o financiamento externo por parte de investidores estrangeiros ou dos parceiros de desenvolvimento. A implementação focalizada do nosso programa melhorará a atractividade do nosso país perante os investidores e fomentará o desenvolvimento e a diversificação de produção e exportações, reduzindo assim a nossa vulnerabilidade.

B. PROGRAMA ADOPTADO NO CONTEXTO DO APOIO ORÇAMENTAL

13. As acções políticas resumidas a seguir apoiam as principais componentes do Programa do Governo para 2010-2014 e têm por objectivo consolidar a implementação do programa de reformas. Incidem principalmente sobre o melhoramento da transparência e responsabilização nas despesas públicas e na promoção de políticas económicas sustentáveis. Estas áreas são importantes para alcançar objectivos gerais, ou seja, crescimento económico e redução da pobreza, a par de aperfeiçoamentos a nível de governação e de instituições. Como já foi referido, as reformas nestas duas áreas, iniciadas há vários anos, já apresentaram impactos positivos no crescimento económico de STP. Temos a intenção de continuar a progredir nestas áreas no decorrer dos próximos anos.

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Transparência e Responsabilização na Despesa Pública

14. Reforçámos a transparência e a responsabilização quanto à elaboração do orçamento. Em Dezembro de 2010 publicámos no portal do governo a proposta de orçamento para 2011, que foi submetida à Assembleia Nacional para aprovação, no sentido de promover um debate público informado quanto à afectação das despesas públicas. Para aumentar ainda mais a transparência e a responsabilização do orçamento, publicámos a Lei Orçamental de 2011, após aprovação Março de 2011 e publicaremos também os Relatórios Trimestrais de Execução Orçamental de 2011. O Relatório do Primeiro Trimestre de 2011 será publicado até 15 de Abril de 2011.

15. Melhorámos o sistema de monitorização para a redução da pobreza. Em 2008, com o apoio de uma operação do Banco Mundial, criámos rubricas orçamentais de despesa que correspondem às prioridades de redução da pobreza (i.e., códigos pró-pobres no orçamento). Para aumentar a responsabilização em matéria orçamental e melhor alinhar a despesa pública com a nossa estratégia, especificámos a afectação de todas as despesas em prol dos pobres no orçamento de 2011. O objectivo das nossas autoridades é identificar claramente os beneficiários da despesa pública previstos, e monitorizar afectações de despesa específicas, concebidas para um crescimento favorável aos pobres. Nesta perspectiva, o nosso orçamento inclui agora um registo histórico de despesas pró-pobres em todas as categorias orçamentais pró-pobres (o orçamento para 2011 apresenta a despesa pró-pobres de 2007 a 2011). Em consonância com o empenhamento das nossas autoridades na redução da pobreza, a quota de despesas pró-pobres, na proposta orçamental para 2011, representa mais de 37 por cento da despesa total, um aumento notável em relação à média de 30 por cento, no período entre 2008 e 2010. Até ao final de 2011 o nosso Governo assume o compromisso de executar pelo menos 90 por cento da despesa pró-pobres.

16. O nosso Governo tem por objectivo melhorar a gestão das contas e dos activos públicos para a elaboração dos relatórios financeiros anuais. Há vários anos que trabalhamos para esta reforma. Têm sido alcançados progressos graças à criação de instituições de contabilidade pública e à adopção de importante legislação de regulamentação da gestão financeira pública. O nosso país não dispõe ainda de relatórios financeiros anuais, mas estamos a tomar medidas para elaborar esses documentos financeiros o mais brevemente possível. O Ministério das Finanças e Cooperação Internacional tem estado a desenvolver um Sistema Computorizado Integrado de Informação de Gestão Financeira (SAFE-e). O SAFE-e irá viabilizar a preparação, execução do orçamento e a elaboração de relatórios financeiros. O seu desenvolvimento foi atrasado por motivo das complexidades técnicas, mas uma versão piloto deste sistema está já completada e está presentemente a ser testada.

17. A Direcção da Contabilidade Pública está totalmente operacional desde Janeiro 2011, com dotação orçamental apropriada e um gabinete equipado. O Governo nomeou um Director da Contabilidade Pública, bem como dois Chefes de Departamento e pessoal técnico. A formação em contabilidade pública está presentemente a ser ministrada ao pessoal da Direcção da Contabilidade Pública. Adicionalmente, está em preparação um manual de contabilidade pública que estabelece os princípios e procedimentos contabilísticos para produzir relatórios financeiros anuais de acordo com os Princípios Contabilísticos Geralmente Aceites (GAAP). Este manual estará completado e adoptado até Agosto de 2011. Até Dezembro de 2011 o nosso Governo apresentará estatísticas mensais das contas públicas (até Setembro 2011) e harmonizará essas estatísticas com as do Banco Central. Subsequentemente, até Julho de 2012 o nosso Governo finalizará a elaboração do piloto do relatório financeiro anual para 2011. A partir de 2013, o nosso Governo ira elaborar auditorias anuais aos relatórios financeiros de forma a garantir que todas as operações, orçamentais, financeiras e de activos, serão registadas de uma forma fiável e consistente.

18. Estamos também a melhorar a gestão de activos. Efectuámos um inventário sobre activos públicos móveis para os ministérios e publicámos esse inventário no portal público do Governo, no intuito de promover um debate público informando sobre esta matéria. Foram já elaboradas

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linhas de orientação formais sobre a gestão de activos não imobiliários. Um sistema de software foi desenvolvido para efectuar o registo deste inventário de activos públicos e o nosso objectivo é integrar esse software ao sistema SAFE-e. Uma base de dados única, com informação centralizada sobre activos públicos não imobiliários, para cada Ministério, será criada até Dezembro de 2011. Estas medidas políticas representam passos importantes para melhorar a monitorização, controlo e reposição de activos públicos. Acções previstas para o futuro incluem a elaboração de um inventário de activos públicos móveis, para as agências autónomas, incluindo a Assembleia Nacional, a Presidência e o Supremo Tribunal, que deverão ser completadas até Maio 2011. Esta informação será crucial para a preparação de estatísticas da contabilidade pública.

19. A realização da consolidação orçamental dependerá também do reforço das empresas públicas, que actualmente sofrem de debilidades financeiras. Neste aspecto, o Governo aprovou um decreto-lei regulamentando avaliações das empresas públicas com base no desempenho. Este decreto-lei estabelece estruturas de gestão muito claras para um melhor controlo administrativo e financeiro das empresas públicas. Subsequentemente, o nosso Ministério das Finanças e da Cooperação Internacional irá completar um estudo diagnóstico das práticas financeiras de Empresas Propriedade do Estado, até Outubro de 2011. Este diagnóstico informará uma avaliação da implementação da legislação/regulamentação das Empresas do Sector Público, que realizaremos em 2012.

20. Estamos também empenhados em solucionar debilidades na gestão salarial e será feito um recenseamento dos funcionários públicos até Maio 2011. Providências futuras para melhorar a gestão dos salários incluirão a integração da folha de salários no sistema SAFE-e, que se prevê estará terminada até Setembro de 2011. O nosso Governo actualizará também o estatuto do funcionalismo público, de forma a alinhar mais eficazmente os aumentos salariais com o aumento de produtividade, propondo avaliações de desempenho. Uma proposta para este estatuto do funcionalismo público deverá estar completada até Dezembro 2011.

Promoção de Políticas Económicas Sustentáveis

21. O nosso Governo desenvolverá um Quadro de Responsabilidade Fiscal de acordo com as melhores práticas internacionais, no sentido de evitar a pró-ciclicidade na política fiscal. Este quadro estabelecerá compromissos, a médio prazo, em relação défice fiscal e à dívida pública, facilitando assim a orçamentação multianual e melhorar a eficácia da despesa pública. O nosso Ministério das Finanças e da Cooperação Internacional preparará em seguida o Quadro de Responsabilidade Fiscal até Outubro 2011 e está a prever apresentar este projecto aos principais parceiros interessados, incluindo sindicatos, ONG, associações empresariais e doadores, até Novembro 2011.

22. O nosso Governo está bem consciente da importância de garantir a sustentabilidade da dívida, após os alívios da dívida PPME e MDRI/IMRD. Neste contexto, continuamos a consolidar as capacidades da Direcção da Gestão da Dívida. As nossas autoridades submeteram já, à Assembleia Nacional, uma Lei de Gestão da Dívida. Esta lei irá clarificar as responsabilidades institucionais para a gestão da dívida pública especificando, inclusive, que a autoridade para a negociação de créditos reside unicamente com o ministério responsável pelas finanças públicas, sob supervisão da Assembleia Nacional. A Partir de Novembro de 2011 o nosso Governo vai dar início à publicação dos dados da dívida pública no seu portal público. O Governo vai também elaborar uma Estratégia da Dívida, incluindo um plano de acção para o continuado reforço da gestão da dívida, a apresentar até Outubro de 2011. Estamos crentes que estas políticas irão melhorar a previsibilidade e o alinhamento dos procedimentos relativos à dívida com as metas da política fiscal.

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23. O nosso Governo está bem consciente de que a realização da consolidação orçamental dependerá também da resolução de problemas estruturais da empresa pública de serviços (i.e., a companhia das águas e electricidade EMAE). Neste contexto, o nosso Governo vai elaborar um plano de acção para melhorar a capacidade de governação e supervisão no sector dos serviços públicos, até Setembro de 2011, para além de propor uma estrutura de tarifas apropriada no início de 2012 que permita à EMAE recuperar os seus custos operacionais.

24. Relativamente à coordenação de doadores, o nosso Governo alterou já a sua estrutura organizacional, atribuindo as funções da coordenação de doadores ao novo Ministério das Finanças e da Cooperação Internacional. Uma Direcção da Cooperação Internacional, agora integrada no Ministério das Finanças e da Cooperação Internacional, preparou já uma proposta de Memorando de Entendimento, que submeteu à comunidade de doadores para análise. O nosso objectivo é aumentar a eficácia da ajuda e promover a troca de informação, com os doadores quanto ao programa do nosso Governo. Subsequentemente, o Ministério das Finanças e da Cooperação Internacional irá criar uma base de dados única para a ajuda externa e organizará mesas redondas anuais com os doadores. Esta base de dados da ajuda externa será lançada até Setembro de 2011. Além disso, o nosso Governo apresentará a sua proposta orçamental para 2012 numa mesa redonda com os doadores, que será agendada para Outubro de 2011.

Implementação do Programa

25. A monitorização do programa será efectuada pelo nosso Ministério das Finanças e da Cooperação Internacional, nomeadamente pela Direcção da Contabilidade Pública, a qual será coadjuvada pelas várias Direcções técnicas, como as do Orçamento, Tesouro, Património, etc. Será também prestada assistência pelo nosso Ministério do Plano e Desenvolvimento, Ministério da Administração Pública, a nossa Unidade de PRSP/DERP (Observatório da Pobreza) e o nosso Instituto Nacional de Estatística. As entidades acima referidas participaram na gestão dos programas anteriores, incluindo os dois programas que foram apoiados pelo Banco Mundial, e os dois programas apoiados pelo FMI. O nosso Ministério das Finanças e da Cooperação Internacional irá também coordenar, com os doadores que prestam apoio financeiro a São Tomé e Príncipe, para garantir uma implementação bem-sucedida do seu programa de reformas. O nosso Ministério das Finanças e da Cooperação Internacional será responsável pela monitorização dos organismos envolvidos no programa, e elaborará [dois] relatórios de acompanhamento dos progressos, que serão enviados ao Banco Mundial. Estes relatórios prestarão informações sobre o progresso das reformas em áreas apoiadas pela operação de apoio orçamental. O primeiro relatório de progresso será submetido ao Banco Mundial em Setembro de 2011 e o segundo será apresentado em Dezembro de 2011.

C. CONCLUSÃO

26. O nosso programa para a gestão de recursos públicos e reforma da governação irá consolidar os progressos já alcançados e assegurar o melhoramento da transparência e responsabilização nas despesas públicas. Esperamos verificar progressos importantes na gestão das finanças públicas na esfera do orçamento e da contabilidade, mas também considerando a supervisão exercida por agentes internos e internacionais sobre a execução do orçamento de Estado. Simultaneamente, o nosso programa de reformas promoverá políticas económicas sustentáveis, ao reforçar a gestão da política fiscal e a coordenação dos doadores. Todos estes factores assumem particular importância, face às incertezas do panorama internacional. Refira-se também que estamos a prestar particular atenção à

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preparação de um novo PRSP/DERP, que orientará a nossa estratégia nos próximos anos e fornecerá os elementos condutivos a um crescimento pró-pobres.

27. O Governo da República Democrática de São Tomé e Príncipe aproveita esta oportunidade para reiterar o seu profundo empenho na realização das reformas necessárias para promover o crescimento económico e modernizar o país. O nosso Governo está convicto que uma eficiente e satisfatória execução do seu programa de reformas contribuirá para impulsionar a economia nacional no sentido de uma base saudável e sustentável, em consequência da redução da pobreza. Neste contexto, o apoio do Banco Mundial será importante para uma implementação eficaz da agenda de reformas em curso. Face às reformas macroeconómicas já implementadas, os objectivos fixados neste programa e os resultados alcançados em anos anteriores, que são muito encorajadores, o nosso Governo solicita uma apreciação favorável do seu pedido de financiamento com vista à aprovação da Subvenção para a Gestão de Recursos Públicos e Desenvolvimento da Política de Reforma da Governação, no montante de aproximadamente USD 4,2 milhões e a provisão de um significativo apoio orçamental para o financiamento da nossa economia.

Aproveitando o ensejo para endereçar a V. Exa. a expressão da minha mais elevada consideração subscrevo-me,

De V. Exa.
Atenciosamente,

AMÉRICO D'OLIVEIRA DOS RAMOS

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Annex 2: Macroeconomic Framework, 2006-2013

Table 1. São Tomé and Príncipe: Financial Operations of the Central Government, 2006–2013

	2006	2007	2008	2009	2010	2011	2012	2013
				Actual		Projected		
				(Percent of GDP)				
Total revenue and grants	**36.9**	**161.9**	**48.4**	**32.3**	**33.4**	**43.6**	**29.0**	**28.6**
Total revenue	20.9	19.3	17.9	17.2	17.6	18.0	18.2	18.4
Tax revenue	17.2	16.5	16.4	15.0	16.2	15.8	16.0	16.3
Nontax revenue, of which:	3.7	2.8	1.6	2.2	1.4	2.2	2.2	2.1
oil-related revenue	1.1	0.4	0.2	0.0	0.2	0.5	0.5	0.4
Grants	16.0	121.3	30.4	15.1	15.9	13.6	10.8	10.2
Project grants	12.7	8.7	6.6	12.6	14.9	11.0	10.4	9.8
Nonproject grants	0.2	1.1	3.7	0.4	0.1	1.7	0.4	0.4
HIPC Initiative-related grants	3.1	111.6	20.2	2.1	0.8	0.9	0.0	0.0
Oil signature bonuses	0.0	21.3	0.0	0.0	0.0	12.0	0.0	0.0
Total expenditure	**50.7**	**40.3**	**33.5**	**51.4**	**41.4**	**51.5**	**40.3**	**38.7**
Domestic primary expenditure	30.5	27.4	25.2	25.4	23.0	21.5	21.2	20.9
Current expenditure	28.5	26.0	22.7	21.0	20.7	19.1	19.6	19.2
Of which: personnel costs	8.6	9.0	8.7	8.2	8.5	8.4	8.4	8.3
interest due	3.4	1.3	0.9	0.7	0.6	0.7	0.7	0.8
goods and services	5.9	5.7	6.5	6.3	5.8	4.6	4.6	4.6
transfers	7.0	7.2	4.9	4.7	5.2	4.9	5.2	5.3
Capital expenditure	19.9	11.6	8.7	29.3	20.2	31.6	19.8	18.6
Financed by the Treasury	3.3	1.2	1.4	4.1	2.5	2.2	1.5	1.6
Financed by external sources	16.6	10.5	7.4	25.3	17.7	29.3	18.3	17.0
HIPC Initiative-related social expenditure	2.3	2.6	2.1	1.1	0.4	0.9	0.9	0.8
Domestic primary balance	**-10.7**	**-8.5**	**-7.5**	**-8.2**	**-5.7**	**-4.0**	**-3.5**	**-3.0**
Overall fiscal balance (commitment basis)	**-13.8**	**121.6**	**14.9**	**-19.1**	**-8.0**	**-7.9**	**-11.2**	**-10.1**
Net change in arrears (reduction = -)	1.3	0.3	0.8	0.0	0.0	0.0	0.0	0.0
External arrears	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears	0.0	0.3	0.8	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (cash basis)	**-12.4**	**121.8**	**15.5**	**-19.1**	**-8.0**	**-7.9**	**-11.2**	**-10.1**
Financing	**12.4**	**-121.8**	**-15.5**	**19.1**	**8.0**	**7.9**	**11.2**	**10.1**
Net external	2.0	-120.2	-18.5	11.4	1.8	16.5	6.4	5.8
Disbursements (projects)	6.4	2.0	0.8	12.7	2.8	18.3	7.9	7.2
Program financing (loans)	1.6	1.5	1.2	0.0	0.3	0.2	0.2	0.2
Net short-term loans	0.0	-10.4	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-6.0	-113.4	-20.7	-2.4	-0.9	-1.6	-1.4	-1.4
Change in arrears (principal)	0.0	-7.1	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral rescheduling	0.0	7.2	0.3	0.1	0.1	0.1	0.1	0.1
Net domestic	10.4	-1.6	3.0	7.7	6.1	-8.6	4.8	4.4
Net bank credit to the government	10.4	-1.6	-9.3	6.7	6.1	-8.6	4.8	4.4
Banking system credit (excluding National Oil Account)	-1.5	2.1	-11.0	5.4	5.2	3.9	2.7	2.6
of which Privatisation account		0.0	-12.2	6.4	2.1	1.2	0.0	0.0
National Oil Account	11.9	-3.7	1.7	1.4	0.9	-12.5	2.1	1.8
Nonbank financing	0.0	0.0	12.2	1.0	0.0	0.0	0.0	0.0
Memorandum items:								
Overall balance (commitment basis)	-13.8	100.3	14.9	-19.1	-8.0	-19.9	-11.2	-10.1
MDRI debt relief (flow in US$ million)	0	1.7	1.8	0.0	0.0	0.0	0	0
Privatisation account balance (US$ million)	0	0.0	21.0	5.7	0.7	0.0	0.0	0.0
National Oil Account balance (US$ million, excl. transfers)	8.6	14.9	12.2	9.9	8.0	32.4	28.1	24.3

Sources: São Tomé and Príncipe authorities and IMF staff estimates and projections.

Table 2. São Tomé and Príncipe: Balance of Payments, 2006–2013

(Percent of GDP)

	2006	2007	2008	2009	2010	2011	2012	2013
				Actual		Projected		
Trade balance	**-41.2**	**-41.7**	**-47.5**	**-39.5**	**-45.3**	**-46.0**	**-43.3**	**-38.9**
Exports, f.o.b.	6.2	4.7	6.0	4.9	5.7	5.8	6.0	6.2
Of which: cocoa	2.0	2.4	2.9	2.9	3.5	3.5	3.6	3.7
re-export	3.1	2.0	2.7	1.6	1.8	1.8	1.9	2.0
Imports, f.o.b.	-47.4	-46.5	-53.4	-44.3	-51.0	-51.8	-49.2	-45.1
Of which: food	-13.6	-12.2	-14.0	-15.3	-16.5	-15.4	-15.2	-14.9
petroleum products	-12.0	-10.1	-12.8	-7.8	-7.9	-9.1	-9.6	-9.8
Services and income (net)	-13.7	-8.4	-5.4	-7.0	-7.9	-9.1	-6.9	-5.3
Exports of nonfactor services	7.6	4.6	5.7	6.1	6.0	5.6	6.1	6.8
Of which: travel and tourism	5.4	3.4	4.5	4.7	4.7	4.4	4.9	5.6
Imports of nonfactor services	-23.2	-17.3	-13.4	-14.1	-15.2	-15.9	-14.2	-13.2
Factor services (net)	1.9	4.3	2.3	1.1	1.3	1.1	1.1	1.1
Interest due	-3.1	-0.5	-0.1	-0.2	-0.2	-0.3	-0.4	-0.4
National Oil Account (NOA) interest earnings	0.4	2.1	0.2	0.1	0.0	0.0	0.2	0.3
Private transfers (net)	1.3	1.4	1.7	1.6	1.6	1.4	1.4	1.3
Official transfers (net)	24.8	10.8	13.5	16.3	17.7	14.0	12.0	11.3
Of which: project grants	20.4	7.9	6.6	12.6	14.9	11.0	10.4	9.8
HIPC Initiative-related grants	3.1	0.5	0.5	0.3	0.7	0.0	0.0	0.0
Current account balance								
Including official transfers	-28.8	-38.0	-37.6	-28.5	-34.0	-39.7	-36.8	-31.6
Excluding official transfers	-53.7	-48.8	-51.2	-44.8	-51.7	-53.7	-48.8	-42.9
Capital and financial account balance	**28.8**	**41.2**	**41.4**	**34.9**	**27.6**	**48.7**	**35.7**	**31.7**
Capital transfer	0.0	113.0	20.2	27.9	0.0	0.0	0.0	0.0
Financial account	28.8	-52.0	21.2	7.0	27.6	60.6	35.7	31.7
Public sector (net)	-5.9	-103.1	-18.8	-9.5	2.0	26.8	6.0	5.9
Project loans	3.5	1.0	1.1	19.4	3.2	17.3	7.9	7.2
Program loans	0.0	1.5	1.2	0.2	0.3	0.2	0.2	0.2
Amortization	-6.0	-123.8	-20.7	-28.6	-0.9	-1.6	-1.4	-1.4
Other investment	-3.5	-1.6	-0.3	-0.4	-0.7	-1.1	-0.7	-0.1
Of which: transfers to JDA	-2.5	-2.2	0.1	-0.1	-0.4	-0.3	-0.4	-0.4
Private sector (net)	34.7	51.1	40.0	16.4	25.6	33.8	29.6	25.8
Direct foreign investment	21.6	36.6	31.5	7.3	1.5	23.5	14.0	9.0
Of which: Oil signature bonuses	0.0	19.9	0.0	0.0	0.0	12.0	0.0	0.0
Commercial banks	0.6	-1.6	-5.9	5.6	7.3	3.3	1.2	1.2
Short-term private capital	12.5	16.1	14.4	3.5	16.8	7.1	14.4	15.6
Errors and omissions	**-4.9**	**5.1**	**7.4**	**-0.7**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-4.9**	**8.2**	**11.2**	**5.7**	**-6.4**	**9.0**	**-1.1**	**0.1**
Financing	4.9	-8.2	-11.2	-5.7	6.4	-9.0	1.1	-0.1
Change in official reserves, excl. NOA (increase= -)	-9.4	-3.3	-13.1	-2.7	5.1	1.5	-1.0	-1.4
Use of Fund resources (net)	1.0	-0.6	0.4	0.3	0.3	0.8	0.2	-0.2
Purchases	1.0	0.9	0.4	0.3	0.3	0.8	0.2	0.0
Repurchases (incl. MDRI repayment)	0.0	-1.4	0.0	0.0	0.0	0.0	0.0	-0.2
National Oil Account (increase = -)	11.9	-4.4	1.6	1.2	1.0	-11.3	1.9	1.5
Change in arrears (net; decrease = -)	1.3	-7.1	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.0	-4.6	0.0	0.0	0.0	0.0
Memorandum items:								
Current account balance (percent of GDP)								
Before official transfers	-53.7	-48.8	-51.2	-44.8	-51.7	-53.7	-48.8	-42.9
After official transfers	-28.8	-38.0	-37.6	-28.5	-34.0	-39.7	-36.8	-31.6
Debt service ratio (percent of exports)	33.8	19.2	0.8	5.1	2.9	16.8	14.9	15.6
Usable Gross reserves								
Millions of U.S. dollars	24.7	26.3	46.6	48.1	46.2	42.5	44.2	46.6
Months of imports of goods and nonfactor services	4.8	4.2	7.5	6.6	6.0	5.3	5.2	5.3
As proportion of M2 (in percent)	121	114	136	143	139	115	112	112

Sources: São Tomé and Príncipe authorities and IMF staff estimates and projections.

Table 3. São Tomé and Príncipe: Balance of Payments, 2006–2013

(Millions of U.S. dollars)

	2006	2007	2008	2009	2010	2011	2012	2013
				Actual		Projected		
Trade balance	**-51.5**	**-60.1**	**-81.9**	**-74.6**	**-88.7**	**-99.9**	**-99.0**	**-95.2**
Exports, f.o.b.	7.7	6.8	10.3	9.2	11.1	12.6	13.7	15.1
Of which: cocoa	2.5	3.5	5.0	5.4	6.8	7.7	8.2	9.0
re-export	3.9	2.9	4.6	3.0	3.5	4.0	4.4	4.8
Imports, f.o.b.	-59.2	-66.9	-92.2	-83.8	-99.8	-112.5	-112.7	-110.3
Of which: food	-17.0	-17.6	-24.2	-29.0	-32.4	-33.5	-34.8	-36.6
petroleum products	-15.0	-14.6	-22.1	-14.7	-15.5	-19.8	-21.9	-24.0
Services and income (net)	-17.2	-12.1	-9.4	-13.2	-15.4	-19.9	-15.9	-12.9
Exports of nonfactor services	9.5	6.6	9.7	11.4	11.7	12.3	14.0	16.7
Of which: travel and tourism	6.7	4.9	7.7	8.9	9.2	9.5	11.1	13.7
Imports of nonfactor services	-29.0	-24.9	-23.1	-26.7	-29.7	-34.5	-32.5	-32.4
Factor services (net)	2.4	6.1	4.0	2.1	2.6	2.3	2.6	2.7
Interest due	-3.8	-0.7	-0.2	-0.4	-0.4	-0.7	-0.8	-1.0
National Oil Account (NOA) interest earnings	0.6	3.0	0.3	0.1	0.1	0.1	0.4	0.7
Private transfers (net)	1.6	2.0	3.0	3.0	3.1	3.1	3.1	3.2
Official transfers (net)	31.0	15.5	23.3	30.9	34.6	30.4	27.6	27.6
Of which: project grants	25.5	11.4	11.3	23.8	29.2	24.0	23.8	23.9
HIPC Initiative-related grants	3.8	0.7	0.9	0.6	1.4	0.0	0.0	0.0
Current account balance								
Including official transfers	-36.1	-54.7	-64.9	-53.8	-66.4	-86.2	-84.2	-77.3
Excluding official transfers	-67.1	-70.2	-88.2	-84.7	-101.0	-116.7	-111.7	-104.9
Capital and financial account balance	**36.1**	**59.3**	**71.4**	**65.9**	**54.0**	**105.7**	**81.7**	**77.5**
Capital transfer	0.0	162.7	34.8	52.8	0.0	0.0	0.0	0.0
Financial account	36.1	-74.8	36.6	13.1	54.0	105.7	81.7	77.5
Public sector (net)	-7.3	-148.4	-32.4	-17.9	3.8	32.2	13.8	14.5
Project loans	4.4	1.4	1.9	36.6	6.3	37.7	18.2	17.7
Program loans	0.0	2.1	2.0	0.3	0.5	0.5	0.5	0.5
Amortization	-7.4	-178.2	-35.7	-54.1	-1.7	-3.5	-3.3	-3.3
Other investment	-4.3	-2.3	-0.6	-0.7	-1.3	-2.4	-1.5	-0.3
Of which: transfers to JDA	-3.1	-3.1	0.1	-0.1	-0.8	-0.8	-1.0	-1.0
Private sector (net)	43.4	73.6	69.0	31.0	50.1	73.5	67.8	63.1
Direct foreign investment	27.0	52.6	54.2	13.8	3.0	51.0	32.0	22.0
Of which: Oil signature bonuses	0.0	28.6	0.0	0.0	0.0	26.0	0.0	0.0
Commercial banks	0.8	-2.3	-10.2	10.5	14.3	7.1	2.9	2.9
Short-term private capital	15.7	23.2	24.9	6.6	32.9	15.4	33.0	38.2
Errors and omissions	**-6.1**	**7.3**	**12.7**	**-1.3**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-6.1**	**11.9**	**19.2**	**10.9**	**-12.4**	**19.5**	**-2.5**	**0.2**
Financing	6.1	-11.9	-19.2	-10.9	12.4	-19.5	2.5	-0.2
Change in official reserves, excl. NOA (increase= -)	-11.7	-4.7	-22.6	-5.1	9.9	3.3	-2.4	-3.3
Use of Fund resources (net)	1.2	-0.8	0.7	0.5	0.6	1.7	0.6	-0.6
Purchases	1.2	1.2	0.7	0.5	0.6	1.7	0.6	0.0
Repurchases (incl. MDRI repayment)	0.0	-2.1	0.0	0.0	0.0	0.0	0.0	-0.6
National Oil Account (increase = -)	14.9	-6.3	2.7	2.3	1.9	-24.5	4.4	3.7
Change in arrears (net; decrease = -)	1.7	-10.2	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.0	-8.7	0.0	0.0	0.0	0.0
Memorandum items:								
Current account balance (percent of GDP)								
Before official transfers	-53.7	-48.8	-51.2	-44.8	-51.7	-53.7	-48.8	-42.9
After official transfers	-28.8	-38.0	-37.6	-28.5	-34.0	-39.7	-36.8	-31.6
Debt service ratio (percent of exports)	33.8	19.2	0.8	5.1	2.9	16.8	14.9	15.6
Usable Gross reserves								
Millions of U.S. dollars	24.7	26.3	46.6	48.1	46.2	42.5	44.2	46.6
Months of imports of goods and nonfactor services	4.8	4.2	7.5	6.6	6.0	5.3	5.2	5.3
As proportion of M2 (in percent)	120.6	113.6	136.4	143.2	139.2	114.9	112.4	111.8

Sources: São Tomé and Príncipe authorities and IMF staff estimates and projections.

Annex 3: PRMG DPO Policy Matrix
Democratic Republic of São Tomé and Príncipe – Policy Matrix
Government Reform Program (2010-2011): Prior Actions and Outcomes[21]

Outcomes sought in line with ISN Outcomes	**Reform Program**			**Baseline**
	DPO Achievements and Prior Actions (in bold) (March 2010– March 2011)	**Key Next Steps (April 2011-February 2012)**	**Expected Results Outputs/Indicators (February 2012)**	
IMPROVING PUBLIC SECTOR GOVERNANCE IN SÃO TOMÉ AND PRÍNCIPE				
1. Raising the Transparency and Accountability of Public Expenditures				
Increase the transparency and accountability of budget preparation so that the budget reflects the priorities of the Government	**The Recipient's Council of Ministers has published on the Recipient's Public Portal a bill of law that approves the 2011 budget in preparation for its submission to the National Assembly.**	Publish the 2011 approved Budget Law and the Quarterly Budget Implementation Reports in the Government's website.	The 2011 budget proposal, the approved 2011 Budget Law, and the March, June, and September Quarterly Budget Implementation Reports for 2011 are published in the Government's website.	Budget proposal is not disseminated beyond the National Assembly.
	The Recipient's Council of Ministers has presented to the National Assembly the bill of law for the 2011 budget specifying: (a) the expenditure items that correspond to poverty reduction priorities in social sectors; and (b) that the share of expenditures that correspond to poverty reduction priorities is at least 35 percent of total expenditures (compared to an average of 30 percent for the 2008-2010 period).	Include pro-poor expenditures in the Quarterly Budget Implementation Reports.	Budget execution of pro-poor expenditures for 2011 is at least 90 percent.	Pro-poor expenditures not specified in the budget.

[21] Texts in **bold characters** in the matrix represent the prior actions to the Development Policy Operation (DPO). The DPO Achievements not in bold characters are other policy actions that the Government of Sao Tome and Principe has specified in its Letter of Development Policy (policy actions that are not in bold characters are not conditions for disbursement).

<table>
<tr><th rowspan="2">Outcomes sought in line with ISN Outcomes</th><th colspan="3">Reform Program</th><th rowspan="2">Baseline</th></tr>
<tr><th>DPO Achievements and Prior Actions (in bold) (March 2010– March 2011)</th><th>Key Next Steps (April 2011-February 2012)</th><th>Expected Results Outputs/Indicators (February 2012)</th></tr>
<tr><td colspan="5">IMPROVING PUBLIC SECTOR GOVERNANCE IN SÃO TOMÉ AND PRÍNCIPE</td></tr>
<tr><td rowspan="2">Improve the management of public accounts and assets</td><td>The Recipient's Public Accounting Directorate is operational, as evidenced by (a) the recruitment of a Director of Public Accounting and Department Heads for Accounting Norms and Procedures and for Monitoring and Analysis; and (b) the allocation of a permanent operational budget of at least 180 million Dobras (about US$10,000) as per the provisions in the Recipient's 2011 Budget Law.</td><td>Prepare a public accounting manual that sets out the accounting principles, procedures, and accounting tables.

Personnel of the Public Accounting Directorate trained to ensure the production of the public accounts of the State.</td><td>Pilot public accounting statistics for 2011 (up to September 2011) are produced.</td><td>Lack of public accounts prevents the Court of Accounts to carry out an audit, and reduces public sector accountability.</td></tr>
<tr><td>The Recipient's Ministry of Finance and International Cooperation has: (a) carried out and completed the inventory of existing mobile public assets for at least 90 out of the existing 120 ministerial entities that have mobile assets; (b) published this inventory in its public portal; and (c) completed and approved a manual of operations to manage the Recipient's mobile public assets.</td><td>Create and manage a single database with centralized information on mobile public assets per Ministry.</td><td>By December 31, 2011, the Government publishes an updated database of mobile public assets for all ministries in the Government's website.</td><td>Guidelines for the management of public assets and a registry of public assets do not exist.</td></tr>
<tr><td>Improve Payroll Management</td><td>The Recipient's Ministry of Finance and International Cooperation completed a general headcount of Government employees.</td><td>The Ministry of Finance and International Cooperation sets up a system so that payroll records of Government employees are updated on a regular basis.</td><td>Payroll management system integrated into the SAFE-e system.</td><td>A single database that centralizes information on Government employees does not exist.</td></tr>
<tr><td>Improve the Performance of Public Enterprises</td><td>The Recipient's Council of Ministers has submitted to the Presidency a decree regulating performance-based assessments of public enterprises.</td><td>Disseminate this legislation to all public institutions.

Collect financial information on State-Owned Enterprises.</td><td>A diagnosis study of the financial practices for at least two State-Owned Enterprises is completed.</td><td>A legal framework for evaluating Public Enterprises does not exist.</td></tr>
</table>

Outcomes sought in line with ISN Outcomes	Reform Program			Baseline
	DPO Achievements and Prior Actions (in bold) (March 2010– March 2011)	**Key Next Steps (April 2011-February 2012)**	**Expected Results Outputs/Indicators (February 2012)**	
IMPROVING PUBLIC SECTOR GOVERNANCE IN SÃO TOMÉ AND PRÍNCIPE				
2. Promoting Sustainable Economic Policies				
Strengthen fiscal policy management	**The Recipient's Council of Ministers has submitted to the National Assembly a bill of law that regulates Public Debt Management specifying the processes and procedures for contracting new public debt.**	Approve the Law regulating public debt management, and disseminate this law to all public institutions. Prepare a debt strategy that includes an action plan to further strengthen debt management.	As of December 31, 2011, all outstanding public debt is published in the Government's website, and all new public debt is signed by the Minister of Finance.	Unclear procedures to contract public debt affect fiscal sustainability.
	The Recipient's Council of Ministers issues a decree authorizing the Ministry of Finance and International Cooperation to develop a Fiscal Responsibility Framework.	Fiscal Responsibility Framework committee formed and process launched to develop a Fiscal Responsibility Framework in line with international best practices.	A first draft of a Fiscal Responsibility Framework completed and submitted for discussion with key stakeholders (labor unions, NGOs, employer associations, and donors).	Absence of a formal Fiscal Responsibility Framework raises fiscal deficit and debt.
Strengthen donor coordination	**The Recipient's Ministry of Finance and International Cooperation: (a) created a Directorate of International Cooperation; and (b) submitted to the donor community a first draft of a Memorandum of Understanding to strengthen aid coordination specifying procedures to: (i) determine which Recipient's institution shall be responsible for managing donor meetings and aid information; (ii) schedule donor meetings; and (iii) report and share information on foreign aid.**	Draft Memorandum of Understanding is updated based on comments from donors. A single database of external assistance is created to ensure that donor-financed projects are adequately registered.	At least one donor roundtable has been conducted to improve aid harmonization and effectiveness and to update the database on external assistance.	Lack of a formal consultative mechanism to coordinate donor assistance reduces public sector efficiency.
Prepare a results-oriented development strategy	The Recipient updated STP's poverty profile based on the 2010 Household Survey.	Prepare a results-oriented PRSP through a consultative process.	In line with the recommendations of the HIPC initiative, the new PRSP is submitted to the World Bank and the IMF Boards for endorsement.	Outdated PRSP affects medium term policy design.

Annex 4: The PNRMD ("DPO 1") and PRMG ("DPO 2") Reform Programs (2008-2011)
Democratic Republic of São Tomé and Príncipe

Outcomes sought	Reform Program		Baseline
	Prior Actions and Policies Supported by PNRMD ("DPO 1")	Prior Actions and Policies Supported by PRMG ("DPO 2")	
Increase the transparency and accountability of budget preparation so that the budget reflects the priorities of the Government	Council of Ministers presented the 2008 Budget to the National Assembly in compliance with article 23 of the Organic Law for Public Finance (SAFE Law 3/2007). Council of Ministers issued a decree that specifies all budget codes that correspond to PRSP priorities in social sectors.	Council of Ministers has published on the Recipient's Public Portal a bill of law that approves the 2011 budget in preparation for its submission to the National Assembly. Council of Ministers has presented to the National Assembly the bill of law for the 2011 budget specifying: (a) the expenditure items that correspond to poverty reduction priorities in social sectors; and (b) that the share of expenditures that correspond to poverty reduction priorities is at least 35 percent of total expenditures (compared to an average of 30 percent for the 2008-2010 period).	Budget approved after Fiscal Year begins. Budget not publicly disseminated. Lack of pro-poor expenditure information
Improve the management of public accounts and assets	Ministry of Finance used in the 2008 Budget submitted to the National Assembly the new budget codes approved in 2007, which allow tracking of revenues and expenditures by functions of the State. Council of Ministers issued a decree establishing an accounting system for public accounts. Council of Ministers issued decree creating a Public Accounting Department and an Information Technology Department in the Ministry of Finance. Council of Ministers issued a decree creating and staffing a department of Asset Management, within the Ministry of Finance, effectively separating that function from the existing Treasury Department.	The Public Accounting Directorate is operational, as evidenced by (a) the recruitment of a Director of Public Accounting and Department Heads for Accounting Norms and Procedures and for Monitoring and Analysis; and (b) the allocation of a permanent operational budget of at least 180 million Dobras (about US$10,000) as per the provisions in the Recipient's 2011 Budget Law. The Ministry of Finance and International Cooperation has: (a) carried out and completed the inventory of existing mobile public assets for at least 90 out of the existing 120 ministerial entities that have mobile assets; (b) published this inventory in its public portal; and (c) completed and approved a manual of operations to manage mobile public assets.	Lack of public accounts prevents the Court of Accounts to carry out an audit, and reduces public sector accountability Guidelines for the management of public assets and a registry of public assets do not exist

Outcomes sought	Reform Program		Baseline
	Prior Actions and Policies Supported by PNRMD ("DPO 1")	Prior Actions and Policies Supported by PRMG ("DPO 2")	
Raise the transparency of procurement processes	Council of Ministers issued a decree on procurement regulation. Council of Ministers created and staffed the Procurement Supervisory Body. Ministry of Finance implemented a training program on procurement for all Ministries' procurement officers.		No recording of contract following competitive procurement procedures A Procurement Supervisory Body does not exist Staff at sector ministries not trained in procurement
Create a simpler and more equitable tax system	Ministry of Finance presented to the National Assembly a bill of law creating a new corporate tax code that reduces corporate tax rate of profits to 25 percent in line with the regional level. Ministry of Finance presented to the National Assembly a bill of law creating a new personal income tax code that sets progressive income tax rates covering all sources of income.		Corporate tax rate stands at 45 percent of profits Single tax rate on wages, not overall income
Improve Payroll Management	Council of Ministers approved a plan for developing a personnel records database at the Ministry of Justice and Public Administration.	Ministry of Finance and International Cooperation completed a general headcount of Government employees.	A single database that centralizes information on Government employees does not exist
Improve the Performance of Public Enterprises	Ministry of Finance adopted a manual for Treasury operations.	Council of Ministers has submitted to the Presidency a decree regulating performance-based assessments of public enterprises.	A legal framework for evaluating Public Enterprises does not exist.

Outcomes sought	Reform Program		Baseline
	Prior Actions and Policies Supported by PNRMD ("DPO 1")	**Prior Actions and Policies Supported by PRMG ("DPO 2")**	
Strengthen fiscal policy management		Council of Ministers has submitted to the National Assembly a bill of law that regulates Public Debt Management specifying the processes and procedures for contracting new public debt. Council of Ministers issues a decree authorizing the Ministry of Finance and International Cooperation to develop a Fiscal Responsibility Framework.	Unclear procedures to contract public debt affect fiscal sustainability Absence of a formal Fiscal Framework
Strengthen donor coordination		Ministry of Finance and International Cooperation: (a) created a Directorate of International Cooperation; and (b) submitted to the donor community a first draft of a Memorandum of Understanding to strengthen aid coordination specifying procedures to: (i) determine which Recipient's institution shall be responsible for managing donor meetings and aid information; (ii) schedule donor meetings; and (ii) report and share information on foreign aid.	Lack of a formal consultative mechanism to coordinate donor assistance reduces public sector efficiency
Prepare a results-oriented development strategy	Council of Ministers issued a decree authorizing the PRSP Unit (*Observatório da Pobreca*) to develop a new PRSP.	The Recipient updated STP's poverty profile based on the 2010 Household Survey.	Outdated PRSP affects medium term policy design

Annex 5: Fund Relations Note

Statement at the Conclusion of an IMF Mission to the Democratic Republic of São Tomé and Príncipe

IMF Press Release No. 10/429
November 12, 2010

A team from the International Monetary Fund (IMF) visited São Tomé and Príncipe (STP) during October 29 - November 11, 2010 to continue discussions initiated in May on the 2010 Article IV Consultation1[22] and to conduct the second and third reviews of the economic program supported by the IMF under the Extended Credit Facility (ECF) arrangement.[23] The mission met Honorable Prime Minister Patrice Trovoada, and held discussions with Minister of Finance and International Cooperation Américo d'Oliveira dos Ramos, Minister of Planning and Development Agostinho dos Santos Fernandes, Central Bank of São Tomé and Príncipe (BCSTP) Governor Luis de Sousa, other senior officials of the government and the BCSTP, members of the Economic and Finance Committee of the National Assembly, and representatives of commercial banks, the business community, and São Tomé and Príncipe's development partners.

At the conclusion of the visit, Mr. Tsidi Tsikata, Mission Chief for São Tomé and Príncipe, issued the following statement in São Tomé:

"The new government that took office after the elections in August 2010 discussed its vision for the country with the mission and indicated its endorsement of the objectives of São Tomé and Príncipe's program supported under the ECF arrangement. The government underscored the importance of a stable macroeconomic environment for promoting growth and reducing poverty.
"Economic growth has picked up slightly in 2010 after a marked slowdown from 6 percent in 2008 to 4 percent in 2009. The slowdown was driven by a decline in foreign direct investment (FDI)—partly reflecting the impact of the global financial and economic crisis. Although FDI declined further in 2010, an increase in externally-financed public investment projects boosted economic activity. The annual rate of inflation has trended down from a peak of 37 percent in July 2008 to 13 percent in September 2010. The exchange rate peg introduced in January has functioned smoothly and should help lower inflation further.

"The government and the IMF team discussed measures to strengthen fiscal performance in order to safeguard international reserves and the exchange rate peg. Measures to lower the fiscal deficit in 2011 will build on recent efforts of the revenue departments to expand the register of taxpayers, enhance the enforcement of tax laws, and improve customs administration. On the expenditure side,

[22] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and a summary is transmitted to the country's authorities.

[23] The Extended Credit Facility (ECF) has replaced the Poverty Reduction and Growth Facility (PRGF) as the IMF's main tool for medium-term financial support to low-income countries. It provides for a higher level of access to financing, more concessional terms, enhanced flexibility in program design, and more focused, streamlined conditionality. Financing under ECF currently carries a zero interest rate, with a grace period of 5 ½ years, and a final maturity of 10 years. The IMF reviews the level of interest rates for all concessional facilities every two years.

the government will better prioritize spending—especially on goods and services and transfers—in order to keep total expenditure within available resources.

“The mission urged the government to address the recurring problem of arrears accumulation between the Treasury, the water and electricity corporation (EMAE) and the petroleum importing company (ENCO). This should be done by more realistic budgeting for government utility payments, tackling the structural problems underlying EMAE’s weak financial position (e.g., large losses in the generation and transmission of power, and a tariff structure that yields revenues that do not cover costs), and allowing retail prices of petroleum products to move in line with international prices.

“The mission welcomed recent measures taken by the central bank to improve the health of the banking system, including enforcing an increase in the minimum capital requirement and intervening in a troubled bank. In order to maintain the stability of the banking system, the mission urged the central bank to ensure that its capacity to supervise banks keeps pace with the expansion of the sector.

“Notwithstanding the substantial debt relief it has received from its bilateral and multilateral partners, STP remains at high risk of falling back into debt distress because of its limited export and production base. The IMF mission welcomed the government’s commitment to avoid commercial borrowing and instead rely on external grants and highly concessional loans to finance development programs.

“Most of the program targets for 2009 and the first half of 2010 were met, with the exception of the performance criteria on the domestic primary deficit. The mission and the authorities reached understandings, ad referendum, on measures to strengthen performance under the program. IMF Board consideration of the reviews could take place in January 2011.”

Annex 6: Progress towards the MDGs in São Tomé and Príncipe

In general, STP lacks appropriate and reliable social indicators and sector data.[24] The latest population census and household survey took place in 2001 although, as part of the implementation of the PRSP adopted in 2003, the Government, with technical assistance from the World Bank, undertook a CWIQ Survey in 2005 to update some social indicators. In addition, the first Demographic and Health Survey, and a new household survey were launched in 2008 and 2009, respectively but results are not available yet.

STP is classified as a least developed countries but it is ranked among the middle Human development countries. While there has already been considerable progress toward the MDGs, the country will not be able to reach many of these targets. Poverty incidence currently stands at about 54 percent, and although the indicator still needs to be updated, anecdotal evidence suggest that it will difficult to reach the MDG target of 20.5 percent poverty incidence in 2015.

The country appears on track to achieve the universal access to primary education MDG target. 97 percent of school-age children were enrolled in primary schools in 2001, considerable progress from a ratio of 85 percent in 1985. This achievement has raised literacy rates from about 73 percent in 1990 to 83 percent in 2005, and expected to reach about 90 percent by 2015.

The country also hopes to achieve the reduction in infant mortality rate MDG target of 64 deaths per 1,000 live births. Although the infant mortality rate (currently at 75 percent) is expected to decline progressively, it will remain far above the MDG target of 20.3 deaths per thousand live births in 2015.

Gender equality is emphasized in the Constitution and reiterated across the various laws and legislation although women participation in the labor market is lower than man and suffer higher unemployment. Also, despite good representation at the highest political level, the share of women in the political process and decision-making is still limited at lower levels.

Maternal mortality ratio has declined but remains high at 75.1 per 100,000 live births. Nearly all women have at least one antenatal care visit and 81 per cent are attended at birth by skilled personnel, but only one hospital provides emergency obstetric and neonatal care. Reproductive health services have been integrated into 89 per cent of health facilities.

The World Bank has supported the development of national strategies to control HIV/AIDS and malaria. Adolescent sexual and reproductive health is being addressed by incorporating sex education into secondary school curricula and offering youth-friendly services in public facilities, including schools. Information campaigns by the media and civil society groups are reaching out-of-school youth and adults. Results of studies supported by UNFPA on the sexual and reproductive health of out-of-school adolescents, gender integration, and factors related to maternal mortality will guide new policies and programs.

[24] The Government received US$160,000 World Bank grant in 2006 to support the preparation of a National Strategy for the development of statistics and to strengthen statistical capacity of social and sector specific data.

Annex 7: Lessons Learnt from the Economic Success of Cape Verde

In addition to the well-documented lessons from small states,[25] the experience of other small island economies such as Cape Verde reveals that structural vulnerabilities common to most small islands may be overcome (see box below). Cape Verde, a small island of 4,000 square kilometers with a population of 500,000 inhabitants, living in an arid climate with little arable lands, has been able to turn its structural current account deficit into a surplus over the past years following sound economic and structural reforms. As a result, Cape Verde has moved out from the status of low income country to a middle income economy. Such a trajectory may also be envisaged for STP if the country accelerates reforms to (i) promote and attract foreign capital and foreign aid; and (ii) raise the efficiency of investment to led economic growth and engender domestic savings.

Lessons Learnt from the Economic Success of Cape Verde

Despite many natural handicaps and modest potential growth at its independence in 1975 Cape Verde has achieved a middle income status today. Defying its poor natural resource base and with a small population of 500,000 inhabitants, Cape Verde's real per capita GDP grew on average by 5.3 percent from 1995 to 2009 and by 4.8 percent from 2000 to 2008, faster than other small island economies and other countries in sub-Saharan Africa, and has brought the country to the status of middle income economy in 2008. Since 1989, poverty headcount decreased by more than 22 percentage points to 27 percent in 2007. Cape Verde is now on track to achieve most of the MDGs by 2015. Though relative inequality has increased, household living standards as measured by comfort factors (home ownership, household appliances, access to water and sanitation and infrastructure services) are fairly good.

This remarkable success for a small island economy with no natural resources is the result of a major economic transformation over the last 35 years. The economy is increasingly becoming service-based, led by tourism and commerce. The country has broken its past dependence on aid and remittances and is becoming a self-propelled economy with domestic savings averaging 30 percent in 2007-2008. Specialized in export of services, and with substantial tourism-related FDI, the tourism sector in-flows are now higher than aid and remittances. Behind this transformation there is a relatively-skilled workforce, adequate governance and adequate economic and social policies.

A key factor of Cape Verde's success story has been democratic consolidation. Cape Verde enjoys a dynamic social system supported by a free press, and a vibrant civil society that increasingly participates in the social and political life of the Nation. Cape Verde is ranked as a "free country" in the 2008 Freedom House's scoring system, making it the freest among the eleven Sub-Saharan African states in the ranking.

Enhanced governance and market based policies allowed Cape Verde to achieve steady economic development. Corruption is perceived as being quite low and Cape Verde ranks second in Africa in the 2009 World Bank CPIA. Political and economic governance is ranked high by international institutions including Transparency International and the Heritage Foundation. Despite these positive signs, the country still faces a few governance issues and fiduciary systems need improvements, access to legal services should be expanded, and regulatory barriers exist. Cape Verde has also moved from a largely centrally-planned economy to a market-based private sector economy and has improved factor markets and private sector-led growth through divestiture of state enterprises and utilities, financial sector reform, the strengthening of property rights and price liberalization that have led to greater private sector participation in the economy. As a result, the Cape Verde Stock Exchange has steadily raised and its market capitalization is now 25 percent of GDP (compared to zero in 2005). Foreign investment is high (and represents three times grant assistance) and regulated through the External Investment Law, which states that all investment proposals must first go through the Cape Verde's Centre for Promotion of Tourism, Investment and Exports (Promex).

Sound fiscal and monetary policies, with strict limits on public sector deficits and a peg of the local currency to the Euro, have substantially contributed to the economic success of the country. An agreement to peg the Cape Verde escudo to the Portuguese escudo was formalized in 1998, subsequently pegged to the Euro in 1999. The peg has encouraged foreign investment and facilitated trade with the European Union (EU). This new monetary policy required of strengthened independence of the Central Bank and the substantial reduction of un-programmed domestic financing. Moreover, fiscal policy has been sound and prudent. The budget deficit progressively lowered from the early1990s when a large part of revenues came from grants to a balanced budget firmly financed by domestic taxes, including the value-added tax introduced in 2004. Revenue buoyancy improved, together with restraint on recurrent spending resulting from civil service reform, all of which reduced external debt from a peak of 63.7 percent of GDP in 2002 to 36.7 percent of GDP in 2008. A prudent fiscal

[25] For a summary of the Bank's knowledge base on small states, see:
http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:21431090~pagePK:41367~piPK:51533~theSitePK:40941,00.html

stance has allowed the government to implement a countercyclical fiscal impulse to smooth the negative effects of the global downturn in 2008 and 2009.

Trade liberalization and export-oriented activities have led to better integration into the world economy. Cape Verde joined the World Trade Organization (WTO) in 2008 after important reforms relating to import tariffs, the customs and commercial codes and value-added tax. Trade links with Portugal, the former colony, still accounts for over one-half of all imports and exports, but Cape Verde has developed trade with other countries in Asia, (i.e. the former Portuguese colony of Macao in China), the United Kingdom, United States, Europe, West Africa and the Portuguese speaking community in general. The country has successfully attracted significant quantities of FDI in tourism, and overall FDI has increased from US$21 million in 1990-2000 to US $210 million in 2008 (and is now three times more significant than grant assistance). Cape Verde has also been highly successful in attracting bilateral and multilateral foreign aid. Furthermore, Cape Verde, which has already a special partnership agreement with the EU, is negotiating an economic partnership agreement with the EU to ensure a deeper integration into the EU economy and market.

Remittances from Cape Verdeans living abroad have been crucial for private-sector development. A large and well trained population abroad (about 500,000 Cape Verdeans work abroad) is behind the large amount of remittances that in the mid-1990s represented the largest source of foreign financing. They have increased at an annual average of 10.3 percent for the last 20 years because of a stable and credible exchange rate peg, relaxation of foreign exchange controls, and a strengthened financial system**.** As a result, Cape Verde was second only to Lesotho among top recipients of remittances in sub-Saharan Africa and its remittances-to-GDP ratio represented 11 percent of GDP in 2008.

Cape Verde's authorities have been attentive to reduce external vulnerabilities. To reduce exposure to critical imports, the government introduced a package of measures, including quotas on a range of secondary goods and taking control of credit issued by banks to import companies. Also in 1997, the government began to record sales of fuel to ships in full to adequately plan for future needs. These measures, combined with the increase in exports, have brought the trade deficit down although critical imports such as food and fuel continue to pressure on trade deficit.

Annex 8: Institutional Capacity Assessment of the PRMG Operation

An institutional capacity assessment was prepared for the various components of a PRMG operation as part of the process of preparing the project, particularly focusing on defining the readiness of the prior actions and subsequent policy reforms. This assessment focused on the existing state of institutional and human resources capacity in order to ascertain the operation's readiness to be implemented and of the actions necessary to ensure its timely and effective implementation. The related actions to this institutional capacity assessment will be updated following the next PRMG operation task team mission to the country.

Implementation Arrangements

The assessment ascertained that while a project implementation unit does not exist per se, a coordinating mechanism exist for the operation functions in the area of Public Finance Reform. The assessment concludes that the coordinating mechanism could function effectively in order to implement the operation provided that it is supported by an action plan that could be implemented with adequate technical assistance (TA).

The Budget Director is the coordinator of the Public Finance Reform. He is supported in this function by the Budget Directorate under her purview. The Directorate is staffed by 12 professionals who, besides their normal functions in budget formulation, are responsible for implementing PRMG.

The unit's staff is comprised of professionals with university degrees and training that have adequate public financial management experience, many of them having previously worked in the Treasury Directorate. A preliminary assessment of their capabilities concluded that they could effectively implement PRMG's reform program. However, the staff at the Ministry of Finance and International Cooperation lacks training in public accounting. More importantly, they do not have an action plan that will allow them to produce the public accounts nor qualified technical direction to do it. While these issues may not pose a serious problem in implementing the PRMG operation's prior actions, they are likely to severely constrain the implementation of the reform program once the operation is approved by the Bank's Board.

While the directorate's staffing may be currently sufficient to implement both functions as work on both areas intensifies, particularly when the SAFE-e becomes operational, the unit will require training to deal with problems that may emerge with the system and with public accounting issues. The unit will also require training and support from a consulting firm to modify the SAFE-e system as needed.

This assessment identified the TA needed to address the above mentioned issues and recommended to the authorities that adequate financing for its implementation be included in the forthcoming government budget. In this respect, the task team has left three aide-memoires (September and November 2010, and April 2011) with the authorities that included an update of the status of public financial management issues that needed to be addressed, a matrix of TA required to ensure that they would be addressed, and a matrix of policy actions related to these two areas. The documentation provided to the authorities identified, for each directorate participating in the PRMG operation, the TA that would be required to ensure the effective implementation of the PRMG program. To this end, the unit has prepared terms of reference for the TA and an action plan for its implementation. To assist in advancing the TA, the Bank will assist in the review of the draft action plan and terms of reference by taking a public accounts specialist in its next mission to STP. In addition, the aide-memoires of November 2010 and April

2011 provide an in-depth assessment of public financial management systems in STP, including an action plan for preparing the public accounts of the State.

PRSP. The household survey necessary to prepare the PRSP has been completed. Financing in the amount of $60,000 is required to process the survey data and prepare a poverty profile, for which a consulting firm (AFRISTAT) has been contracted, with financial support from UNDP. Once the poverty profile is completed, work on preparing a results-oriented PRSP can commence. Nonetheless, it will be important to improve PRSP monitoring, including the introduction of pro-poor codes in the budget. The codes exist, but must be specified in the budget. The task team is of the view that Budget Department has the capacity to introduce the pro-poor codes in the budget.

Budget Department. The task team reviewed the prior actions related to the budget and concluded that the Budget Department has the capacity to undertake the policy actions of this operation. Actions related to the management of public assets included in the policy matrix will need to be coordinated with the Assets Department. A census of public assets, currently being prepared by a consulting firm, will provide an up-to-date inventory of public assets. Next steps in this area would require that the Assets Department include the relevant information in the public accounts. However, a system to ensure that this is done is not currently in place. Therefore, TA would be required for its implementation.

Donor Coordination. The Ministry of Finance and International Cooperation expects to receive assistance from UNDP to further revise the Memorandum of Understanding to help specify the functions of donor coordination and government commitment. This document will focus on three areas: (i) an annual donor/government review to agree on commitments; (ii) government commitment to include in the budget the agreements reached with donors; and (iii) annual reporting on progress on the PRSP's implementation. Staff from the Ministry of Foreign Affairs responsible for donor coordination moved to the Ministry of Finance and International Cooperation to assume more focused responsibility in the area of donor coordination.

Payroll Management. A draft legislation dealing with civil service reform issues is being prepared for which the Bank will provide comments. The draft is expected to be presented to the Council of Ministers for its discussion and subsequent approval. The team understands that the draft legislation, once approved by the Council of Ministers, would be submitted to the National Assembly for its discussion and subsequent approval. In the meantime, the authorities are preparing a headcount of government employees. The authorities are also working on changes to the Civil Code in order to include an evaluation of government employees as part of civil service requirements.

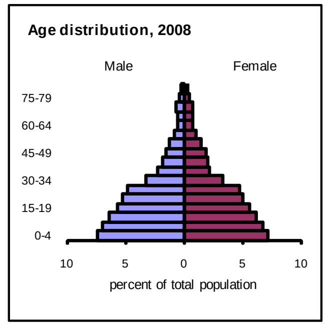
Fiscal Responsibility Framework. The task team has discussed the policy matrix with the authorities, listing the advantages and disadvantages of enacting a Fiscal Responsibility Framework. On the basis of the ensuing discussion, the Council of Ministers would need to prepare a framework on how issues of fiscal responsibility would be addressed in the area of public financial management, for which the Ministry of Finance would need to prepare an action plan of next steps.

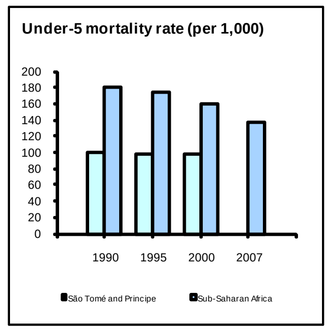
Annex 9: São Tomé and Príncipe at a Glance

São Tomé and Principe at a glance

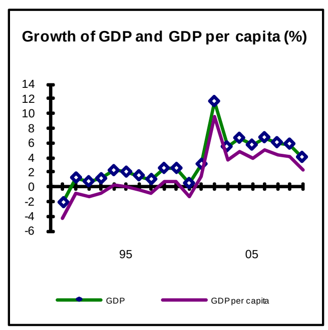
11/30/10

Key Development Indicators	São Tomé and Principe	Sub-Saharan Africa	Lower middle income
(2009)			
Population, mid-year (millions)	0.16	819	3,767
Surface area (thousand sq. km)	*10*	24,242	31,923
Population growth (%)	16	2.5	12
Urban population (% of total population)	*60*	36	40
GNI (Atlas method, US$ billions)	0.2	887	7,709
GNI per capita (Atlas method, US$)	1,140	1,082	2,046
GNI per capita (PPP, international $)	1,850	1,973	4,481
GDP growth (%)	4.0	5.2	7.5
GDP per capita growth (%)	2.4	2.7	6.3
(most recent estimate, 2003–2009)			
Poverty headcount ratio at $1.25 a day (PPP, %)	28	51	..
Poverty headcount ratio at $2.00 a day (PPP, %)	57	73	..
Life expectancy at birth (years)	66	52	68
Infant mortality (per 1,000 live births)	52	83	44
Child malnutrition (% of children under 5)	..	25	25
Adult literacy, male (% of ages 15 and older)	94	72	87
Adult literacy, female (% of ages 15 and older)	83	54	73
Gross primary enrollment, male (% of age group)	133	105	109
Gross primary enrollment, female (% of age group)	127	95	105
Access to an improved water source (% of population)	89	60	86
Access to improved sanitation facilities (% of population)	26	31	50





Net Aid Flows	1980	1990	2000	2009 [a]
(US$ millions)				
Net ODA and official aid	4	54	35	47
Top 3 donors (in 2008):				
Portugal	..	16	11	13
Japan	0	3	1	7
European Commission	1	4	6	4
Aid (% of GNI)	..	..	*51.3*	26.2
Aid per capita (US$)	40	466	249	294



Long-Term Economic Trends	1980	1990	2000	2009
Consumer prices (annual % change)	*11.5*	42.2	11.0	16.7
GDP implicit deflator (annual % change)	*25.9*	42.2	10.0	15.6
Exchange rate (annual average, local per US$)	34.8	143.3	7,978.2	16,208.0
Terms of trade index (2000 = 100)	..	106	100	..

	1980	1990	2000	2009	1980–90	1990–2000	2000–09
					(average annual growth %)		
Population, mid-year (millions)	0.1	0.1	0.1	0.2	2.0	1.9	1.7
GDP (US$ millions)	82	120	77	189	-1.1	1.6	6.3
		(% of GDP)					
Agriculture	15.7	13.2	12.1	*15.8*	-1.1	-1.7	*4.9*
Industry	10.2	8.6	10.5	*16.8*	-1.1	0.6	*10.3*
Manufacturing	..	..	*5.7*	*5.2*	..	..	*2.1*
Services	..	..	77.4	*67.4*	-1.1	2.4	*6.5*
Household final consumption expenditure	86.9	100.4	64.9	*103.2*	..	..	*10.5*
General gov't final consumption expenditure	19.7	13.3	45.1	*22.9*	-0.9	8.6	*4.9*
Gross capital formation	9.6	14.2	26.1	*31.3*	..	..	*9.4*
Exports of goods and services	12.7	6.9	21.2	*9.3*	-2.7	9.6	*-1.7*
Imports of goods and services	28.9	34.7	57.4	*66.6*	2.7	2.9	*9.2*
Gross savings	..	..	*9.4*	*-10.3*			

Note: Figures in italics are for years other than those specified. 2009 data are preliminary. .. indicates data are not available.
a. Aid data are for 2008.

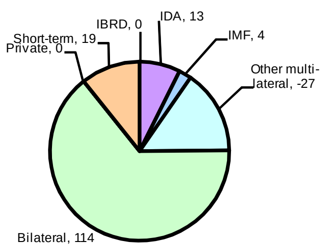
Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	**2000**	**2009**
(US$ millions)		
Total merchandise exports (fob)	3	10
Total merchandise imports (cif)	25	80
Net trade in goods and services	-28	-83
Current account balance	-27	-49
as a % of GDP	-34.6	-25.9
Workers' remittances and compensation of employees (receipts)	0	..
Reserves, including gold	13	46

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	13.1	58.9
Tax revenue	9.7	*16.7*
Current expenditure	14.7	20.7
Overall surplus/deficit	-6.1	17.6
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	310	*123*
Total debt service	4	*3*
Debt relief (HIPC, MDRI)	173	..
Total debt (% of GDP)	404.3	*70.0*
Total debt service (% of exports)	26.5	*13.4*
Foreign direct investment (net inflows)	4	19
Portfolio equity (net inflows)	0	*0*

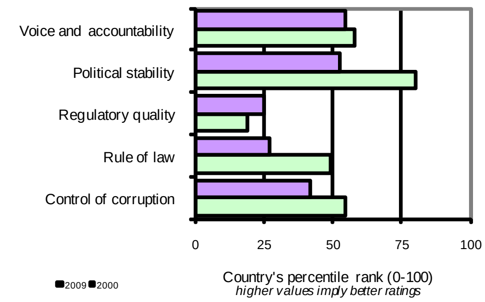
Composition of total external debt, 2008



US$ millions

Private Sector Development	**2000**	**2009**
Time required to start a business (days)	–	144
Cost to start a business (% of GNI per capita)	–	817
Time required to register property (days)	–	62
Ranked as a major constraint to business (% of managers surveyed who agreed)	**2000**	**2009**
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..

Governance indicators, 2000 and 2009



Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure	**2000**	**2008**
Paved roads (% of total)	68.1	..
Fixed line and mobile phone subscribers (per 100 people)	3	35
High technology exports (% of manufactured exports)	*11*	0.1

Environment		
Agricultural land (% of land area)	54	*59*
Forest area (% of land area)	28.1	*28.1*
Terrestrial protected areas (% of surface area)	..	..
Freshwater resources per capita (cu. meters)	*15,024*	13,610
Freshwater withdrawal (billion cubic meters)	..	..
CO2 emissions per capita (mt)	0.63	*0.81*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	..	..
Energy use per capita (kg of oil equivalent)	..	..

World Bank Group portfolio	**2000**	**2009**
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	0	*0*
Disbursements	–	–
Principal repayments	0	*0*
Interest payments	–	–
IDA		
Total debt outstanding and disbursed	59	14
Disbursements	2	*3*
Total debt service	1	*0*
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	–	0
of which IFC own account	–	0
Disbursements for IFC own account	–	0
Portfolio sales, prepayments and repayments for IFC own account	–	0
MIGA		
Gross exposure	–	–
New guarantees	–	–

Note: Figures in italics are for years other than those specified. 2009 data are preliminary. 11/30/10
.. indicates data are not available. – indicates observation is not applicable.

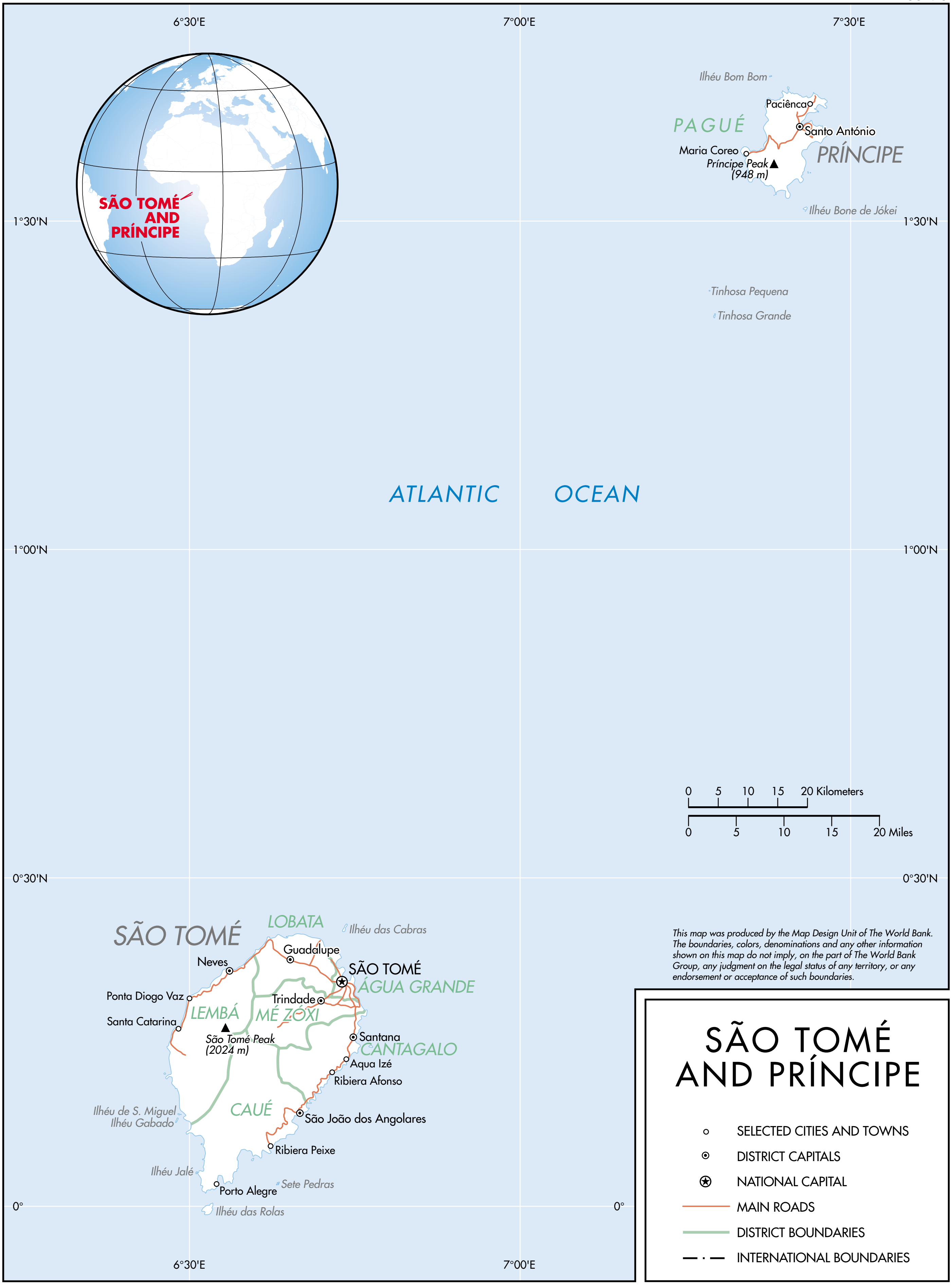
Development Economics, Development Data Group (DECDG).

With selected targets to achieve between 1990 and 2015

(estimate closest to date shown, +/- 2 years)

	São Tomé and Principe			
Goal 1: halve the rates for extreme poverty and malnutrition	**1990**	**1995**	**2000**	**2008**
Poverty headcount ratio at $1.25 a day (PPP, % of population)	..	..	*28.4*	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..
Share of income or consumption to the poorest qunitile (%)	..	..	*5.2*	..
Prevalence of malnutrition (% of children under 5)	..	..	10.1	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	*96*	..	*86*	*98*
Primary completion rate (% of relevant age group)	78	..	*46*	76
Secondary school enrollment (gross, %)	40	..	..	46
Youth literacy rate (% of people ages 15-24)	*94*	..	*95*	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	..	..	*93*	*99*
Women employed in the nonagricultural sector (% of nonagricultural employment)	32	..	..	..
Proportion of seats held by women in national parliament (%)	12	*7*	9	2
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	100	99	97	*96*
Infant mortality rate (per 1,000 live births)	62	59	56	52
Measles immunization (proportion of one-year olds immunized, %)	71	74	69	*85*
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	..
Births attended by skilled health staff (% of total)	..	..	79	*81*
Contraceptive prevalence (% of women ages 15-49)	..	..	29	*30*
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	140	120	110	99
Tuberculosis case detection rate (%, all forms)	11	*26*	61	41
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	..	75	79	89
Access to improved sanitation facilities (% of population)	..	20	21	26
Forest area (% of total land area)	28.1	..	28.1	*28.1*
Terrestrial protected areas (% of surface area)	..	..	..	..
CO2 emissions (metric tons per capita)	0.6	0.6	0.6	*0.8*
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	..	..	..	..
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	1.9	2.0	3.3	4.8
Mobile phone subscribers (per 100 people)	0.0	0.0	0.0	30.6
Internet users (per 100 people)	0.0	..	4.6	15.5
Personal computers (per 100 people)	..	..	*10*	*3.9*

IBRD 33473



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