

**EXECUTIVE
BOARD
MEETING**

EBS/22/15
Supplement 2

March 16, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Democratic Republic of São Tomé and Príncipe—Staff Report for the 2022 Article IV Consultation, Fourth Review Under the Extended Credit Facility Arrangement, Requests for Waivers of Nonobservance of Performance Criteria, Modification of Performance Criteria, and Financing Assurances Review—Informational Annex**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Wednesday, March 30, 2022
Publication:	Yes*
Questions:	Mr. Kvintradze, AFR (ext. 34260) Mr. Nassar, AFR (ext. 38626) Ms. Rahman-Garrett, AFR (ext. 36686) Ms. Wang, AFR (ext. 36889) Mr. Palmeira Bardella, FAD (ext. 38951) Mr. Bhutia, AFR (SBhutia@imf.org)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—African Development Bank, World Trade Organization

*The authorities have indicated that they consent to the Fund's publication of this paper.



DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

March 14, 2022

STAFF REPORT FOR 2022 ARTICLE IV CONSULTATION,
FOURTH REVIEW UNDER THE EXTENDED CREDIT
FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS FOR
NONOBSERVANCE OF PERFORMANCE CRITERIA,
MODIFICATION OF PERFORMANCE CRITERIA AND
FINANCING ASSURANCES REVIEW—INFORMATIONAL
ANNEX

Prepared By

The African Department (in consultation with other
Departments)

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RELATIONS WITH THE FUND

(As of January 31, 2022)

Membership Status

Joined: September 30, 1977; Article XIV

General Resources Account:	SDR Million	% Quota
Quota	14.80	100.00
Fund holdings of currency	14.80	100.02
Reserve tranche position	0.00	0.00

SDR Department:	SDR Million	% Allocation
Net cumulative allocation	21.28	100.00
Holdings	0.79	3.72

Outstanding Purchases and Loans:	SDR Million	% Quota
RCF Loans	9.03	61.00
ECF Arrangements	12.94	87.43

Latest Financial Commitments:

Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	10/02/2019	02/01/2023	14.80	9.09
ECF	07/13/2015	12/31/2018	4.44	3.81
ECF	07/20/2012	07/13/2015	2.59	1.11

Outright Loans :

Type	Date of Commitment	Date Drawn/Expired	Amount approved (SDR Million)	Amount Drawn (SDR Million)
RCF	04/21/2020	04/23/2020	9.03	9.03

1/ Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment, i.e. Board approval date.

Overdue Obligations and Projected Payments to Fund¹

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Principal	0.50	0.75	0.76	2.04	3.62

Charges/Interest	0.02	0.02	0.02	0.02	0.02
Total	0.52	0.76	0.78	2.06	3.64

^{1/}When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

	Enhanced Framework
Commitment of HIPC assistance	
Decision point date	December 2000
Assistance committed	
by all creditors (US\$ million) ¹	124.30
<i>Of which:</i> IMF assistance (US\$ million)	1.24
(SDR equivalent in millions)	0.82
Completion point date	March 2007
Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	0.82
Interim assistance	...
Completion point balance	0.82
Additional disbursement of interest income ²	0.04
Total disbursements	0.87

^{1/} Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

^{2/} Under the enhanced framework, an additional disbursement is made corresponding to interest income earned on the amount of HIPC assistance committed but not disbursed.

Implementation of Multilateral Debt Relief Initiative (MDRI):

MDRI-eligible debt (SDR Million) ¹	1.43
Financed by: MDRI Trust	1.05
Remaining HIPC resources	0.38

Debt Relief by Facility (SDR Million)

<u>Delivery</u>	<u>Eligible Debt</u>		
	<u>Date</u>	<u>GRA</u>	<u>PRGT</u>
	December 2007	N/A	0.38
			Total
			0.38

March 2007

N/A

1.05

1.05

^{1/}The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance.

Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR Million)
N/A	04/13/2020	0.11	0.11
N/A	10/02/2020	0.17	0.17
N/A	04/01/2021	0.17	0.17
N/A	10/06/2021	0.14	0.14
N/A	12/15/2021	0.10	0.10

Safeguards Assessments:

Safeguards assessments were conducted in 2009, 2013, and 2015. Severe capacity constraints continue to contribute to a weak safeguards framework at the BCSTP exacerbated by challenges faced in implementing recommendations due to the COVID-19 pandemic. However, progress is gradually being made. The draft of the new BCSTP Law (Organic Law), which improves autonomy, governance provisions, and independent oversight of BCSTP, was finalized and sent to the government at end-January 2022, and is expected to be submitted to Parliament by end-February 2022 (new prior action). Implementation of the International Financial Reporting Standards (IFRS) was delayed during the pandemic as technical assistance from Banco Central do Brazil had lapsed. As a result, the authorities requested Fund TA in December 2021, which is planned to commence in Q2 2022. An external audit of the 2020 BCSTP financial statements began in January 2022 and is expected to be finalized by end-April 2022. In addition, an MOU on legacy government debt was sent by the BSCTP to the Ministry of Finance in January 2022 and the authorities expect to reach agreement on it by end-April 2022. The authorities have also prepared a plan to enhance the BCSTP's capacity for internal audit and implementation is planned to begin in March 2022. A manual on investment policy to manage foreign reserves operations was updated and shared with the IMF in end-2021 and the withdrawal of damaged bank notes from circulation which has been delayed is currently planned for Q1 2022. Notwithstanding, further effort is required to strengthen safeguards at the BCSTP.

Exchange Arrangements:

The de jure and de facto exchange rate arrangement is a conventional peg against the euro. São Tomé and Príncipe has pegged the dobra to the euro since January 2010, initially at a rate of dobra 24,500 per euro; however, it redenominated the currency by removing three zeros in January 2018. The organic law of the BCSTP authorizes it to make decisions regarding exchange rate policy.

The commission on foreign exchange sales by banks cannot be higher than 2 percent for the euro, while the spread for other currencies cannot exceed 4 percent. Purchases of euro by banks must be done at the rate published by the BCSTP and no commissions are allowed. The BCSTP finances current international transactions at the official exchange rate and only after verification of the documentation establishing the bona fide nature of the bank's request. Access to foreign exchange is limited to banks having a net open position in the transaction currency of less than 12 percent of qualified capital, a net open position in total foreign currency less than 25 percent of qualified capital, and which are in compliance with the solvency and liquidity ratios set by the central bank, as well as minimum capital requirement. Banks are allowed to have a direct access to the central bank's facilities regardless of the above conditions if the foreign exchange is to be used for importation of goods in periods of crisis or for the importation of fuel. The central bank charges 1.5 percent commission on sales of euro and a 0.5 percent commission on purchases of euro. The buying rate is mainly indicative because the BCSTP rarely makes purchases.

São Tomé and Príncipe continues to avail itself of the transitional arrangements under Article XIV, but it does not maintain restrictions under Article XIV. However, it maintains restrictions subject to Fund approval under Article VIII. One exchange restriction regarding limitations on the transferability of net income from investment arises from Article 3(g) and Article 18 of the Investment Code (Law No. 19/2016). This restriction results from the requirement that taxes and other obligations to the government have to be paid/fulfilled as a condition for transfer, to the extent the requirement includes the payment of taxes and the fulfillment of obligations unrelated to the net income to be transferred. The second exchange restriction arises from limitations on the availability of foreign exchange through rationing of foreign exchange by BCSTP. This exchange restriction also gives rise to a multiple currency practice as the rationing has channeled bona fide current transactions to the parallel market where the exchange rate is at a spread of more than 2 percent from the exchange rate in the formal market.

Article IV Consultation:

São Tomé and Príncipe is currently under a 24-month consultation cycle. The Executive Board concluded the last Article IV consultation on July 23, 2018.

Financial Sector Assessment Program (FSAP), Reports on Observance of Standards and Codes (ROSCs), and Offshore Financial Center (OFC) Assessments:

None.

Resident Representative:

A Resident Representative has been selected for São Tomé and Príncipe and is expected to begin working in the country by March 2022. The Fund has not had a Resident Representative office in São Tomé and Príncipe since October 2006.

Technical Assistance 2019–22:**Table 1. Sao Tome and Principe: TA Delivered 2019-2022**

Date	
Feb-22	STA remote mission on public sector debt statistics (PSDS)
Nov-21	STA remote mission on government financial statistics (coverage expansion)
Nov-21	FAD remote mission on tax policy and VAT administration reform
Sept-21	STA remote mission on external sector statistics
Aug-21	FAD follow-up on cash flow and TSA implementation
Jul-21	FAD remote mission on PFM (budget preparation)
Jul-21	STA remote mission on real sector national accounts
May 21	LEG remote mission to reform the financial institutions law
Apr-21	FAD remote mission on PFM (improve budget execution & accounting)
Apr-21	FAD remote mission on tax and customs administration (tax debt management)
Apr-21	MCM remote mission to review draft foreign exchange law
Apr-21	STA remote mission on government finance statistics
Mar-21	FAD remote mission on VAT implementation and IT solutions
Dec-20	FAD remote mission on PFM (improve methodological manual on macro-fiscal forecasts)
Dec-20	FAD remote mission on tax policy
Nov-20	AFRITAC remote mission to review & upgrade off-site/on-site supervision
Oct-20	FAD remote mission on VAT
Sept-20	STA remote mission on government finance statistics
Jun-20	FAD remote mission on customs administration
Jun-20	FAD remote mission on PFM (improve methodological manual on macro-fiscal forecasts)
Jun-20	STA remote mission on national accounts statistics
Jun-20	AFRITAC remote mission to draft banking supervision manual
May-20	MCM remote mission on bank rating model & prudential regulation
Feb-20	FAD mission on tax administration
Feb-20	FAD mission on PFM
Feb-20	LEG mission to reform the financial institutions law
Jan-20	FAD mission on PFM (macro-fiscal multi-year planning)
Dec-19	LEG mission on reform of central bank law
Nov-19	FAD mission on PFM (budget execution & controls, management of arrears)
Nov-19	FAD mission on tax administration
Nov-19	FAD mission on tax policy (VAT and excise implementation)
Nov-19	MCM mission to draft a prudential regulation on risk management
Nov-19	STA mission on national accounts statistics
Sept-19	STA mission on government finance statistics
Sept-19	FAD mission on tax and customs administration
Aug-19	MCM mission on monetary operations & debt market development
Aug-19	FAD mission on tax administration

Table 1. Sao Tome and Principe: TA Delivered 2019-2022 (concluded)

Jul-19	FAD mission on tax and customs administration
May-19	STA mission on government finance statistics
May-19	FAD mission on tax administration
May-19	FAD mission on tax and customs administration
May-19	STA mission on national accounts statistics

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

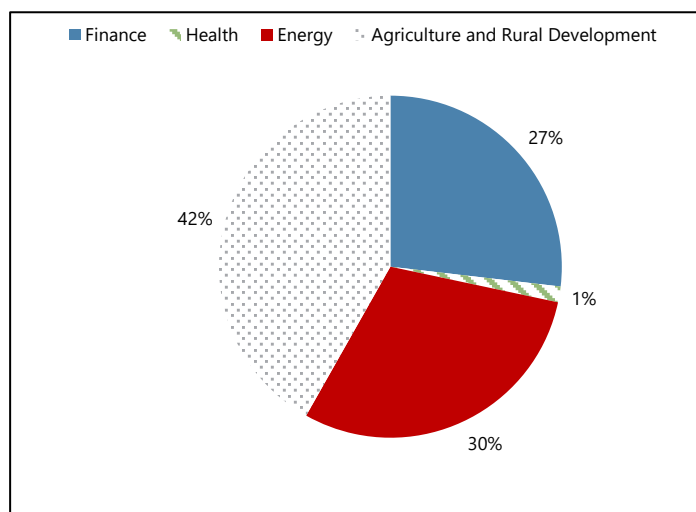
World Bank: <https://www.worldbank.org/en/country/saotome>

The African Development Bank Group

(As of February 28, 2022)

The African Development Bank Group commenced lending operations in São Tomé and Príncipe in 1978. To date, the Bank approved loans and grants, amounting to a cumulative commitment of over US\$200 million.

As of February 2022, the Bank's active portfolio in São Tomé and Príncipe consisted of six operations, amounting to roughly UA 33.52 million (US\$46.6 million). The six operations are translated into five projects, being: the Infrastructure Rehabilitation for Food Security Support Project – second phase (PRIASA II); the Energy Transition and Institutional Support Program (ETISP); the Payment System Infrastructure and Financial Inclusion Project; the Zuntámon Lusophone Compact Initiative; and the multinational project "Support to the COVID-19 Pandemic Crisis" (Table 1). The portfolio is relatively young. The average age of the portfolio is 3.4 years, and the cumulative disbursement rate is 40.1 percent after the closure of three operations in 2021 (i.e., COVID-19 Crisis Response Budget Support Program with a disbursement rate of 100 percent; Economic Reform and Power Sector Support Program with a disbursement rate of 100 percent; and Study for the elaboration of the Lan-use Plan of STP with a disbursement rate of 99.4 percent). In terms of sectoral distribution, the agriculture and rural development sector accounts for 42 percent, followed by the energy with 30 percent, finance with 27 percent and social sector with 1 percent. Currently, there is no ongoing private sector operations. The portfolio is largely funded by African Development Fund (92 percent) and complemented by the Global Environmental Fund (GEF) (8 percent). The Bank also conducted analytical work focused in the areas of energy, agriculture, public financial management, and the private sector development strategy 2015–24.



The AfDB current involvement in São Tomé and Príncipe is guided by the Country Strategy Paper (CSP)

2018-2022, approved in June 2018. The strategy is focused on two pillars: Pillar I– Supporting

agricultural value chains development; and Pillar II—Improving the quality of life of the population. The CSP's main objective is to accelerate São Tomé and Príncipe's development and economic transformation with focus on agriculture, power and the financial sector to unlock potentials for value addition and job creation. The current CSP has also gone its Medium-Term Review in July 2021 to assess the relevance of the Bank's intervention in the country. The CSP is anchored on STP 2017-2021 National Development Plan (NDP) and the Long-Term Strategy (Vision 2030) as well as the Bank's Ten-Year Strategy TYS (2013-2022), which places focus on high fives (Feed Africa, Power Africa, Industrialize Africa, Integrate Africa, and Improve the quality of life for the People of Africa).

The Bank support has been focused on putting in place an enabling environment for agri-business and value chains development through investments in agriculture-supporting infrastructure and in key complementary sectors of energy and water infrastructure. Support has also been towards on capacity building of key public-sector institutions for the formulation and effective implementation of macroeconomic and public financial management reforms, with a view to improving the prioritization, allocation and use of public resources.

As part of its strategy and knowledge products, the AfDB also envisages to undertake the following economic and sector work: (i) Private Sector Study; (ii) Fragility Assessment; and (iii) Gender Profile study. These studies will inform the preparation of future programs and provide support to the government's policy reform efforts.

Table 1. Sao Tome and Principe: AfDB Ongoing Projects (Millions of UA)

Description	Approval Date	Completion Date	Net commitments (UA million)	Disbursement Rate (%)	Window
Infrastructure Rehabilitation for Food Security Support Project (PRIASA II)	10/06/2015	12/31/2022	11.50	86.66	ADF loan
			2.52	21.73	GEF grant
Total Agriculture sector			14.02	52.2	
Energy Transition and Institutional Support Program (ETISP)	03/25/2020	12/24/2024	10.00	0.96	ADF grant
Total Energy sector			10.00	0.96	
Payment System Infrastructure and Financial Inclusion Project (PISPIF)	03/02/2017	12/31/2022	1.50	31.23	ADF loan
Zuntámon LC Initiative	06/10/2021	05/28/2025	7.50	0.0	ADF grant
Total Finance Sector			9.00	15.62	
Support to the COVID-19 Pandemic Crisis	06/23/2020	03/31/2022	0.5	100.00	ADF grant
Total Social sector			0.5	100.00	
Total Portfolio			33.52	40.1	

STATISTICAL ISSUES

(As of March 4, 2022)

I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision has some shortcomings but is broadly adequate for surveillance. Serious financial, human, and technological resource constraints pose challenges to further strengthen the statistical system. Increasing macro-fiscal forecasting capacity remains a priority.</p>
<p>National Accounts: The National Statistics Office (INE) disseminates annual GDP series compiled by the production approach, based on the recommendations of the System of National Accounts 1993, with base year 2008. With the technical assistance of AFRITAC Central, improved estimates for 2008-20 were compiled using the same base year (2008), reconciling the production and expenditure approaches and they are expected to be disseminated in the first half of 2022. Quarterly GDP estimates are currently not compiled.</p>
<p>Consumer Price Statistics: The INE began to disseminate a new Consumer Price Index (CPI) (base: 2014 = 100) from January 2016. With the assistance of AFRISTAT, the product mix was changed, and the weights were updated, using the results of a household expenditure survey (HES) conducted in 2010. Due to financial constraints, the new CPI only covers the capital city. A technical assistance mission in FY2018 reviewed the re-referenced index, performed diagnostics on the entire series, linked the pre- and post-rebased series to produce an analytical series for the IMF database and statistical purposes, and considered INE's plans for further updates to the CPI upon completion of the new HES that is underway with World Bank support.</p>
<p>Government Finance Statistics: Detailed revenue and expenditure data are compiled and reported to AFR. The main areas that need to be strengthened are: (i) monitoring of expenditures on projects financed by donors; and (ii) financing operations. All project loans (financed by donors) are programmed in the budget, but some are executed independently. The government has requested development partners to help in recording all external financing in the budget. The recording of financing operations and stocks is expected to improve since the debt data management capacity is expected to be strengthened. São Tomé and Príncipe joined the AFRITAC Central project in 2017 with plans to develop GFS. Since then, TA missions have taken place each year. AFC assisted the Ministry of Finance to compile GFS for the budgetary central government. In that regard, a series dating back from FY 2014 to 2020 following the GFSM 2014 has been compiled. An assessment of public sector debt statistics was done in early 2022 and a follow-up mission is scheduled during FY2023 to support the authorities improve and expand the coverage of public sector debt data.</p>
<p>Monetary and Financial Statistics: STA missions provided technical assistance on monetary statistics in several rounds, the last one on monetary operations in August 2019. As a result, the accuracy and timeliness of the monetary data reported in the standardized report forms (SRF) for the central bank and the other depository corporations' data improved significantly. The BCSTP reports monthly data to STA for the central bank and other depository corporations on a regular basis.</p> <p>The BCSTP monthly trial balance sheet is broadly adequate to compile monetary statistics in line with the <i>Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)</i>.</p>

The BCSTP reports data on some key indicators of the Financial Access Survey, including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals.

While the central bank produces a quarterly Financial Soundness Indicators table, it is not submitted to STA for validation or dissemination. MCM TA missions on banking supervision have helped expand the coverage of the table and improved the data quality.

External Sector Statistics: The BCSTP compiles quarterly balance of payments and international investment position (IIP) statistics consistent with the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. The balance of payments and IIP series have been converted to the *BPM6* presentation starting 1997-Q1 and 2013-Q4 respectively. Data submission to STA is regular.

The BCSTP conducts quarterly surveys to collect balance of payments and IIP data from the private nonfinancial sector and from the oil and gas sector. However, the response rates are low and the net errors and omissions figures are still very large. In this regard, the BCSTP is evaluating the collection of data through different methods until the survey response rate is deemed adequate.

The September 2021 remote TA recommended to : (i) reclassified part of National Petroleum account in the BCSTP from “Reserve assets” to “Other investments—deposits of the central bank”; (ii) include all imports of oil-related products handled through the customs warehouse in the balance of trade in goods; (iii) replace the banks’ surveys—due to their low response rate, with actual bank balance sheet data for compiling the financial account of the balance of payments and IIP statistics; and (iv) compile and disseminate external debt statistics data to the Quarterly External Debt Statistics managed by the World Bank.

II. Data Standards and Quality

São Tomé and Príncipe is a participant in the Fund’s enhanced General Data Dissemination System (eGDDS) and has implemented the [National Summary Data Page](#) in December 2019.

São Tomé and Príncipe: Table of Common Indicators Required for Surveillance

(As of March 4, 2022)

	Date of Last Actual Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting	Frequency of Publication
Exchange rates	Jan 2022	Feb 2022	D	D	D
International reserve assets and reserve liabilities of the monetary authorities ¹	Feb 2022	Feb 2022	D	D	D
International investment position	Jun 2021	Jan 2022	Q	Q	Q
Reserve/base money	Dec 2021	Jan 2022	D	D	D
Broad money	Dec 2021	Jan 2022	M	M	M
Central bank balance sheet	Dec 2021	Jan 2022	M	M	M
Consolidated balance sheet of the banking system	Dec 2021	Jan 2022	M	M	M
Interest rates ²	Sep 2021	Feb 2022	M	I	I
Consumer Price Index	Jan 2021	Feb 2022	M	M	M
Revenue, expenditure, balance and composition of financing ³ – general government ⁴	Dec 2011	Feb 2022	M	M	M
Revenue, expenditure, balance and composition of financing ³ – central government	Dec 2021	Feb 2022	M	M	M
Stocks of central government and central government-guaranteed debt ⁵	Dec 2021	Feb 2022	M	Q	Q
External current account balance	Q3 2021	Jan 2022	Q	Q	Q
Exports and imports of goods	Q3 2021	Jan 2022	Q	Q	Q
GDP/GNP ⁶	2021	Feb 2022	A	A	A
Gross external debt	Dec 2021	Feb 2022	Q	Q	Q

¹ Includes reserve asset pledged or otherwise encumbered as well as net derivative positions.

² Central bank's reference rate.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); not available (NA).