

**FOR
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INTERNATIONAL DEVELOPMENT ASSOCIATION
DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE (RDSTP)
STP NATIONAL DEVELOPMENT PLAN
ASSESSMENT LETTER

Approved by Elisabeth Huybens (IDA)

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I. OVERVIEW

São Tomé and Príncipe's Medium-Term National Development Policy Framework is embodied in the National Development Plan - NDP (*Plano Nacional de Desenvolvimento, PND: 2017-2021*). The government intends the NDP to be more than a Poverty Reduction Strategy, but rather a development strategy to increase growth and lift people out of poverty at the same time. This NDP is the first one to be done under the new national planning law and as such it serves as the link between the long-term government's Agenda for Transformation (AT) STP Vision 2030, devised in 2015, and policy implementation. The NDP serves three purposes: (i) framework for medium-term social and economic development policy in STP, (ii) reference for development partners coordination; and (iii) a tool to mobilize resources to finance development.

II. BACKGROUND AND COUNTRY CONTEXT

The NDP was formulated in a context of improved monetary and external accounts, but declining GDP growth rates. Growth has peaked at 6.5 percent in 2014, but has since declined to an average of 4 percent in 2015 and 2016. Growth is driven by government spending, agriculture, and tourism. During the previous Poverty Reduction Strategy (PRS) period, STP improved its macroeconomic framework. Inflation rates were reduced to a range between 4 and 6 percent annually, current account deficits albeit high, were reduced and the banking sector was strengthened. Fiscal accounts, on the other hand, continued to be the most fragile part of the macroeconomic framework with substantial deficits and increasing debt until 2016. Growth has suffered from lower government expenditure in the last two years and the absence of a dynamic private sector that could led growth. This NDP presents the opportunity for STP to improve its fiscal accounts, while laying out the condition for private investment to flourish.

STP's growth acceleration over the last decade did not translate into a significant reduction in poverty and inequality levels. Current poverty estimates are outdated as the most recent household survey was carried out in 2010. Moreover, differences in the consumption data between the 2000 and 2010 surveys limits comparability of the estimates over time and questions the reliability of the small decline in the incidence of poverty from 68 percent in 2000 to 66.2 percent in 2010. In 2010, poverty affected women (71 percent) more than men (63 percent) and the poorest 20 percent of the population only held 8 percent of total national income compared with 41 percent held by the richest 20 percent. This indicates that inequality remains a concern. A new Household

Budget Survey (HBS) is currently being implemented with the assistance of the World Bank Group and will provide updated poverty numbers.

III. STP NATIONAL DEVELOPMENT PLAN, PND

The overarching objective of the STP National Development Plan (NDP 2017-2021) is to accelerate economic growth, poverty reduction and environment protection. The NDP includes a number of strategic objectives grouped into five thematic areas: (i) economic, (ii) social, (iii) institutional, (iv) infrastructure, and (v) environment. These objectives are to be achieved through the implementation of several programs summarized below, and through the implementation of two large infrastructure PPP projects: airport hub and a transshipment deep-sea port.

Economic thematic area. This area rightly aims to develop the private sector in areas in which STP has a comparative advantage such as tourism, fisheries and agriculture; and venture in other areas such as light manufactures and information and technology communication, in which STP does not have experience. The NDP has also a welcome focus on improving the business environment, increasing productivity in traditional sectors, linking the local economy to international trade flows, and resorting to partnerships to promote regional tourism. Some of the tools foreseen to achieve these objectives, such as special economic zones¹ and tax incentives, have been used elsewhere with mixed results, which should encourage STP to learn from these lessons when implementing these policies.

Social thematic area. This area groups policy initiatives on education, health and social protection. Education enrollment and completion have progressed significantly in STP in recent years. Thus, the NDP rightly focuses on improving the quality of education through several measures including teacher's training. Another positive feature of STP's NDP is its focus on technical and vocational education, given the country's large youth population and graduates of secondary education. On health, there is an adequate policy mix balancing rehabilitation and improvement of the health infrastructure equipment, enhancement of the capacity of the health personnel; and improvement of the system for management, monitoring and evaluation of the public health system. Another relevant measure is the support to expand private participation in medicine, which is important for tourism, but also to promote more equity and sustainability in the financing of health. The NDP rightfully points to the need to protect the more vulnerable population groups. Social protection policies are focused more on creating opportunities through jobs, access to finance and training, rather than implementing the social safety net foreseen in the national social protection strategy. This thematic area also includes initiatives to promote sports, raise cultural awareness and integrate the country's diaspora.

Institutional thematic area. This area groups policies aimed to improve the judiciary sector performance, citizen's security, public finance, and government effectiveness. It gives a prominence to policies to improve the effectiveness of the judiciary sector. It includes the whole financial sector development that has been supported by the World Bank. It also foresees needed

¹ The promotion of small manufacturing will be sought through the development of the so-called New Frontier Park, to be managed by private operators, with the New Frontier Park I meant for the development of industry, commerce and tourism, whereas the New Frontier Park II is reserved for ecological initiatives in the areas of tourism, agriculture and innovation.

policies to balance the budget such as the implementation of the VAT, however more details on domestic revenue mobilization, debt management, public financial management should have been included, given the role of government in the economy and the harm that unbalanced fiscal positions cause to the country.

Economic and social infrastructure thematic area. this area encompasses all government projects geared to develop the overall country infrastructure (energy, transport, water and sanitation and ICT) as to reduce the costs of production, improve living conditions of the population, and exploit opportunities offered by public-private partnerships. This shall be done through the two flagship projects: deep-sea transshipment port and modernization and extension of São Tomé International Airport, but also through maintenance of the existing network of national, secondary and tertiary roads and their extension, improvement in the quality of access to energy through the increase in production capacity, expansion of transmission and distribution capacities, and increased energy efficiency. It also involves improvement in the quality of access to water. Although there are serious doubts about the viability of the flagship projects, most of the other infrastructure projects are meritorious, poverty-reducing and thus should take preference in being financed.

Environmental thematic area. This area groups policies with two objectives: (i) improve land management, and (ii) environment preservation. Improved land management shall be achieved through the preparation of a National Plan for the Land Utilization, establishment of a Land Fund, and harmonious development of the national territory through reorganization of the spatial dimension. On environment, the NDP refers to climate change adaptation and disaster risk management. The Government acknowledges upfront that environmental preservation is inextricably linked with the country's development and that the country faces substantial risk from climate change. The NDP's general objective is to promote a healthy environment, to use the natural resources rationally and to protect the country for climate change risks. The NDP thus foresees the update of the national Strategy for Disaster Response and Natural Catastrophes, improved meteorological surveillance and alert systems, mitigation of the effects of climate change on the communities by developing recovering and implementation plans for the population living in coastal areas prone to environmental disasters, implementation of climate change adaptation plans in the districts of Lembá and Mé Zochi, an urban renewal plan for the city of São Tomé to reduce the capital's vulnerability to the risks associated with extreme marine phenomena, and investment in agriculture resilient to climate change.

IV. IMPLEMENTATION, MONITORING AND EVALUATION AND RISKS

In implementing this medium-term policy agenda (NDP 2017-2021), the government of STP will likely face several challenges and risks. The risks for the successful completion of the NDP are in its ambitiousness, implementation capacity and funding. The plan is comprehensive requiring an implementation capacity greater than STP have demonstrated in the past. In addition, the NDP contains initiatives which are unfunded and would require a significant increase in grants or private funds that are not in line with STPs' recent capacity.

The Ministry of Finance, Trade and the Blue Economy (MFTBE) is the primarily responsible for NDP implementation. The MFTBE, through the Directorate of Planning, was responsible for drafting the plan with support from the UNDP, and it holds responsibility for coordination, and monitoring and evaluation of the plan, working together with all government agencies. The

Government of STP has created inter-ministerial, ministerial, sectoral, and local technical committees that shall monitor the implementation of the NDP. This shall allow the Government of STP to take corrective actions as needed to achieve the 2021 goals.

V. SUMMARY AND CONCLUSION

The NDP 2017-2021 prepared by the Government of RDSTP constitutes a comprehensive development plan that addresses most of the challenges faced by the country. The NDP tries to knit together all sectorial plans as well as the more strategic and long-term Transformation Agenda. Nonetheless, more thought could have been put to harmonize all planning tools and its contents. The NDP includes policies for the most pressing developmental challenges such as the need to support private sector-led growth, and adaptation to climate change. The need (and some policies) for fiscal balance is factored in, but more detail and emphasis is needed given the country's fiscal fragility. Education and health policies are conducive to poverty reduction, while social protection could emphasize to a larger extent the need to implement the social safety net foreseen in the national social protection strategy. For example, there is no mentioning of special programs to address the vulnerability of female household heads or of the vulnerable population that are unable to work.

There is a need to understand better the link between growth and poverty reduction and incorporate this understanding in the NDP. The NDP does not advance reasons for the low ability of growth to reduce poverty, neither does it advance proposals to strengthen the weak link between economic growth and poverty reduction and to address the high level of inequality. This current situation might be a consequence of a knowledge gap in poverty measurement and poor understanding of the poverty phenomena in STP, which will hopefully be addressed by the new HBS, which will be available in 2018. Thus, it is advisable that a mid-term review of the NDP is carried out to incorporate the findings of the HBS.

There are a lot of praiseworthy infrastructure investments supportive of poverty reduction, however the viability of the flagship projects is questionable and needs to be assessed very carefully. The NDP includes infrastructure projects to expand adequate energy and water and sanitation access in the country and to rehabilitate the road network. All these investments are needed, have the ability to spur growth and reduce poverty and should be carried out, after proper appraisal and prioritization. On the other hand, the two flagship projects – airport hub and deep-sea port – do not seem to be viable in social, economic and environmental terms. Both projects can have severe environmental impacts, and can cost more than the country's GDP dragging the budget or bringing acute fiscal risks. Moreover, it is not clear that there is demand for a regional air hub, and that there is a need for another deep-sea port in the Gulf of Guinea given similar and more advanced ports in neighboring countries.