

# SAO TOME AND PRINCIPE

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Flavio Soares DA GAMA / f.soaresdagama@afdb.org  
Idrissa SANOUSSI / idrissa.sanoussi@undp.org



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- Sao Tome and Principe's economy was estimated to have grown by 5% in 2016, led by agricultural investment and tourism, and growth is set to continue in 2017 and 2018 by 5.5% on average.
- The country has improved on the Mo-Ibrahim Index of African Governance moving to 11th place in 2016 from 13th in 2015 reflecting efforts to improve good governance.
- The economy depends on inputs and technology from abroad and has a very limited industrial ecosystem, yet the government has no industrialisation strategy.

### Overview

Real gross domestic product (GDP) growth increased to 5% in 2016, up from 4% in 2015, led by agricultural investment and tourism. Growth is set to reach 5.6% in 2017 and then 5.4% in 2018, driven mainly by foreign direct investment in construction and tourism. The slight projected decline of 0.2 percentage points in 2018 is due to expectations of a slight decrease in funding from donors. The consumer price index (CPI) has continued its downward trend, despite a marginal increase of 0.3% at the end of 2016.

Raising sufficient resources domestically to finance government spending presents a key challenge, underscored by a high stock of public debt, estimated at 75% of GDP in 2015. The government envisages several reforms in 2017 to collect more revenue. The first of these is to establish a 25% tax on locally produced alcoholic beverages. Secondly, the government plans to regulate the billing system. Thirdly, it plans to create a regional taxation tribunal. Finally, the government also plans to update the tax code to include, among other things, a tax on service delivery for non-residents.

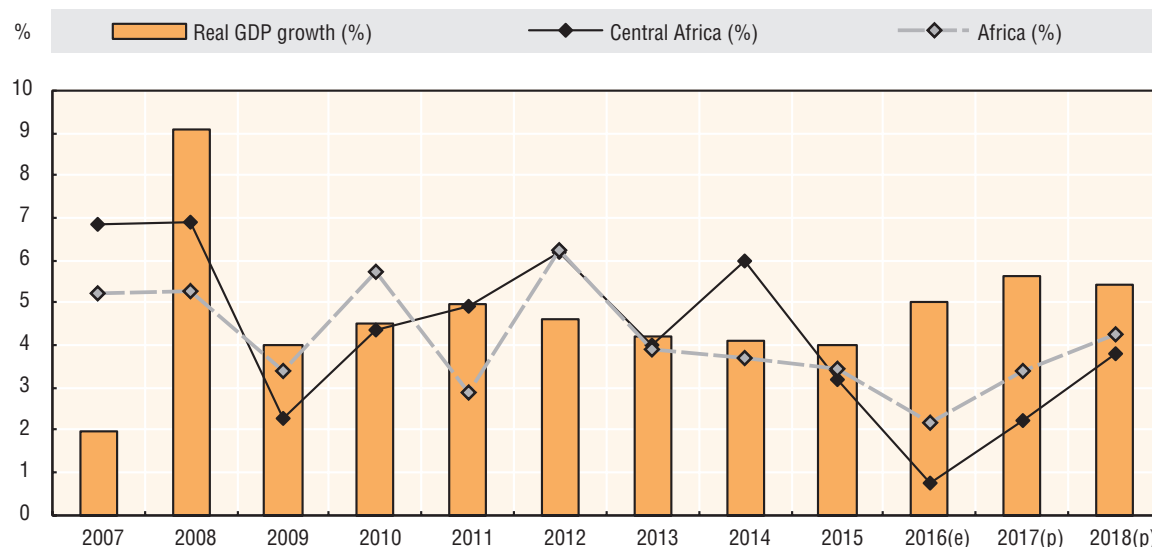
The financial sector, meanwhile, faces demand-side constraints. These include capital shortages at the corporate level, a lack of bankable projects, and increasingly restricted foreign-currency reserves. Moreover, the government's fiscal policies are proving challenging for the country's still rather embryonic private sector. Furthermore, the expensiveness of energy, maintenance, and human capital make business costs high. New businesses often find it hard to take off and flourish because of high interest rates, a lack of access to long-term financing, and a weak judicial system.

According to data from the latest census in 2012, unemployment stood at 13.6%, and continued to affect young people and women disproportionately. The problem of unemployment makes new initiatives to foster entrepreneurship all the more desirable.

To foster entrepreneurship, industry, and foreign investment, the government should adopt a range of reforms, including lower taxes, and measures making it easier to get loans.



Figure 1. Real GDP growth



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	4.0	5.0	5.6	5.4
Real GDP per capital growth	1.9	2.9	3.5	3.3
CPI inflation	5.3	5.6	4.1	2.9
Budget balance % GDP	-6.3	-8.8	-3.7	-3.2
Current account % GDP	-12.9	-8.9	-10.5	-10.2

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

## Recent developments and prospects

As already noted, Sao Tome and Principe's economic growth is estimated to have grown to 5% in 2016 from 4% in 2015, led both by investment in the primary and tertiary sectors, particularly in agriculture, and by tourism receipts. Short to medium-term economic prospects are positive, with growth estimates of 5.6% and 5.4% for 2017 and 2018 respectively, boosted by continued growth in foreign direct investment in agriculture, and, in particular, into the production of cocoa for export. In 2015, the secondary sector, which accounts for 40.4% of GDP, was the key driver of growth, boosted notably by a 16% increase in output from fisheries. While the manufacturing, construction, and financial-intermediaries sectors stagnated in 2015, transport, storage and communications registered growth of 20% that year, as compared to 2014.

The demand side of the economy has presented a mixed performance. In the third quarter of 2016, the trade balance deteriorated to USD 15.3 million from USD 16.1 million a year earlier, as imports of goods for private consumption rose by 16%. Indeed, an uptick in exports of goods and services in the third quarter of 2016, driven mainly by an 84% increase in cacao exports, was insufficient to avert a negative balance of trade. Public consumption levels were high in 2016 because of wage expenditures. These accounted for 44.2% of total primary expenditures in 2016, 7.2% higher than in 2015. A further increase in public consumption is also expected in 2017, led by a projected 1% increase in wages and salaries. Meanwhile, private consumption

levels were moderate in 2016 and are expected to be subdued in 2017, a year in which personal taxation levels are set to remain unchanged. Estimates indicate that Sao Tome and Principe received only USD 4.2 million in foreign direct investment (FDI) in 2016. Although this is lower than the USD 19.9 million it received in 2015, FDI is expected to rebound to USD 9.9 million in 2017. Investment in infrastructure is likely to lead this uptick, particularly from investors in the People's Republic of China, with which Sao Tome and Principe restored diplomatic relations in December 2016.

The 2016 state budget projected a capital expenditure of 2.1 billion Sao Tome and Principe dobras (STD), of which over 70% was to be financed by external resources, with the remainder coming from domestic resources. This reflects the country's high dependence on foreign aid to finance its public-sector investment projects. By September 2016, only 36% of the pledged allocations had been disbursed, due to the continued fiscal challenges facing Sao Tome and Principe's key European and bilateral partners. As a result, the government did not implement some of its planned investment projects and social programmes. The situation underscores both Sao Tome and Principe's economic fragility and the significant impact that exogenous factors can have on the country. This impact extends both to the financing of the fiscal budget deficit and to the country's overall growth prospects. To address some of these challenges, the government has embarked on, and envisaged, several reforms to increase domestic revenue collection. These include setting up a regional taxation tribunal, updating the tax code to tax non-residents on the delivery of services, and revising the investment code. Social welfare programmes implemented in recent years (school meals, free education, etc.) are still in place.

Sao Tome and Principe's growth prospects are encouraging, although significant effort is required to improve the health of the financial sector. With the fiscal, current-account, and balance-of-trade deficits projected to become less pronounced in the medium to long term, however, it is imperative for the government to make a substantial effort to improve the health of the financial sector as foreign exchange reserves dwindle, and non-performing loans continue to stack up. For 2017, improvements are expected both in the government's fiscal position, led by a 3% decline in current expenditure, and in the trade balance, driven by a 2% increase in exports. The current-account balance, meanwhile, looks set to deteriorate slightly. Although Sao Tome and Principe has notched up achievements in public-finance management, and in education and health, the government should continue to focus on fiscal discipline, and should reconsider its spending priorities. It should implement structural reforms, and strengthen its institutions, in order to restore credibility and confidence in public administration.

Table 2. GDP by sector (percentage of GDP at current prices)

	2011	2015
Agriculture, forestry, fishing and hunting	37.0	40.4
of which fishing	2.5	2.9
Mining and quarrying	0.5	0.6
of which oil	...	...
Manufacturing	15.3	14.0
Electricity, gas and water	0.5	0.4
Construction	6.7	4.9
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	13.0	12.3
of which hotels and restaurants	1.0	0.6
Transport, storage and communication	5.0	6.0
Finance, real estate and business services	4.6	4.5
Public administration and defence	12.5	11.9
Other services	4.8	5.1
<b>Gross domestic product at basic prices / factor cost</b>	<b>100.0</b>	<b>100.0</b>

Source: Data from domestic authorities.





## Macroeconomic policy

### Fiscal policy

The overarching objective of Sao Tome and Principe's fiscal policy is to ensure macroeconomic stability. The three-year economic programme with the IMF under the Extended Credit Facility (ECF) 2015-2018 continues to be the guiding principle. Economic reviews in March and September 2016 rated the government's performance as satisfactory, despite slippages. The key recommendations were prudent expenditure, debt control and a better mobilisation of domestic resources.

The 2016 budget puts additional pressure on the government's efforts to mobilise additional domestic resources to finance its fiscal accounts. The 2016 budget provided for STD 3.75 billion of spending, 18% higher than a year earlier. Key beneficiary sectors were infrastructure and natural resources, which received 12% of the budget, followed by education (6%), and health (5%). In addition, the government also set a 5% target for economic growth. It expected to meet this target thanks to increased project funding from donors, a rebound in foreign direct investment, and budget support. Estimates indicated that total revenue and grants reached 27.8% of GDP in 2016, against 28% reported in 2015. A 5% decline in tax revenue led this slight drop. On the other hand, total expenditure was estimated at 36.5% of GDP in 2016, representing a 6% increase from 2015, driven mainly by a 1.1% increase in public sector wages. As a result, the primary deficit stood at 8% of GDP in 2016, up from 5.5% of GDP in 2015. This is above the 2% of GDP agreed under the three-year programme with the IMF. The deficit was financed from resources from the country's sovereign wealth fund, through the issuance of government debt, and through loans from bilateral partners, notably Angola and Portugal. Nonetheless, significant improvements are expected for 2017 and 2018, with primary deficits projected at 2.9% and 2.5% of GDP, respectively. The enhanced performance will be driven by a reduction in current expenditure and an increase in support from donors.

During the year under review, the government also took steps towards structural reforms, including by designing a financial-sector strategy for 2017-20, by working on the 2015-24 private-sector development strategy, and by improving the software for the public finance management system (SAFE). Similarly, the government has also taken measures to improve the quality of its financial reporting by restructuring the internal audit committee and by appointing a new director with the necessary skills. However, the results of these actions are yet to be seen. Going forward, the government remains committed to fiscal consolidation and plans, as already noted, to implement several reforms aimed at boosting internal revenue collection.

Table 3. Public finances (percentage of GDP at current prices)

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
<b>Total revenue and grants</b>	<b>42.8</b>	<b>33.5</b>	<b>25.1</b>	<b>28.0</b>	<b>27.8</b>	<b>33.2</b>	<b>32.8</b>
Tax revenue	14.4	16.0	13.7	15.1	14.4	14.2	14.1
Grants	27.2	12.9	10.0	11.5	11.9	17.6	17.3
<b>Total expenditure and net lending (a)</b>	<b>27.7</b>	<b>31.6</b>	<b>30.5</b>	<b>34.3</b>	<b>36.5</b>	<b>36.9</b>	<b>36.0</b>
Current expenditure	20.0	18.9	18.0	18.2	19.4	19.8	19.2
Excluding interest	19.2	18.4	17.3	17.4	18.7	19.0	18.5
Wages and salaries	7.7	9.3	8.8	8.9	9.0	9.1	8.9
Interest	0.8	0.5	0.7	0.8	0.7	0.8	0.7
Capital expenditure	9.6	12.7	12.5	16.1	17.2	17.1	16.7
<b>Primary balance</b>	<b>15.9</b>	<b>2.4</b>	<b>-4.6</b>	<b>-5.5</b>	<b>-8.0</b>	<b>-2.9</b>	<b>-2.5</b>
<b>Overall balance</b>	<b>15.1</b>	<b>1.9</b>	<b>-5.3</b>	<b>-6.3</b>	<b>-8.8</b>	<b>-3.7</b>	<b>-3.2</b>

Note: a. Only major items are reported.

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.



## Monetary policy

Sao Tome and Principe's inflation trend has been declining since 2010, after the introduction of an exchange-rate agreement with Portugal pegging the dobra to the euro. Nonetheless, the agreement leaves the central bank with limited power to influence the money supply. In 2015, inflation stood at 5.3%, compared to a peak of 12.9% observed in 2010. This stayed steady in 2016, with inflation estimated at 5.6%. The drivers of this improvement have been weak demand and the falling international prices of oil and other commodities. Further improvements are expected in 2017 and 2018, with inflation targets of 4.1% and 2.9%, respectively.

Monetary aggregate indicators presented a mixed performance over the past two years. In 2015, credit to the economy increased by 3.8%, helped by an 11.7% increase in the credit to the category of "other financial institutions" and a 7.3% increase in the credit to private sector. The deposits held by commercial banks also declined by 17.5%, driven mainly by a 33% drop in foreign reserves. In November 2016, credit to the economy rose by 2%, led upwards by a 1.7% increase in loans to the private sector. The central bank has also reduced its benchmark interest rate from 12% to 10% since 2015. On the other hand, foreign-currency deposits contracted by 8%, a scarcity that will make it harder for private-sector operators to import goods. The level of non-performing loans was estimated at 27% in November 2016, affected by loans for trade and private consumption, as the majority of credits are concentrated in these sectors. Families and business have not been honouring their obligations

The real value of the dobra fell by 2.1% against the dollar in November 2016 as a result of the depreciation of the euro against the dollar. Sao Tome and Principe's central bank has also made progress in implementing reforms aimed at improving the performance of the banking sector. The reforms include enforcement both of the minimum capital-to-risk-weight asset ratio of 12% and a legal requirement for all commercial banks to publish their financial accounts. They also include setting up support systems for liquidity management, including the development of an inter-bank market to address excess reserves of cash. The government is also planning to include an additional 223 products in the basket used to measure inflation.

## Economic co-operation, regional integration and trade

Regional integration has raised hopes of unlocking the country's economic bottlenecks, yet policies and measures to move this agenda forward have not been forthcoming. Despite being a member of the Economic Community of Central African States, Sao Tome and Principe has not yet benefited from any of the services it could offer.

Meanwhile, the authorities have taken steps towards developing professional and transshipment services, in line with World Bank recommendations. Moreover, the government's Vision 2030 programme aims to transform Sao Tome and Principe into a services hub by developing the country's infrastructure. The latest government action plan, meanwhile, emphasises the development of key transformative sectors such as agriculture and tourism.

Sao Tome and Principe rose one place to 111th in 2015 for cross-border trade in the World Bank report *Doing Business 2016*. The high volume of goods and services imports for private consumption continues to result in trade imbalances. The 19% increase in goods exports from 2015 to 2016 was not enough to bring trade into balance, despite a 7.4% decline in goods imports. Current transfers, such as remittances and grants, also increased by 30.7% in 2016 from 2015. As a result, the country's current-account deficit improved to 8.9% of GDP in 2016, down from 12.9% in 2015. Despite this improvement, the current-account deficit is expected to widen in 2017, led by a 4% deterioration in services exports. However, it is expected to pick up in 2018, led mainly by a 2% increase in goods exports. FDI is estimated to reach 2.7% of GDP in 2017 and to grow further in 2018, while the inflow of short-term private capital is projected at 3.7% and 4.9% of GDP for 2017 and 2018 respectively.



The country's geographic location will continue to complicate its integration within the region, including at the financial level. The solution to this problem seems to be investment in critical and transformative infrastructure projects, such as airports and ports.

Table 4. Current account (percentage of GDP at current prices)

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Trade balance	-43.2	-38.3	-36.6	-33.9	-30.2	-28.6	-28.3
Exports of goods (f.o.b.)	4.0	4.3	4.9	3.6	4.3	4.4	4.5
Imports of goods (f.o.b.)	47.2	42.5	41.5	37.4	34.6	33.1	32.8
Services	-6.0	-9.0	-4.0	3.3	-2.4	-2.5	-1.1
Factor income	0.0	0.9	1.6	-0.3	0.3	0.4	0.3
Current transfers	16.4	23.0	17.0	17.9	23.4	20.2	18.9
<b>Current account balance</b>	<b>-32.9</b>	<b>-23.4</b>	<b>-21.9</b>	<b>-12.9</b>	<b>-8.9</b>	<b>-10.5</b>	<b>-10.2</b>

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

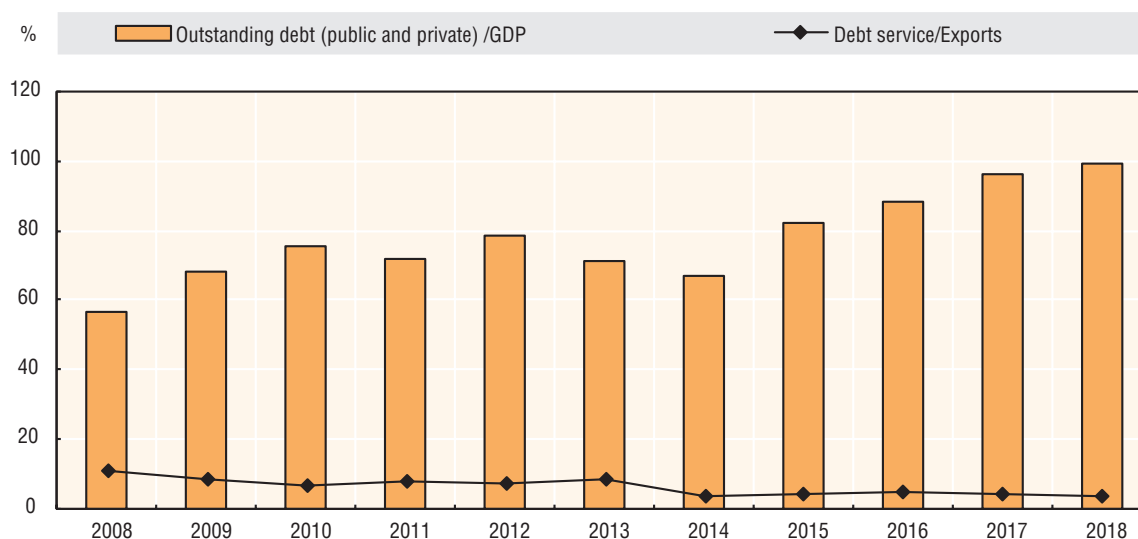
## Debt policy

Sao Tome and Principe's public debt remains at high risk of distress. The government has signed a new three-year macroeconomic framework with the IMF under the Extended Credit Facility (ECF) for 2015-18. This is consistent with the government's 2014-18 programme, which focuses on fiscal consolidation to help reduce the country's high risk of debt distress. According to the latest joint IMF and World Bank debt-sustainability analysis issued in 2015, the debt-service-to-export ratio stood at 3.2% in 2015, and was seen reaching 4.9% in 2016. The present value of the public and publicly guaranteed (PPG) external debt was projected to have grown by 1% of GDP in 2016, representing 143% of exports and 27% of government revenues. Meanwhile, the debt-service of PPG external debt as a percentage of exports and remittances was estimated at 3.9% in 2016, up from 2.6% in 2015. According to IMF/World Bank debt-sustainability analysis estimates, total public debt, including domestic arrears to suppliers, stood at 74.5% of GDP in 2014, with the medium and long-term PPG external debt accounting for 68% of GDP. Nonetheless, the government has made strides towards reducing debt-service by implementing measures to increase domestic resource mobilisation and arrears clearance. Regarding the latter, the government has cleared its arrears with the Electricity and Water Management Company (EMAE), valued at 1.2% of GDP. There is, however, a risk that external debt will increase if the international oil price rises, raising the import bill and putting pressure on the current account.

Going forward, the government has indicated that it will give priority to highly concessional financing (loans with more generous terms than those on the open market), in line with the agreement reached under the IMF's new debt policy. In this context, the government made a borrowing commitment of about USD 45.4 million in nominal terms until the end of 2018. Accordingly, all new borrowing should go to projects in infrastructure and to social spending with a high impact on development, including job creation and poverty reduction.



Figure 2. Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF (WEO & Article IV).

## Economic and political governance

### Private sector

Local private companies say that doing business in Sao Tome and Principe is becoming very challenging. Private-sector financing is almost impossible because of the difficulties in accessing credit due to a high interest rate caused by a weak judicial system. Prospects for credit-market development will remain difficult, as commercial banks strengthen their risk analysis concerning the provision of credit to the private sector. The environment also features high production costs, notably for energy, transport and Internet access, as well as costs engendered by credit only being available in the short term. Nonetheless, the effective enforcement of the laws that constitute the regulatory environment for business remains a challenge for Sao Tome and Principe.

A significant portion of the country's workforce is young, well-educated and multilingual (Portuguese and French). However, strengthening the workforce capacity through vocational and technical training is critical in order to respond to domestic and external investors' skills demand as the economy continues to develop. The cost of basic unskilled labour is about USD 55 per month, and it is increasing over time. Local labour law sets out rules on the minimum wage, the working day, overtime, paid annual vacations, and holidays, but these stipulations are generally only enforced for public servants. In terms of land, foreigners are free to establish and own businesses and to engage in all forms of business activity in Sao Tome and Principe, with the exception of the military sector. In addition, the form of public participation (percentage of government ownership in joint ventures) varies with each agreement.

Sao Tome and Principe came 166th out of 189 countries in the World Bank report *Doing Business* 2016, down from 163rd place in 2015. The country achieved recognition for progress in resolving insolvency (for which its ranking in 2016 rose to 158th, from 161st in 2015), and in trading across borders (up to 111th in 2016, from 112th in 2015). However, the government still needs to make significant efforts in this regard. Access to electricity (down to 115th place in 2016, from 111th in 2015) is among the areas that require improvement. The number of days required to start a new business is five, according to the 2016 World Bank business report. This is below the average of



12 days for sub-Saharan African countries. Sao Tome and Principe does not impose any restriction on business entry or exit (as per the investment code of 2007, revised in 2009). According to local law, only investments above USD 250 000 are eligible for benefits and guarantees. Dispute resolutions are challenging due to the cumbersome procedures and inefficiency of the judiciary system.

### Financial sector

The financial sector in Sao Tome and Principe lacks variety when it comes to financial intermediaries and instruments. The sector is comprised of seven commercial banks and 27 branches. Most commercial banks are foreign owned, increasing their vulnerability to exogenous shocks. The government does not have a strategy for the development of microfinance institutions, which are almost non-existent. The banking system is highly concentrated, which is typical of small financial systems with limited competition. The system features a combination of negative profitability, a high share of non-performing loans (which stood at 27% in November 2016), and low capital adequacy (there are two banks with a minimum capital-to-risk-weighted ratio significantly below the central bank's minimum of 10%).

Sao Tome and Principe's banks are facing difficulties linked to shortages of capital and to a lack of viable projects. The declining availability and reserves of foreign currency have exacerbated these challenges. As a result, the commercial banks have had to strengthen their risk-assessment criteria for lending. Limited access to financial services is a barrier to economic development and poverty reduction. Only 48% of people in Sao Tome and Principe have a savings account, only 7% of Small and Medium-sized Enterprises (SMEs) have a bank loan, less than 5% of adults are clients of consumer finance firms, and only 4% of adults have some form of private insurance. There is significant scope to increase access to financial services, including payments, savings, credit, and insurance.

According to a 2016 IMF country report, Sao Tome and Principe's financial soundness indicators have been on a downward trend since 2012. Indeed, the capital adequacy ratio deteriorated between 2014 and 2015. The system is highly liquid, but profitability and efficiency indicators have decreased drastically. Indeed, return on equity registered negative growth, standing at -27% in 2015, down from -16% in 2014. The government is moving quickly to address the large stock of non-performing loans by applying a comprehensive strategy backed by a detailed asset quality review.

### Public sector management, institutions and reforms

The operational efficiency of Sao Tome and Principe's public-sector administration requires improvement. Decision making involves a lengthy process with different layers of approval. Among the root causes of this slow-paced decision making are a lack of motivation, a poor career-development system, and poor salaries. The government has made progress in this area by increasing wages and salaries in the 2016 state budget by 7.2% from a year earlier. The lack of work programmes and performance contracts are among other challenges that have been identified. On the other hand, the government has continued with its social-policy reforms implemented in recent years by offering citizens free education, free health care, and the right to social security. Still, budgetary constraints have hampered the implementation and enforcement of these reforms. Establishing performance contracts for directors, in a pilot phase, would be an important step towards improving the efficiency of public sector officials.

The government has also taken steps towards decentralising power with the aim of empowering the country's six districts to improve efficiency and service delivery. However, weak institutional knowledge has held back progress in this regard. Similarly, the implementation of the corruption law has not been effective. The African Development Bank financed a corruption



study in 2016, which revealed that unlawful practices are a common reality, and that new measures are needed to address this problem.

According to 2016 indicators compiled by the Global Integrity organisation, Sao Tome and Principe scored 33 on a scale of 0 to 100 designed to measure accountability. This means that the level of accountability in the country is weak. Nonetheless, accountability mechanisms, such as the existence of an inspector-general, are in place. The capacity of the inspectors of finance requires improvements in order for these officials to effectively perform their task of overseeing the public accounts. The accountability system should be enforced as indicated in the 2016 open budget survey. This report highlighted the fact that the key institutions, notably the parliament and the court of auditors, have not been exercising their role efficiently.

### Natural resource management and environment

Sao Tome and Principe's biodiversity represents untapped resources, including high-value resources (medicinal plants, animal species, fishery resources, etc.). However, this wealth of biodiversity does face several environmental challenges, including climate change and a process of coastal erosion, which affect infrastructure, housing and tourism. A national committee for climate change came into being in 2012, but has not been effective. However, the European Union plans to help with capacity building to help this committee perform its tasks more efficiently. Projects backed by bilateral partners, including the Global Environment Fund, have been critical in helping the government to address climate-change issues.

Sao Tome and Principe's institutional and legal framework takes climate change issues into account in many ways. Indeed, the protection of the environment is recognised in the constitution, although this protection has not yet proven effective. The country is also a member of international environmental treaties and conventions. Over the years, the government has approved environmental legislation in a number of sectors. The country also ratified the United Nations Framework Convention on Climate Change in 1998 and the Kyoto protocol in 2008. Although Sao Tome and Principe already has environmental-protection and sustainable-development legislation, much of the existing law needs to be updated and regulated, particularly with regard to issues such as solid waste, forestry, aggregate extraction and environmental impact assessment. In 2010, the country also developed a national strategy for disaster-risk management, making the management of climate change and disaster risk part of the national strategy for poverty reduction. The country presented its Intended Nationally Determined Contributions (INDC) at the COP21 in Paris in 2015, highlighting its strategy to address issues of climate change. Progress of the INDC is likely to be presented in COP26. During the sidelines of the COP22, the country presented a Bio and Energy project reflecting some of the recommendations of COP21, notably the transfer of knowledge and technology. In 2016, Sao Tome and Principe was ranked 154th out of 180 countries, according to the Environmental Performance Index (EPI).

### Political context

President Evaristo Carvalho took office in September 2016 after winning a two-round election held in July and August of that year. The election of President Carvalho, who ran with the backing of the current government, has brought new dynamism to the political arena because of the prospect of good relations with the prime minister. The positive dynamic between president and prime minister should also help the government to implement its reform programme, as outlined in Vision 2030, the new agenda for transformational change. Moreover, Sao Tome and Principe has restored relations with the People's Republic of China after ending 20 years of bilateral relations with Chinese Taipei.

In terms of governance, Sao Tome and Principe rose to 11th place in the Mo Ibrahim Index of African Governance in 2016, from 13th place in 2015. This reflects government efforts to ensure



good governance. In the 2016 Heritage Foundation Index, the country rose to 22nd in the regional ranking, with an overall score of 56.7.

## Social context and human development

### Building human resources

Sao Tome and Principe made significant strides towards achieving the UN's Millennium Development Goals (MDGs), reflecting successful national efforts in social policy, healthcare and human development. Primary-school enrolment has continued to increase, reaching 98% in 2016. Meanwhile, infant mortality fell to 36 per 1 000 live births in 2016, from 38 per 1 000 in 2014. Maternal mortality declined to 56 per 100 000 mothers in 2016, from 76 per 100 000 in 2015. Malaria is now almost non-existent while HIV/AIDS has also become less prevalent. UNICEF's provision of training for health technicians, local administrative workers, and communities has been instrumental in helping Sao Tome and Principe achieve this progress. The UNICEF work benefited three out of seven of the country's health districts, and helped both to identify and tackle bottlenecks in the delivery of health services, and to embrace more innovative ways of financing nutrition and health supplies. Nonetheless, additional efforts are required to achieve other outstanding MDG-era targets, as well as the UN's current Sustainable Development Goals (SDGs). In 2016, the government organised workshops and conferences to present the road map for the implementation of the SDGs both to lawmakers and to local universities.

In spite of these achievements, the education system is in need of improvement, including the construction and rehabilitation of schools, improvements in teaching, and a revision of the national education strategy. It is also important for the government to allocate extra resources to the sector. In 2016, the education sector only received 6% of the total state budget, in a country where institutional capacity gaps present major development challenges. Investing more in education could help close such gaps. The lack of equipment and medical professionals in the country should also be addressed.

According to data from the 2016 *Global Nutrition Report*, Sao Tome and Principe is on course to meet the five World Health Assembly target indicators. The prevalence of stunted growth stands at 31.6%. Access to safe water (percentage of the population) stood at 97% in 2015, while access to sanitation remains low, marginally improving to 34.7% in 2015 from 34% reported in 2014. Meanwhile access to piped water remained stable year on year at 33%.

### Poverty reduction, social protection and labour

Although Sao Tome and Principe's economic growth rate has averaged 4.5% over the past four years, levels of poverty and inequality remain a concern. According to national statistics, 13.6% of people in the country are unemployed, with women (59%) disproportionately affected compared to men (41%). This reflects the challenges the authorities face in creating appropriate mechanisms for job creation, entrepreneurship and the development of skills. Roughly 66% of people have an annual per-capita expenditure of less than STD 10.9million (the estimated poverty line for the country in 2010), and spend less than STD 30 071 a day. Using the absolute poverty approach, the district of Caué is the most affected, with a poverty rate of 84.5%. Lemba, with a rate of 73.4%, is the second most affected district. The districts of Mé-Zochi (56.6%) and Cantagalo (65.9%) are the least affected. In terms of inequality, the country's score stood at 0.418, representing an overall decline of 24.7% in 2014, according to the Inequality Human Development Index (IHDI).

In the 2016 state budget, the allocation of resources for helping the poor was estimated at STD 1 billion. Out of this allocation, 42% went to health-related projects, 18.9% to those related to agriculture and fisheries, 18.3% to education, and 13% to energy-related initiatives. This reflects the government's efforts in improving the quality of service in the sectors that it sees as critical



for reducing poverty. The social protection strategy finalised in February 2014 projects that internally funded spending on social protection will increase to 3% (equivalent to 6.8 million euros) of GDP by 2023, from 1.1% of GDP in 2012. Although this is small in magnitude, it is higher than the average other African countries currently spend (2.4% of GDP). In addition, estimates indicate that about 50 000 people are benefiting from these safety-net programmes, notably from school meals, vaccinations, and healthcare help for pregnant women.

Sao Tome and Principe's development partners have provided the country with support and advice to help improve social security services. For instance, the country's development partners helped to set up the social protection development programme. This initiative seeks to help lay the legal foundations for restructuring and improving the efficiency and management of the social security service in order to provide better services for the population.

Sao Tome and Principe has also ratified the International Labour Organisation's convention on the worst kind of child labour. In addition, there is also a law, dating from 1992, to protect the interests of workers both in the public and in the private sectors. Employees' rights and benefits notably include, among others, the national minimum wage, maternity leave, and rights to take vacation.

### Gender equality

The government is committed to promoting gender equality both internationally and nationally, having ratified UN conventions on the rights of the child (1991) and the elimination of all forms of discrimination against women (2003), and, moreover, both the Lusophone community's (CPLP) strategic plan for gender equality and women's empowerment (2010), and several pieces of national legislation such as the 2008 law against domestic violence. Nonetheless, inequality persists in several areas, notably in the labour market, in decision-making bodies (of whose members only 18% are women) and in access to education. Indeed, statistics from 2014 on the illiteracy rate reported significant differences between men, 5% of whom were illiterate, and women, for whom the rate was 15%. Still, for people aged 15 to 24 there was hardly any difference.

Women continue to be disproportionately represented in relatively precarious socio-economic segments, and thus to constitute a vulnerable group. Traditionally, women play a key role in food security, being the prime producers for food production, preparation and distribution. They represent 62.5% of the unemployed urban population versus 37.5% of men. Still, Sao Tome and Principe has a female-to-male Gender Development Index ratio of 0.891, which is above the 0.872 average for sub-Saharan Africa, according to the 2015 Human Development Index report of UNDP.

### Thematic analysis: Entrepreneurship and industrialisation in Sao Tome and Principe

During the colonial era, Sao Tome and Principe was a major exporter of agricultural raw materials, particularly to European markets. After independence on 12 July 1975, with the culture of industrial entrepreneurship almost non-existent, the government decided to lay the foundations of industrial development, as the sole promoter of activities in this area.

Nevertheless, the contribution of manufacturing industries to the national economy is, today, very minimal. The private sector is limited to a few SMEs in fields such as baking, brewing, brickmaking, palm oil, reconstituted juice, building materials, paint, rum, soap, coconut oil, livestock feed, and metal locks. Notwithstanding the small scope of local private industry today, Sao Tome and Principe's economic circumstances offer significant business potential in the agro-food sector, both to transform and add value to local products, and to meet the needs of local consumption. Exports are possible for operators that are capable of putting in place quality procedures in terms of management and product traceability. Moreover, the considerable





potential to develop a high-end tourism industry, and the prospect of developing the oil industry, provide grounds for optimism in terms of Sao Tome and Principe's economic expansion in the medium and long term.

The country's current technological capacity to transform raw materials into manufactured goods is weak. The low level of technological development for processing local products, as well as a lack of know-how, limits the immediate likelihood of expanding and promoting industry in the country. Although some small domestic agro-industries focusing on the transformation of agricultural products do exist, the manufacturing sector is very small indeed. It has faced serious challenges since independence, before which most industries were Portuguese-owned. Today, the industries that do still exist in the country are insignificant, and their production is irregular. Sao Tome and Principe's lack of homegrown industry contributes to a situation of significant dependence on other countries, both in the supply of technology and in the provision of equipment and inputs.

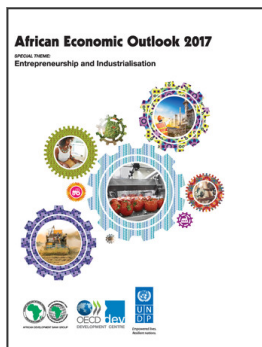
Industrialisation has an instrumental role to play in bringing added value and jobs to the economy. It is important to emphasise that Sao Tome and Principe has few mineral materials capable of supplying industry. However, in agriculture it is necessary to take advantage of local raw materials to create agro-industries to supply local and export markets. The government has no policy or strategy for industrialising the country in agricultural or heavy industry. It is, however, imperative for the government to undertake the necessary reforms to encourage and support both the development of the small industries that already exist, and the creation of other industries, such as processing and assembly units. The construction of the deep-water port, which is part of the government's vision for 2030, and is likely to lead to the development of a free-trade zone, would be a very good prospect. Indeed, it could accelerate development and facilitate the transfer of technology and know-how between Sao Tome and Principe and developed countries. To this end, there is a need to create an integrated and specific capacity building programme on industrialisation and value chains development for the Directorate of Trade, and Commerce.

The level of private consumption in Sao Tome and Principe is low, with 66.2% of the population living below the poverty line. This reflects the low level of purchasing power that results from the lack of businesses capable of creating employment. According to national statistics from 2005, the Sao Tome and Principe business environment comprised 1 373 companies across the public and private sectors. These employed 18 123 people, representing an average of 13 employees per company. The vast majority of these companies were focused on trade and commerce (44%) followed by industry and energy production (23%). The big companies (defined by the volume of their businesses and by having at least 20 members of staff) employ 83% of the total workforce, and contribute to about 99% of the total volume of business. Tedious investment procedures have also hampered business activity in Sao Tome and Principe. As previously noted, the private sector remains embryonic, and is mostly composed of micro-enterprises focused on trade, construction and tourism. The interest rate applied by local banks is too high, limiting private-sector access to credit. There is also a lack of public-private partnerships (PPPs), in the absence of an appropriate legal and institutional framework. The country's chamber of commerce, created in 1998, is formally responsible for promoting a better business climate.

Foreign or domestic investments in the manufacturing industry should take account of external markets, as the internal market is too small and does not provide the kinds of opportunities that could attract significant investment. To ensure the creation of new industrial units, and with a view to the development of entrepreneurship in Sao Tome and Principe, the government should adopt reforms that will provide incentives to domestic investors and attract foreign ones. Features to attract investors could include reduced tax burdens, the provision of business loans, and other facilities, as well as the infrastructure to allow industrial enterprises of strategic importance to flourish.







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