



SAO TOME AND PRINCIPE

- The Sao Tome and Principe economy grew by 5.3% in 2015, up from 4.5% in 2014, but should drop back to 5% in the next two years
 - Sao Tome and Principe was the top Central African performer for overall governance in the 2015 Ibrahim index with key improvements in economic opportunity, human rights and rule of law.
 - The rural move into the city has made a national urbanisation strategy imperative in the absence of any national planning.
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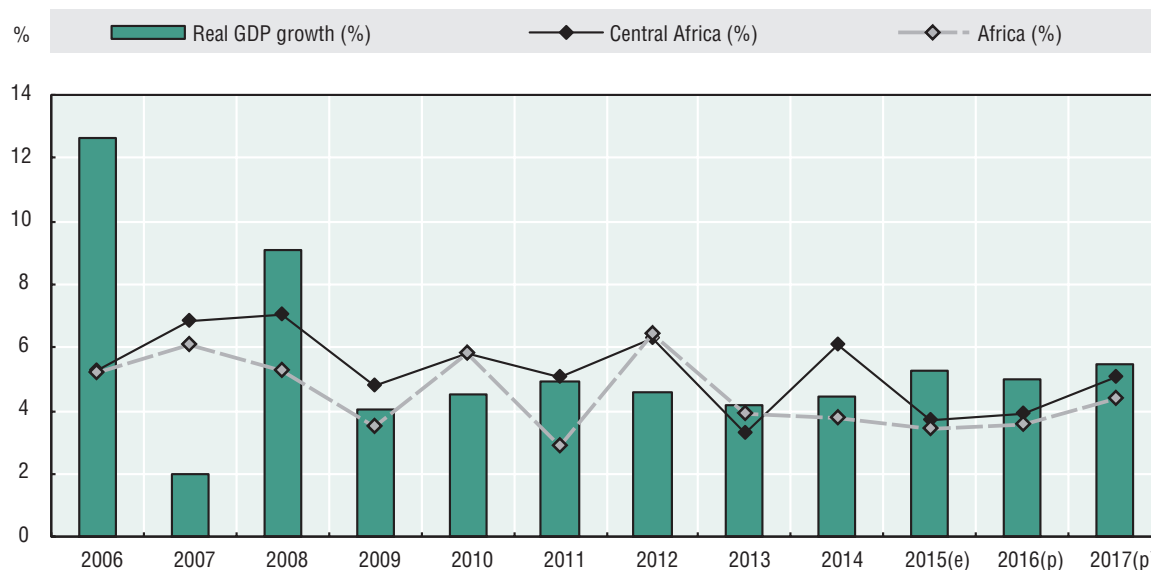
Overview

The Sao Tome and Principe economy grew by 5.3% in 2015, up from 4.5% in 2014. Economic growth is expected to remain above 5% in 2016 and 5.4% in 2017. Increased foreign direct investment in construction, agriculture, tourism and new projects funded by donors should lead and boost future growth. Inflation will decline to about 4.6% in 2016 and 4.7% in 2017, from 5.3% in 2015, backed by the fixed exchange rate regime. Structural reforms for sustainable economic growth and job creation are central to the government's economic reform agenda. The reforms include improving the taxpayer registry and expanding the tax base by registering new taxpayers. The government has also revised its investment code, prepared financial sector and private sector development strategies and is implementing an automatic price adjustment mechanism for petroleum products. Effective implementation of the reforms and strategies will improve public administration efficiency and social services for the population.

The credibility, accountability and transparency of the SAFE financial administration system remain critical for the government. The system was started as a pilot project in four ministries dealing with decentralisation and was used to prepare the 2010, 2011, and 2012 financial accounts. The government is also finalising the establishment of an electronic financial control department to assist with financial accounts reporting.

The capital, Sao Tome, is the only urban agglomeration. Its 131 000 people in 2015 represented 68% of the total population. The city and its surrounding area is subject to increased urbanisation. The island of Principe (7 450 inhabitants in 2015) has no urban agglomeration. Although migration to the city seems to be slowing, the average annual urbanisation growth rate is estimated at 1.87% for 2013 to 2018.

Figure 1. Real GDP growth



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

Table 1. Macroeconomic Development

	2014	2015(e)	2016(p)	2017(p)
Real GDP growth	4.5	5.3	5.0	5.4
Real GDP per capita growth	2.3	3.1	2.9	3.3
CPI inflation	6.7	5.3	4.6	4.7
Budget balance % GDP	-5.5	-6.1	-3.9	-4.0
Current account % GDP	-24.2	-14.0	-13.8	-13.5

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

Recent developments and prospects

Sao Tome and Principe recorded moderate macroeconomic gains in 2015. Greater government efforts are needed to encourage more diversified, inclusive, job-rich economic growth. Real gross domestic product (GDP) grew by 5.3% in 2015 compared with 4.5% in 2014. The economy is expected to grow in 2016 and 2017 by a projected 5% and 5.4%, respectively. This growth will be driven by agriculture, tourism, increased foreign direct investment in construction to support the government's transformational agenda and new projects financed by donors.

The service sector, in particular the wholesale and retail trade, hotels and restaurants, remain at the heart of the economy, accounting for about 30% of GDP in 2013. Agriculture also performed well, contributing to about 25.6% of GDP in 2013.

Uncertainty over oil production is hindering growth. There have been concerns over oil prospects, but the government remains optimistic about the scale and commercial viability of Sao Tome and Principe's reserves. The government's Joint Development Authority announced a production sharing agreement for Joint Development Zone block 1 with Equator Hydrocarbons Limited (holding 56% of the rights), PAPIS Energy Solutions (35%), and Dangote Energy Equity Resources (9%). Similarly, a production sharing agreement for the Exclusive Economic Zone block 6 with Galp Energy of Portugal was also signed. The development of these projects and



long-term oil production will significantly change the country's debt structure, currently at high risk of debt distress. There is a need, however, to create support for the government's public investment programme.

The government agreed on a three-year Extended Credit Facility for 2015-18 with the International Monetary Fund (IMF). The new programme helped the government to implement more prudent expenditure control in 2015. Current expenditure declined to 17.6% of GDP in 2015 from 18.6% in 2014. Further improvement in expenditure control is expected in 2016 and 2017, mainly through reduced current transfers. Total government revenue increased to 15%(15.2) of GDP in 2015, up from 14.1% in 2014. As a result, the primary fiscal deficit was estimated at 5.6% of GDP in 2015, up from 4.8% of GDP in 2014. Further improvements are expected in 2016 and 2017. The government, through the central bank, issued treasury bills at a 6% and 3% interest rate for six month and nine month maturities, respectively, to finance the fiscal deficit and revitalise the secondary market. The bills were bought mainly by commercial banks.

The government is trying to implement reforms to improve public administration and provide key social services. These reforms include, the revision of the investment code, preparation of financial sector and private sector strategies and an automatic price adjustment mechanism for petroleum products. Government must also address structural issues affecting the economy, notably, infrastructure constraints (an airport and port), and the promotion of small medium enterprises.

Despite challenges, social indicators have generally improved as a result of recent policies, including a school feeding programme, free maternal health care and others. According to the Food and Agriculture Organization 2014 *Global Nutrition Report*, there have been improvements in food availability. For instance, the percentage of undernourished people has declined to 7% in 2014 from 23% in 2000 and 8% in 2010. Progress has also been reported in sanitation coverage which stood at 34% in 2012 from 21% in 2000, and for drinking water coverage which was 33% in 2012 from 23% in 2000. Progress has also been made on the infant mortality rate which fell to 35 deaths per 1 000 live births in 2015, from 43 deaths in 2013. In November 2013, the malnutrition rate stood at 14.4% and is expected to decrease to 10% by 2018.

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

	2009	2013
Agriculture, forestry, fishing and hunting	25.9	25.6
of which fishing
Mining and quarrying	0.6	0.4
of which oil
Manufacturing	5.7	4.2
Electricity, gas and water	1.9	1.8
Construction	7.5	4.9
Wholesale and retail trade; Repair of vehicles household goods; Restaurants and hotels	30.3	30.0
of which hotels and restaurants	1.6	1.8
Transport, storage and communication	17.8	18.4
Finance, real estate and business services	-2.2	-2.2
Public administration and defence	5.9	9.8
Other services	6.7	7.0
Gross domestic product at basic prices / factor cost	100.0	100.0

Source: Data from domestic authorities.



Macroeconomic policy

Fiscal policy

Sao Tome and Principe's macroeconomic policy framework was boosted by the approval of a 2015-18 extended credit facility with the IMF. The new framework is fundamental to the government's economic reform programme to promote sustainable growth and poverty reduction.

In May 2015, parliament approved a more prudent 2015 state budget of USD 140 million against USD 150 million in 2014. The fuel and electricity sectors were the main beneficiaries with 25% of the total budget allocation. Other priority recipients were infrastructure (18%), public services (16%), health (10%) and education (7%).

For 2015, total government revenue was projected to account for 15% of GDP, up from 14% in 2014. Further increases are expected in 2016 and 2017. Tax revenue, in particular property tax, was a key source, collecting 120% of the targeted amount. Indirect taxes, especially a consumption tax on local products, collected 119% of its programmed target. Although, no disbursements for budget support were made from January to September 2015, resources received in the final three months improved the grants performance. Grants received accounted for 15% of GDP in 2015, up from 10% in 2014. Current expenditure declined to 17.9% of GDP in 2015 from 18.6% in 2014, mainly because of reduced current transfers. Further improvements are expected in 2016 and 2017 led by a 23.7% reduction in the acquisition of services. As a result, the primary balance deficit improved to 2.7% of GDP in 2015, against 3.4% in 2014. Going forward, the government projects a further decline in the primary balance deficit to 2% of GDP in 2016 and 1.8% in 2017. This should come from increased grants for projects, tax revenue and budget support. The budget deficit will be financed by external assistance. (Table 3).

To achieve macroeconomic stability, the government, with support from development partners, initiated several reforms and strategies. This included the preparation of a new private sector strategy, the revision of the investment code, preparation of a financial sector strategy and dialogue on starting an automatic price adjustment mechanism for petroleum products. A taxpayer inclusion survey was completed in all districts of Sao Tome, with an additional 1 000 new tax payers added to the government data base. Internal control improvements, including clearing arrears between the electricity company, fuel company and the government estimated at 13.6% of GDP has started with support from the IMF. Furthermore, the government envisages introducing a value added tax (VAT) in 2017. The effective implementation of these measures will boost revenues and reduce fiscal pressure.

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

	2007	2012	2013	2014	2015(e)	2016(p)	2017(p)
Total revenue and grants	162.7	33.3	33.1	26.0	24.3	24.1	24.5
Tax revenue	16.2	13.9	15.9	14.1	13.7	13.0	13.2
Grants	124.5	17.3	12.8	10.4	9.1	9.5	9.4
Total expenditure and net lending (a)	38.6	43.9	31.3	31.5	30.4	28.0	28.5
Current expenditure	24.6	17.3	18.7	18.6	17.6	16.6	16.1
Excluding interest	23.2	16.7	18.2	17.9	17.2	16.5	15.9
Wages and salaries	8.8	8.3	9.2	9.1	8.9	8.5	8.1
Interest	1.3	0.6	0.5	0.7	0.4	0.1	0.2
Capital expenditure	14.0	26.7	12.5	12.9	12.8	12.5	12.4
Primary balance	125.4	-10.1	2.4	-4.8	-5.6	-3.8	-3.8
Overall balance	124.1	-10.7	1.9	-5.5	-6.1	-3.9	-4.0

Note : a. Only major items are reported.

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



Monetary policy

The government met its annual inflation target of 5% for 2015. The 5.3% rate at the end of the year was down from 6.7% in 2014, driven by the fixed exchange regime pegging the dobra currency to the euro and by easing food and fuel prices. As a net food/fuel importer, the country is vulnerable to international market price fluctuations. A decline to 4% inflation is expected in 2016 and 2017, supported by the fixed exchange regime.

In the third quarter of 2015, credit to the economy increased by 4.1% led by a 3.7% increase in credit to the private sector which has been affected by high household and company debt levels. Credit from commercial banks increased by 5.5%. Credit to the government improved by 30% over 2014, led by a 17% increase in deposits as a result of grants from Chinese Taipei.

To mobilise resources to finance the budget deficit, the central bank in June 2015 issued treasury bills at a 6% interest rate and with a 6 month maturity. In February 2016, a second issue was launched at a 3% interest rate and a nine month maturity. All the bills were subscribed by commercial banks. The operation also aimed to give impetus to the secondary market and the financial sector. To support the inclusive growth agenda, the central bank reduced its benchmark interest rate to 10% from 12% in 2013. As a result, in 2015, the commercial bank lending rate declined to 23.3% from 26% seen in previous years and the spread at 17%. As part of government reforms, a financial sector strategy was prepared with World Bank assistance. The minimum weighted risk capital adequacy ratio remained unchanged at 10%. The level of foreign reserves remained strong at six months of imports, up from five months in 2014. An expected increase in external assistance (grants and loans) will support the foreign reserves improvement.

Economic co-operation, regional integration and trade

Strengthening economic relationships and integration in the region were key development areas in Sao Tome and Principe's national poverty reduction strategy for 2012-16. An updated Diagnostic Trade Integration Study prepared in 2013, with support from the World Bank, recommended a long-term government vision for tourism, and professional and transshipment services, while consolidating the primary sector (in particular cocoa) competitiveness and resilience. This will entail investment in maritime and air transit infrastructure, institutional strengthening and agricultural development.

Consumer goods dominate the country's imports. With a slight increase, exported goods accounted for 5.4% of GDP in 2015. Exports are dominated by cocoa, which makes up 93% of exported agriculture products. The weight of imported goods declined in 2015 but remained at about 37% of GDP. As a result, the trade balance deficit improved to 31.5% of GDP from 37.8% in 2014. While further improvements are expected in the exports of goods and services, imports of goods, particularly consumer goods, will also increase in 2016 and 2017. The current account deficit improved to 14% of GDP in 2015 from 24.2% in 2014 mainly because of increased public transfers and reduced imports. To counter cross-border challenges, African Development Bank resources have been secured for the second phase of the ASYCUDA computerised customs system aiming to eliminate cumbersome procedures, reduce paperwork, centralise taxes and fees, and facilitate foreign trade. The system also helped to reduce tax evasion and streamline the clearance process. Sao Tome and Principe has strengthened South-South co-operation with Angola and Brazil, but economic co-operation remains focused on Europe which accounts for about 50% of exports and 60% of imports. In 2016, Sao Tome and Principe ranked 111th out of 189 countries, against 112th in 2014, in terms of cross-border trade in the World Bank's *Doing Business* report.

The government is making progress on free movement of people as part of a protocol agreement within the Community of Portuguese-speaking countries (CPLP). In October 2015, a decree was



approved allowing citizens from CPLP countries to visit Sao Tome and Principe without a visa for up to 15 days. This measure to boost tourism was also extended to some European Union countries and the United States.

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

	2007	2012	2013	2014	2015(e)	2016(p)	2017(p)
Trade balance	-39.8	-36.4	-37.9	-37.8	-31.5	-29.8	-28.4
Exports of goods (f.o.b.)	4.7	5.7	4.2	5.1	5.4	5.0	4.4
Imports of goods (f.o.b.)	44.5	42.1	42.1	42.9	37.0	34.7	32.7
Services	-8.2	-2.5	-8.9	-3.9	-3.7	-3.4	-2.9
Factor income	3.1	-1.8	0.9	1.7	-0.6	-0.6	-0.4
Current transfers	15.2	19.9	22.7	15.8	21.9	20.0	18.1
Current account balance	-29.8	-20.8	-23.2	-24.2	-14.0	-13.8	-13.5

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

Debt policy

Total debt is estimated to have reached 75% of GDP in 2015. The composition of debt has shifted since Sao Tome and Principe reached the completion point in its Heavily Indebted Poor Countries (HIPC) agreement with the World Bank and IMF in 2007. The share of multilateral debt declined from nearly 60% before the completion point to 19%. Angola remains the main bilateral creditor and the World Bank's International Development Association the main multilateral creditor.

In June 2015, the International Monetary Fund and the World Bank concluded the second joint review on the country's debt sustainability. The assessment reported improvements, led mainly by growing trends in exports from 2013 to 2015, when compared to the previous review in June 2014. However, the progress was still insufficient to change Sao Tome and Principe's overall debt position that remains "high risk". The debt to export ratio, now 140%, breached the key 100% threshold in 2011. The external position is expected to improve only from 2025 when the ratio should fall below 100% again.

Sao Tome and Principe's high dependence on external aid increases its risk to global economic fluctuations, particularly in European markets. The shocks will be reflected in lower exports and tourism receipts and reduced foreign direct investment. It is critically important for the government to continue to implement comprehensive macroeconomic policies to lift the country's potential and prioritise investment projects that create economic growth and jobs.



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

The government is making strides to strengthen private sector dynamism. Despite a small decline in the World Bank report *Doing Business 2016*, the country has made progress in recent years. Sao Tome and Principe ranked 166th out of 189 countries overall in 2016, down from 163rd in 2015, though better than the 169th reported in 2014. *Doing Business* cited getting credit, enforcing contracts, protecting minority investors and registering property as constraints to private sector development. The development of small-medium enterprises is hindered by high local currency interest rates of between 24% and 26%. As an open economy, there are few restrictions regarding entry or exit of businesses. For instance, it takes five days to start a business, according to the *Doing Business* report.

Government reforms in recent years have played a key role in the country's ranking. These are: i) the abolition of the minimum capital requirement for business entities to obtain commercial licences; ii) progress in resolving insolvency; iii) progress in trading across borders; and iv) the implementation of visa-free access to citizens from the United States, Portuguese speaking countries and Canada. From February 2016, the government established an electronic platform to allow the instant registration of new companies. The government also prepared a private sector development strategy for 2015-24 with the support of the African Development Bank in 2015 and revised its investment code.

Efforts are in place to remove cumbersome procedures and ensure tax compliance at the tax and customs departments. The government is fast-tracking the implementation of the second phase of the ASYCUDA software aimed at improving import-export processing and reducing transport costs.



Financial sector

The financial sector in Sao Tome and Principe remains vulnerable to external fluctuations as the majority of commercial banks are foreign-owned, many with headquarters in Angola, Cameroon and Nigeria. Commercial banks dominate the sector with over 90% of the total assets in the financial system.

The government has prepared a Financial Sector Development Implementation Plan with assistance from development partners. The framework aims to provide a clear road map for financial policy reforms. It also recognised the country's positive performance compared to other small countries in the lower or lower-middle-income sector in terms of deposits mobilised and credit granted.

A combination of the weak performance of commercial banks, a high non-performing loan rate (24.9% as of September 2015) and a further reduction in the capital adequacy ratio have amplified risks in the banking system. Commercial banks must re-think their business plans to ensure medium-long term sustainability. Their strategies had been anchored on expectations of oil production which has been put back. The commercial banking sector continues to face difficulties. The return on equity remains low and presented a deficit of 3.3% as of June 2015, up from 2.9 reported in the same period in 2014. A lack of collateral and high interest rates remain critical barriers to the development of small and medium-sized enterprises.

The central bank is making progress towards the internationalisation of the "Rede Dobra 24" automatic payment system, extending the use of international credit cards with the assistance of the AfDB. The assistance would support government efforts to strengthen the national payment system to bolster financial inclusion and private sector development.

Public sector management, institutions and reform

Sao Tome and Principe remains the top Central African performer in terms of overall governance performance. The country was ranked 13th out of 54 countries in the 2015 Ibrahim Index of African Governance. Improvements have been made in sustainable economic opportunity (best performance in business environment and rural sector), participation and human rights (best performance in participation), safety and rule of law (best performance in personal safety).

The government puts a priority on the need for efficient management of public funds. There are institutions for internal and external control, though they suffer from a lack of means. In the International Budget Partnership's 2015 Open Budget Survey, Sao Tome and Principe scored 29 out of 100, meaning the government provides minimum information for the public to be able to monitor budgets.

Natural resource management and environment

Sao Tome and Principe has sought to tackle the adverse impact of climate change, with support from its partner, notably the UNDP and the multilateral Global Environment Facility (GEF). For instance, in 2015, equipment and training was provided to 24 local communities on risk management and climate change prevention. An assessment of the climate change alert system was completed and places identified to install meteorological information centres. Radio community networks have been installed in Ribeira Afonso to broadcast climate change information and people in Malenga community were rehoused due to the coastal erosion risks. In addition, the GEF made available USD 3.5 million to complement resources for the PRIASA II food security project.

The 1999 environmental basic law outlines the need for a balanced and sustainable protected green environment. A number of key environmental laws, such as the 2001 law on deforestation, on conservation of fauna, flora and protected areas (1999), 1996 legislation on residual waste



products and a 2001 law on fishing and maritime species are in place. However, the effective implementation of these laws is a matter of concern.

Political context

Combined legislative, local and regional elections held in October 2014 brought political stability to a country where no party has completed a full four years in power in recent years. Prudent macroeconomic management and political stability are the main priorities of the government that took office in December 2014. These expectations became even more critical as the country had presented its new development Vision 2030, which aims at transforming the country into a transshipment hub, to public partners and private operators at an investors' conference in London in October 2015. The objective of the conference was to mobilise funds to implement structural and transformational development projects.

Presidential elections scheduled for July/August 2016 present a new governance challenge. The calendar and the number of potential candidates remains uncertain. The government has received financial and technical support from East Timor to procure a new data platform and new electoral registration cards.

Progress made in sustainable economic opportunity, participation and human rights, and safety and rule of law, helped to improve the country's overall governance performance. In the 2015 Ibrahim Index, Sao Tome and Principe ranked 13th out of 54 African countries, the same as in 2014. Freedom House's 2015 *Freedom In The World* report, rated Sao Tome and Principe as "free". In terms of freedom, political rights and civil liberties ratings, the country scored two, meaning free, on a scale of one (best) to seven (worst). The country also edged up marginally with respect to administrative integrity. It was ranked 76th out of 175 countries, up from 77th in 2013, in the 2014 Transparency International -World Corruption Perception Index.

Social context and human development

Building human resources

An Education Policy Strategy covering 2012-20 remains the guiding principle for the education sector. The policy indicates free access to basic education and financial assistance to poor families. A USD 1.1 million grant was given by the Global Partnership for Education, for 2014-17 to improve teacher training and strengthen human capacity in the education sector.

Sao Tome and Principe was ranked 143rd out of 187 countries for human development in the 2015 UNDP Human Development Report. The country reported significant progress in achieving the Millennium Development Goals (MDGs) in education and health. In 2015, the net primary school enrollment rate stood at 98%, against 80% in 1990. The infant mortality rate had improved to 38 per 1 000 live births, against 89 per 1 000 in 1990. The maternal mortality rate of 76 per 100 000 births had improved from 151 in 2005. In the fight against HIV/AIDS, prevalence was cut to 0.5% of the population in 2015 from 1.5% in 2009, according to national statistics department (INE) data. The fight against malaria has also shown positive results. The country recorded zero malaria deaths in 2015 and is consolidating the eradication of malaria on Principe island. Furthermore, the country also completed a five-year National Strategy Plan for Malaria Pre-Elimination in 2016. However, additional efforts are needed to achieve other MDGs and in Sustainable Development Goals presented before 2030.

Reforms implemented by the government in 2014 have helped improve social indicators, in particular access to basic social services. According to the FAO 2014 *Global Nutrition Report*, there is improved food availability. The percentage of undernourished people declined to 7% of the population in 2014 from 23% in 2000 and 8% in 2010. Progress was also reported in sanitation



coverage, which stood at 34% in 2012 from 21% in 2000 and drinking water coverage at 33% in 2012 from 23% in 2000.

Poverty reduction, social protection and labour

The government has prepared annual monitoring reports on its National Strategy for Poverty Reduction. These reports have helped to gather data that feeds into a poverty survey prepared by the national statistics institute, the INE. Despite good progress in economic growth, poverty and unemployment remain concerns. According to 2015 INE data, poverty incidence is estimated at 66.2% of the population and the unemployment rate at 13.6%. However, the unemployment rate is higher among people under 24 (32.7%) and 60% of the unemployed are under 34.

Unemployment is maintained by the structure and dynamics of the population, the inefficient education system and vocational training, the weakness of the national economy and the poor government support for the issue of employment. There is also a lack of opportunities in a national economy under-funded and dominated by the informal sector and an absence of a dynamic approach to employment based on a genuine public-private partnership.

Sao Tome and Principe's social protection system involves a large number of institutional actors, such as health, education, social affairs, employment and finance, as well as local authorities and communities, development partners, non-governmental organisations and the private sector. A 1990 law established two contributory social security schemes: a general scheme and a voluntary scheme. There is also a social action system which aims to provide assistance to people at risk and the most deprived populations, the elderly, female-headed households and unemployed youth. Households living in extreme poverty which cannot meet minimum food requirements are the main target for social protection. These represented an estimated 20% of the population in 2015. These households do not have regular income, do not get three meals a day and have poor access to basic education and health services. The social security system covers only 17% of the active population, mainly public sector workers. It is characterised by a low level of pensions, a low ratio of active to retired people, and a large government debt to the National Institute of Social Security.

Gender equality

Gender issues have received special attention in recent plans and strategies, including the Transformation Agenda 2030. Some 50.7% of the population is female. One third of all households are headed by women, whether living alone or "in cohabitation" with a lower per capita consumption than households headed by men. The national unemployment rate is over 13% – 19% for women and 9% for men – according to the 4th National Census of Housing and Population. Women constitute the majority of those in the informal economy making them more exposed to insecure jobs with low pay and social protection. Nonetheless, measures have been taken to create jobs for women by supporting the processing of agriculture products with support from development partners. Through projects such as PRIASA, the capacity of women in areas such as fishing and the development of value-added activities, is being enhanced. The participation of women in parliament (18% in 2015), the government (only one women minister out of 13), in diplomatic missions (no women), political parties and business remains marginal compared to their weight in the population, education levels and contribution to the economy. In the Gender Development Index of the 2014 UNDP *Human Development Report*, Sao Tome and Principe was ranked 115th among 187 countries. In education, the ratio of female to male primary enrollment was 97.6% in 2013, while that of female to male secondary enrolment was 110.9%.



Thematic analysis: Sustainable cities and structural transformation

Sao Tome and Principe is part of the least developed countries group and one of the small island developing states facing several development challenges such as insularity, small market size, high cost of infrastructure and transport, and dependence on external assistance.

Independence in 1975 brought broad social and economic changes. Land was at first privatised and 12 years later redistributed to former employees of agricultural enterprises as small plots. Amid changes in the division of land and its role and function, more reforms have been undertaken aimed at reducing imbalances between urban and rural areas.

The capital, Sao Tome, is the country's only agglomeration. Its 2015 population of 131 000 inhabitants represented 68% of the total population. The average annual rate of urbanisation growth has been estimated at 1.87% for the period 2013-18. Principe island, 7 450 inhabitants in 2015, does not have a city.

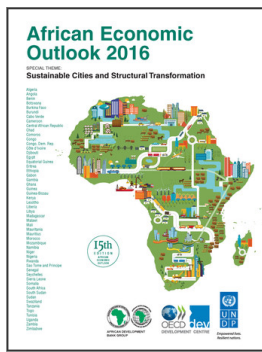
Sao Tome city typifies the challenge to overcome urban disparities. Its growth is similar to other large African cities. Migration from rural to urban areas brings a risk of more unplanned settlements and increased crime, even though these are not yet major problems. Due to the country's outlying position, logistics are difficult and there are high transportation costs and poor links to other parts of the world. More than 80% of infrastructure projects and programmes are financed by external assistance due to weak domestic resource mobilisation. The country is exposed to climate change risks, notably rising temperatures, decline in rainfall, rising sea levels and coastal erosion.

In 1995, agriculture was the largest employer with more than 65% of workers in the sector. Yet as the urbanisation rate has grown to about 68%, agriculture's share has fallen to 55% of the total workers in 2014. The share of women in the agriculture sector increased from 55% in 1995 to 57% in 2014. The informal sector (trade and services) has a significant weight in the economy. The 2012 population census revealed that only 21% of the total active workforce is occupied and 73% do not get a pay-slip. Most of the jobs are vulnerable (48%) and 58% of these workers are poor. In terms of gender distribution, women represent 57% of the total workforce in agriculture, 44% in services and 75% in trade.

The main challenge in Sao Tome city is to ensure sustainable economic integration and job creation. The administration cannot absorb all job seekers added each year to the labour market. Most job seekers tend to seek employment in the formal sector, especially in the public service. Reversing this trend is one of the great challenges. The new government acknowledges the employment challenges and its impact on poverty reduction. Thus, the "Programme of the XVI Constitutional Government", makes provision to adopt a new policy of growth, employment and competitiveness. Notwithstanding, the rise of the middle class represents an excellent opportunity for entrepreneurship and job creation as well as an increase in private consumption.

Migration to the city from rural areas has made the development of a national urbanisation strategy imperative since there is no urban development system nor planning mechanism in place. In the absence of such a strategy, the government has been using decentralisation and community participation as policy levers. The government requested assistance from the African Development Bank to prepare a National Planning Scheme since the last plan dates from 1977. The new scheme will offer a framework to allow the identification of key economic sector drivers and development zones (housing, industries, agriculture, etc).

Several policy measures have been implemented to improve conditions and ensure sustainable transformation in urban areas. These aim to provide wider access to clean water, sanitation and electricity in rural areas and ensure public security and more electricity in rural areas. However, additional efforts are required to effectively implement the renewable energy policy and decent housing for people in rural areas. The challenges are exacerbated by the lack of a clear strategy and policy on migration control from rural to urban areas.



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