SAO TOME AND PRINCIPE

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- **Real GDP growth increased to 4.9% in 2014, up from 4.0% in 2013, driven by improved agricultural production and services, and the trend is expected to continue into 2015 with growth projected to reach 5.1%.**
- **The country, which has strong governance based on the rule of law, held a free and transparent legislative election on 12 October 2014, offering a promising environment for political stability and enhanced investor confidence.**
- **As a small island country, Sao Tome and Principe faces spatial inclusion challenges due to rising sea levels caused by climate change and the lack of a national strategy to address territorial inequalities.**

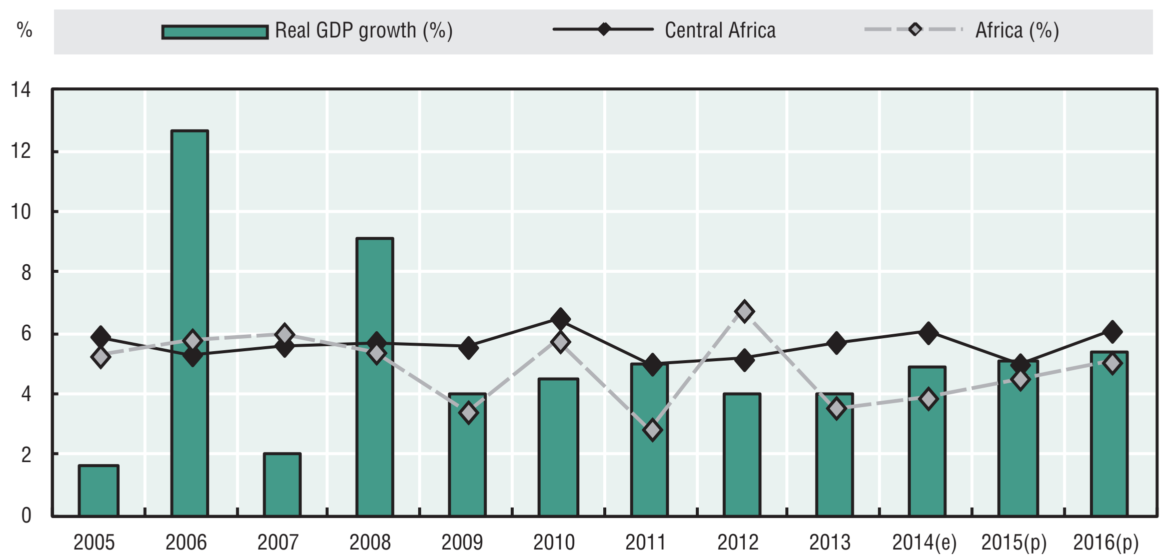
Overview

Sao Tome and Príncipe achieved growth in real GDP of 4.9% in 2014, up from 4.0% in 2013, anchored by strict policy measures under the 2012-2015 Extended Credit Facility agreement with the IMF, and driven by expansion in services and agriculture. The fixed exchange rate regime pegging the dobra to the euro continues to guide the country's monetary policy. As a result, consumer price inflation fell to 6.3% in 2014 from 8.1% in 2013. In 2015, the economy is expected to grow by 5.1% and inflation to further decline to 5.2%, supported by the exchange rate agreement.

The government has implemented structural economic reforms that have helped to improve its macroeconomic indicators and to provide a more conducive environment for private investors. The reforms include the abolition of minimum capital requirements for business entities to obtain a commercial license, and the launch of a "taxpayer inclusion project" to strengthen the revenue administration. Additional measures include the approval of a new law on money laundering and terrorism financing. In January 2014, the authorities approved a budget of USD 159 million for 2014, anchored on four key principles: *i)* promoting institutional sustainability and political stability; *ii)* revitalising the primary and tertiary sectors of the economy; *iii)* improving the business environment; and *iv)* infrastructure development. About 93% of capital expenditure was to be financed through external aid consisting of grants (47.6% of the external aid) and loans (52.4%). Enactment of the 2015 budget was delayed, with discussion at the parliament scheduled for March 2015.

The legislative framework for ensuring spatial inclusion is not very well developed in Sao Tome and Principe. In 1977, two years after independence from Portugal, the government initiated fundamental reforms and privatised land from Portuguese-owned plantations. The reforms aimed to reduce disparities between urban and rural areas, but the agricultural sector has faced major difficulties due to lack of investment and skilled labour. At the same time, the decentralisation of decision-making authority, which aims to transfer greater autonomy to local and regional government agencies, has yet to prove effective. Rural areas are still confronted with various inclusiveness challenges, among them access to sanitation, clean water, schools and hospitals. Meanwhile, challenges linked to climate change are increasing, with agriculture affected by rising temperatures and a simultaneous decline in rainfall, while the country as a whole is threatened by rising sea levels and the erosion of coastal areas.

Figure 1. **Real GDP growth**



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

Table 1. **Macroeconomic development**

	2013	2014(e)	2015(p)	2016(p)
Real GDP growth	4.0	4.9	5.1	5.4
Real GDP per capita growth	1.4	2.4	2.7	3.0
CPI inflation	8.1	6.3	5.2	4.4
Budget balance % GDP	-11.3	-9.4	-7.2	-8.0
Current account % GDP	-18.3	-17.0	-10.7	-12.9

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

Recent developments and prospects

Sao Tome and Principe's recent economic performance was driven fundamentally by the service (retail and tourism), construction and agriculture sectors. The acceleration of growth to 4.9% in 2014 from 4.0% in 2013 has not been sufficient to address the jobs challenge. The unemployment rate remained high at 13.6%, with joblessness mainly affecting youth, who account for 23% of total unemployment, according to the 2012 national housing and population census. The continuing difficulties in the global economic environment affected the country's performance in 2014 through weak financing for both public and private sector projects and delays in project execution. Economic prospects have also been affected by delays in the planned start of oil exploration. Oil production has now been set to begin in 2018/19 instead of 2015, increasing pressure on the authorities and sparking speculation over the future of oil production in the country. In this context, the island of Príncipe decided to shift its development priority for the region towards non-oil activities, notably agro-tourism, fisheries and agriculture.

Supported by the 2012-2015 Extended Credit Facility (ECF) agreement with the International Monetary Fund (IMF), the economy of Sao Tome and Principe enjoyed macroeconomic stability, with downward trending inflation in the single digits (6.3% in 2014), adequate levels of international reserves (five months of imports in 2014) and steady public finance. Total revenue and grants decreased to 26.3% of gross domestic product (GDP) in 2014 from 26.0% in 2013, while total expenditure declined to 35.7% of GDP in 2014 from 37.3% in 2013. As a result, the overall fiscal balance improved to a deficit of 9.4% of GDP in 2014 from a deficit of 11.3% in 2013. (Table 3).

The implementation of structural economic reforms also helped to improve the country's macroeconomic indicators. The reforms include stronger enforcement of compliance with tax laws, simplification of customs procedures and enforcement of the law on money laundering and financing of terrorism. Nonetheless, additional efforts are needed to eliminate the longstanding tripartite debt arrears of the fuel importer ENCO, the treasury, and EMAE, the water and electricity company. The country's public debt level remains at high risk of debt distress, with the stock of public debt amounting to 75% of GDP in 2014.

The government has continued with its efforts to offer favourable conditions for private sector operations. The abolition of the minimum capital requirement for business entities to obtain a commercial license was considered to be one of the key achievements. Efforts were also reported in terms of dealing with contract permits and electricity supply. To this end, Sao Tome and Principe was ranked 153rd of 189 countries in terms of the ease of doing business in the World Bank report *Doing Business 2015*, a significant improvement over the previous year, when it was ranked 169th.

Performance of the financial sector was mixed. The Central Bank has concluded the process of restructuring one of the country's non-performing commercial banks. In the third quarter of 2014, narrow money supply (M0) increased to STD 1.06 trillion (Sao Tome dobras) from STD 811 billion reported in 2013 due to a 4.6% increase in the money in circulation and the augmentation of commercial bank reserves by 3.7%. Broad money supply (M2) also increased to STD 1.37 trillion from STD 1.26 trillion in 2013. In addition, credit to the economy, in particular to the private sector, has expanded by 0.8%, driven by an increase of 1% in local currency credits and a decrease of 0.2% in foreign currency credits. Loans denominated in foreign currencies accounted for 52.6% of total loans, while liquid assets accounted for 39.7% of total assets as of June 2013.

Despite persistent challenges, Sao Tome and Principe is also making progress in poverty reduction and human development. The 2011 poverty survey undertaken by the United Nations Development Programme (UNDP) and the National Institute of Statistics (INE) showed that 49.6% of the population was living below the poverty line, and 15.9% in extreme poverty, compared to 53.8% and 19.2% respectively in 2001. The country's Human Development Index (HDI) increased to 0.558 in 2013 from 0.556 in 2012. Especially in the health sector, the implementation of programmes with the support of partners like the Global Fund and Taiwanese co-operation has helped significantly to reduce the prevalence and mortality rate of malaria. Once the leading cause of death in the country, malaria now ranks fourth. This progress is mainly linked to sanitation programmes, the disinfection and drying up of stagnant water sources to hinder the reproduction of malaria vectors, the distribution of mosquito nets, and expanding childhood immunisation to reduce child mortality. Today, primary health care is decentralised to the seven districts of the country.

Infrastructure development continues to be a top priority, as underscored in the poverty reduction strategy action plan 2012-2016. Its critical importance was highlighted in the 2014 budget, with 31.7% of total expenditure allocated to public investment. Transparency and accountability have been fundamental issues. In response, the government has created a procurement unit responsible for analysing all national procurement contracts, including those for infrastructure projects. The government also created a division within the Ministry of Infrastructure and Public Works that approves projects and provides construction permits. The objective is to improve the quality and supervision of infrastructure projects and to undertake audit supervision.

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

	2009	2013
Agriculture, forestry, fishing & hunting	23.5	23.4
of which fishing	6.6	7.9
Mining and quarrying	0.6	0.5
of which oil	…	…
Manufacturing	8.6	8.2
Electricity, gas and water	3.1	3.7
Construction	8.1	4.3
Wholesale & retail trade; repair of vehicles household goods; Restaurants and hotels	29.7	28.3
of which hotels and restaurants	1.4	1.6
Transport, storage and communication	14.8	15.5
Finance, real estate and business services	1.6	4.5
Public administration and defence	4.4	4.6
Other services	5.6	7.1
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities

Macroeconomic policy

Fiscal policy

The country's fiscal framework remains consistent with overall macroeconomic performance despite the challenges of the global economic slowdown. The fiscal framework has continued to be oriented by the 2012-2015 ECF agreement with the IMF. The third review of the ECF, concluded in March 2014, rated the authorities' performance as satisfactory. In line with the ECF agreement and the fixed exchange regime, the government estimated the primary budget deficit at 3% of GDP. This is to be partially financed by World Bank budget support, resources from the Highly Indebted Poor Countries (HIPC) initiative and transfers from national oil accounts. A new credit line from Angola, estimated at USD 180 million, has affected the country's stock of public debt, which was estimated at more than 75% of GDP in 2014. This credit line is expected to finance projects in transport, energy, health and education, and will contribute to promoting inclusive growth and poverty reduction.

Discussion of the 2015 budget was postponed to March 2015. In January 2014, the authorities approved an ambitious 2014 budget of USD 159 million. About 93% of capital expenditure was to be financed through external aid. In 2014, tax revenues were projected to reach 15.1% of GDP, or less than the 15.2% reported in 2013. Grants also underperformed, at 9.5% of GDP in 2014, down from 9.1% of GDP in 2013. Control of current expenditure has improved, with government spending at 17.7% of GDP in 2014, down from 18.3% in 2013. Improvement was also noted in expenses related to capital expenditure, which totaled 18.0% of GDP in 2014, down from 19.1% of GDP in 2013. As a result, the primary balance deficit stood at 8.9% of GDP in 2014, down from 10.9% of GDP in 2013. In 2015, the primary balance is expected to deteriorate slightly, by 1.9% of GDP, driven mainly by a reduction in total revenues and grants. (Table 3).

Challenges remain, among them the "taxpayer inclusion project" to strengthen the revenue administration; preparatory arrangements towards installation of a one-stop shop for foreign trade, with support from the World Bank and the African Development Bank (AfDB); the launch of the integrated public finance management system known as SAFE-E; and the implementation of measures to overcome chronic cross arrears between the government, EMAE and ENCO. There are also ongoing efforts to boost the agriculture sector and the nascent private sector. These include the development of a new agriculture policy, proposed reforms and training to strengthen the judicial system, and the adjustment of public administration salaries, the key constraint being the high cost of borrowing (interest rates of 24% to 26%).

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

	2006	2011	2012	2013	2014(e)	2015(p)	2016(p)
Total revenue and grants	**33.9**	**40.3**	**32.0**	**26.0**	**26.3**	**25.1**	**22.9**
Tax revenue	15.8	16.6	14.0	15.2	15.1	14.7	14.7
Grants	15.7	22.3	16.7	9.1	9.5	8.7	6.5
Total expenditure and net lending (a)	**46.5**	**52.9**	**44.1**	**37.3**	**35.7**	**32.3**	**30.9**
Current expenditure	26.2	19.4	17.4	18.3	17.7	16.1	15.9
Excluding interest	22.9	18.9	16.8	17.9	17.2	16.0	15.7
Wages and salaries	7.9	8.4	8.3	8.5	8.2	7.8	7.7
Interest	3.3	0.5	0.6	0.4	0.5	0.1	0.1
Capital expenditure	20.3	33.5	26.8	19.1	18.0	16.2	16.1
Primary balance	**-9.4**	**-12.1**	**-11.6**	**-10.9**	**-8.9**	**-7.0**	**-7.9**
Overall balance	**-12.7**	**-12.6**	**-12.2**	**-11.3**	**-9.4**	**-7.2**	**-8.0**

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 monetary policy of pegging the dobra to the euro has complemented fiscal policy measures and contributed to price stability. At the beginning of 2014, the government reduced its inflation objective to 7%, in anticipation of an easing of food and fuel prices in the international market. In March 2014, during the third review of the ECF, this target was revised to 6%. During the first half of 2014, inflation registered a 0.9% monthly change compared to 0.3% in same period in 2013, mainly due to an increase in prices for goods and services (7.6%), entertainment and cultural activities (4.3%), clothes and shoes (3.6%), and food, drinks and cigarettes (1%). At the end of 2014, inflation stood at 6.3% and was projected to decrease to 5.2% in 2015. Over the same period, credit to government has increased by 2.26%, and the slight recovery of credit to the economy (0.34%) has contributed to money growth. Furthermore, the dobra has appreciated against the dollar, to STD 18.595 in 2014 from STD 19.21 at the end 2013.

During the second half of 2014, the performance of monetary aggregates was in line with expectations with the expansion of credit to the economy (0.8%), in particular to the private sector, driven primarily by an increase in local currency credits. To support the government in its efforts towards sustainable and inclusive growth, the Central Bank further reduced its benchmark interest rate to 10% from 12% in 2014.

Economic co-operation, regional integration and trade

Effective integration within the region would enhance competitiveness and build resilience in Sao Tome and Principe. As a small island economy, the country has limited development opportunities, making regional integration more desirable. Unleashing development opportunities and potential in the agriculture and tourism sectors would allow better integration into global networks and improved co-operation with partners.

The country's membership in the Economic Community of Central Africa States (ECCAS) has yet to demonstrate results. The limits of effective integration can be explained by the country's remoteness from the African continent and its lack of developed infrastructure. In addition, unofficial checkpoints and the overtaxing of goods are detrimental to integration. To address these challenges, the government launched the ASYCUDA computerised system for streamlining customs clearance procedures. Sao Tome and Principe thereby became the first country in Central Africa to adopt strict mechanisms for internal control within the customs department aimed at reducing the length of business transactions, eliminating cumbersome procedures, facilitating trade and improving customs revenue collection. A new phase will be implemented in 2015, with financial support from the AfDB and the International Finance Corporation (IFC).

Traditionally, Sao Tome and Principe's trade has focused on Europe. The destination of its main export commodity, organic cocoa, is Portugal, and there is a need for a clear strategic framework to enable its commercialisation throughout the region. In a notable development, there has been increased south-south co-operation with Angola in recent months. The government reviewed its rules and customs procedures during 2014 to enable smoother business processes, including through the reduction of tariffs on imports. Nevertheless, three main trade policy challenges remain on the government's agenda for 2015: the country's accession to the World Trade Organisation; its entry into the Central African grouping CEMAC; and the Economic Partnership Agreement negotiations with the European Union.

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

	2006	2011	2012	2013	2014(e)	2015(p)	2016(p)
Trade balance	-38.1	-42.2	-39.3	-37.1	-34.2	-27.2	-28.0
Exports of goods (f.o.b.)	5.7	4.4	5.7	4.1	3.7	3.5	3.2
Imports of goods (f.o.b.)	43.8	46.6	45.1	41.3	37.9	30.7	31.2
Services	-14.0	-5.2	-2.5	-2.6	-3.3	-3.5	-3.2
Factor income	1.7	-0.2	-0.8	-0.8	-0.9	-0.6	-0.6
Current transfers	25.4	20.9	20.2	22.3	21.4	20.7	18.9
Current account balance	**-24.9**	**-26.6**	**-22.5**	**-18.3**	**-17.0**	**-10.7**	**-12.9**

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

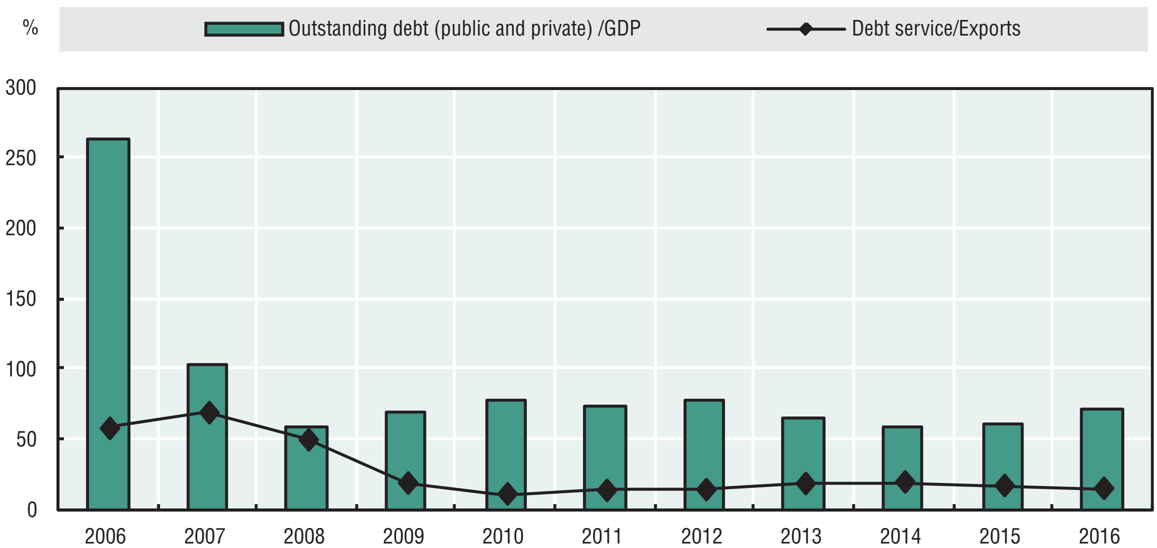
Debt policy

The government's public debt remains at high risk of debt distress within the context of an expansionary fiscal policy and a limited export base. In 2013 the stock of public debt amounted to 70% of GDP, of which 96% was external debt and 4% domestic debt. While Portugal and Angola are still the main creditors, Nigeria is the main short-term debt creditor. Despite progress in managing the stock of debt through prudent borrowing control, the enforcement of compliance with tax legislation would appear to be critical for strengthening revenues from customs and ensuring macroeconomic soundness.

The 2014 state budget anticipated new debt to allow for financing of the government's key projects, and this is expected to have a multiplier effect in the economy and increase the stock of public debt. The World Bank and the IMF Debt Sustainability Analysis have indicated that the country's debt position will stabilise only once oil production gets underway. But the start of oil production, initially expected in 2015, has been delayed, bringing additional challenges. As part of an agreement with the IMF, the Public Debt Management Law was enacted in 2012 to provide clear policies for the contracting of debt and to establish different levels of responsibility. All debts, international and domestic, are recorded on a quarterly basis by the debt unit. The Commonwealth Secretariat Debt Recording and Management System is also used to record debts.

The Central Bank has continued to be the main financer of government domestic debt. Co-ordination between the Bureau of Public Debt and other agencies has improved in recent years.

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 of Sao Tome and Principe made strong efforts to bring new impetus to the private sector by awarding an operating license to UNITEL, the Angolan telecommunications company, and introducing the ASYCUDA software system at the customs department. The World Bank report *Doing Business 2015* cites a lack of reform and the weak judicial system as key constraints for private sector development. The report also notes that high interest rates (24% to 26%) and lack of access to credit are penalising factors for the embryonic private sector. Difficulties in resolving insolvency and the high cost of electricity also hinder the private sector. But the authorities have embarked on reforms to improve the situation. Efforts are underway to eliminate the minimum capital requirement for starting a business. Improvement has also been reported in access to electricity and reducing the complexity of obtaining construction permits.

With its 2014 budget, the government is determined to restore investor confidence. Unlike previous years, no major increases in corporate tax were announced. Corporate governance encourages the disclosure of financial operations and the protection of shareholder rights, but some progress is still required with regard to enforcement. Some measures taken by the government in recent years to boost the private sector have proven to be effective. The single window is functional, and companies can register their business and economic activities in the same day. The stabilisation of the dobra, which was pegged to the euro in early 2010, helped to contain exchange rate fluctuations. Going forward, the government is considering a National Planning Scheme (NPS) that would provide an overall development vision for the country's territory and identify investment opportunities in different areas. With financial assistance from the AfDB, the government is working on a Private Sector Development Strategy.

Financial sector

The performance of the financial sector remained below expectations. The Central Bank's assessment of the sector concluded that the share of non-performing loans had reached 25% in December 2014 due to rapid credit expansion in the context of poor risk management and a weak lending culture. The assessment also reported that the performance of one commercial bank was below standard, and management control was temporarily taken over by the Central Bank. The remaining seven commercial banks were rated as satisfactory.

Difficulties in providing collateral and the high interest rates charged by commercial banks (24% to 26%) continue to hinder access to finance for small and medium-sized enterprises (SMEs). Due to lack of data, it is not possible to assess the proportion of the population and of SMEs that have access to credit. Moreover, most banks are foreign affiliates and thus might be vulnerable to shocks in foreign markets. Progress is underway to produce financial reports according to Basel II principles. The payment and settlement system is still underdeveloped.

Efficient domestic resource mobilisation is one of the government's key policy challenges. In an economy that is highly dependent on imports, the major source of revenue is through import taxes. It is important to note that the tax system is regressive, as the small number of enterprises cannot contribute significantly through tax payments. The bulk of the tax burden hence falls on public sector wages, which are already low. The delay in the start of oil production to 2018/19, instead of 2015 as projected initially, will further expose and negatively affect many of the existing commercial banks since the majority of these banks had hoped to benefit from the country's expected oil bonanza. The banks will therefore need to adjust their strategies towards non-oil sectors in order to ensure the sustainability of their business models.

Public sector management, institutions and reform

Sao Tome and Principe has strong governance based on the rule of law. The country was ranked 12th out of 52 countries in the 2014 Mo Ibrahim Index of African Governance. Sao Tome and Principe is ranked 9th in Africa and 1st in Central Africa in terms of safety and the rule of law. The legal framework for property rights approved in 2012 continues to guide government intervention in this area. The 2014 *Freedom in the World* report rated the country's status as free, with Sao Tome and Principe scoring 2 on a scale of 1 (best) to 7 (worst) in terms of freedom, political rights and civil liberties. The news media operate freely. The government worked to improve transparency in management of public funds by making available key information, including the state budget, which it published on its web site. Slight improvement was also reported in Transparency International's 2014 *World Corruption Perception Index*, which ranked Sao Tome and Principe 76th of 175 countries, up from 77th in 2013.

The public sector is the main economic entity in Sao Tome and Principe, accounting for more than 80% of capital formation and GDP. The weak capacity of the authorities to mobilise internal resources has impeded efficient delivery of services, while the low level of salaries encourages the best employees to seek higher paying jobs outside the public sector. In 2013, the government made an effort to improve the situation by increasing wages and salaries, with public salaries consuming 9.3% of GDP, compared to 8% of GDP programmed in the budget. In the 2014 budget, the government set total wage-related expenses at STD 542 million and promised more supervision to avoid distortion, as agreed with the IMF. The government continues to offer free education, free health care and the right to social security benefits such as welfare, with 36% of the 2014 budget devoted to education and 28% to the social sector.

Natural resource management and environment

Sao Tome and Principe is on track to achieving the environment-related Millennium Development Goals. More than 97% of the population has access to clean water, and access to sanitation facilities improved to 34% in 2013 from 25% in 2000.

Sao Tome and Principe's presented its second national communication on climate change at the United Nations Framework Convention on Climate Change (UNFCCC) in Bonn in June 2014, although the communication has yet to be validated. The country also prepared a National Adaptation Programme of Action (NAPA) on climate change, which is awaiting funding. The NAPA is based on 22 urgent and immediate needs, including priorities for adaptation in the sectors of fisheries, agriculture, forestry, infrastructure, civil protection, health, energy and water, among others. The action plan is designed to respond to the needs of the most vulnerable groups, such as artisanal fishers, farmers and women. Efforts are also underway to fight illegal deforestation. With support from Spain and the United States, the government initiated a plantation campaign to combat desertification. Forest guards are being equipped with tools to enable them to efficiently perform their duties, and community consultation on the impact of deforestation is being promoted.

Political context

Sao Tome and Principe held a free and transparent legislative election on 12 October 2014. The election was won by the Independent Democratic Action (ADI) party led by Patrice Trovoada, a former prime minister. The party captured 33 of the 55 seats in the National Assembly; four of the seats were won by women. The new government replaced a coalition government that assumed power in December 2012 following the collapse of the previous government. The victory of ADI was seen as a clear indication of the desire of the population to restore political stability in a country where no government has completed its full term since 1990, when multiparty democracy took hold. The result also demonstrates the will of the electorate to create an environment conducive to restoring investor confidence.

In recognition of the development risks facing the island nation, the government in 2014 joined g7+, an association of self-declared "fragile states" that are in transition to the next stage of development. The association has endorsed a "New Deal for Engagement in Fragile States" that aims to build nations and end poverty.

Social context and human development

Building human resources

Sao Tome and Principe ranks 142nd among 187 countries in the *2014 Human Development Report* of the UN Development Programme (UNDP), placing the country in the category of medium human development. With a Human Development Index (HDI) of 0.558, it is above the sub-Saharan African average of 0.508. The country is on track to achieve universal primary education, the second of the eight Millennium Development Goals. In 2013, primary school enrolment stood at 96.4% while the literacy rate of individuals aged 15 years and older was 69.5%. Despite the country's macroeconomic challenges, education remained one of the key priority sectors in the 2014 budget, accounting for 36% of expenditure. Access to basic education is free and mandatory until 6th grade, and in some specific cases the government provides financial assistance for poor families so that their children can attend school.

Today, primary health care is decentralised to the seven districts of the Sao Tome and Principe. The main health issues in the country, in order of prevalence, are: respiratory diseases, diarrhea, hypertension (stroke), diabetes, malaria, traffic accidents (with the proliferation of motorcycle taxis), anemia, and HIV. With regard to the latter, the prevalence remains low at 1.0%, with slightly more cases among men than women, but higher than the 0.9% noted in 2000.

Substantial progress was made in terms of reproductive health. However, it is essential to continue to strengthen the program of information, education and communication about family planning to prevent early pregnancies. While there is on an ongoing training programme for cardiology (6 participants) and nephrology (12 participants) funded by the EU, Sao Tome and Principe is expected to face several challenges, notably the fact that health workers (doctors, nurses, midwives) are few due to the lack of training and a brain drain to Angola and Portugal. The emigration of health workers is related to the poor salaries and conditions offered to these professionals.

Poverty reduction, social protection and labour

The government's Poverty Reduction Strategy 2012-2016 identified four pillars: *i)* reform of public institutions and the promotion of good governance; *ii)* long-term sustained and redistributive economic growth; *iii)* human resource development and improvement in basic social services; and *iv)* strengthened social cohesion and the promotion of sustained and integrated human development. Poverty surveys conducted in door-to-door interviews among all residents in the country have made it possible to identify vulnerable groups. These surveys are carried out every 10 years. The last poverty profile, undertaken in 2011, indicated that the situation is improving, with 49.6% of the population living below the poverty line and 15.9% in extreme poverty, compared to 53.8% and 19.2% respectively in 2001.

In terms of community-driven policy, in the first half of 2014 the government approved a decree law entitled *Programa Aposta Jovem* that defines criteria for making credit available to youth. Despite this and other legislative improvements in recent years, inadequate support from the central government hampers the ability of non-governmental organisations (NGOs) to develop on their own terms. The participation of NGOs in decision making to ensure transparency in the management of public funds is still limited. Efforts have been made by NGOs to engage directly with development partners with information on their activities. Nonetheless, there is a need to strengthen this relationship in order to enable local NGOs to benefit further from training programmes offered by partners.

Sao Tome and Principe has a very well developed social security system covering both entrepreneurs and employees. But implementation of the system, which was introduced in 2004, remains a challenge due to a lack of public funding. Sao Tome and Principe has yet to establish a code for the labour market, and lacks a labour tribunal to defend the interests of public workers. When work-related conflicts arise, extrajudiciary conflicts are often resolved by the Ministry of Labour and in more serious cases they have been transferred to the Ministry of Justice. The country also faces a critical need to improve the rules and regulations for the protection of child labour, as these are largely lacking.

Gender equality

Gender issues have been given special attention in recent policy documents, including the government's Poverty Reduction Strategy 2012-2016, although concrete policy steps toward mitigating gender imbalances are still lacking. One-third of all households are headed by women, either single or living in "free union", with lower per-capita consumption than households headed by men. The national unemployment rate stands at 13.6%, but among women the rate is 19.7%, while it is 9.3% among men, according to the 2012 national housing and population census.

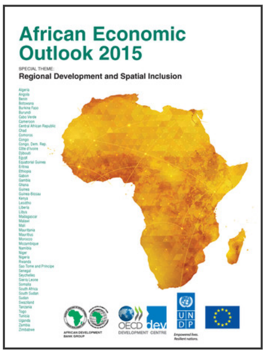
Sao Tome and Principe is nonetheless on track to achieve the third Millennium Development Goal of promoting gender equality and empowering women. The proportion of seats held by women in the national parliament has doubled, to 18% in 2014 from 9% in 2012. In education, the ratio of female to male primary enrolment stood at 97%, while the ratio of female to male secondary enrollment was 110%. In the Gender Development Index of the 2014 UNDP *Human Development Report*, Sao Tome and Principe was ranked 115th among 187 countries.

Thematic analysis: Regional development and spatial inclusion

Sao Tome and Principe is a small island state located off the coast of Central Africa. The population totals 187 356, according to the 2012 census conducted by the National Institute of Statistics (INE), with 33% of the inhabitants living in rural areas and 67% in urban areas. The population is most concentrated in the district of Agua Grande (73 091), followed by Me-Zochi (46 265), Lobata (20 007), Cantagalo (18 194), Lemba (15 370), the Autonomous Region of Príncipe (7 542) and Caue (6 887). A 2011 survey on poverty, conducted jointly by the government and the UNDP via the INE, found that poverty mostly affects women (71.3%) and is more prevalent in rural areas, resulting in a significant migration of rural workers to the cities. In 1977, two years after independence from Portugal, the government initiated fundamental reforms and privatised land from Portuguese-owned plantations. The reforms aimed to reduce disparities between urban and rural areas. But the agriculture sector has faced major difficulties due to a lack of investment and insufficient skilled labour needed to make these plantations sustainable. A new agriculture policy aims to ensure food security and reduce imports by improving national production of food, and to restructure agricultural exports in order to increase export volumes and prices.

Challenges are increasing for Sao Tome and Principe as the country's vulnerability to climate change becomes apparent, with rising temperatures and a simultaneous decline in rainfall. As a small island country, Sao Tome and Principe is directly exposed to rising sea levels, and its coastal areas are facing serious erosion due to exploitation of embankments for construction materials (sand, bricks and clay, in particular). Meanwhile, more than 80% of the population depends on agriculture, fishing or other activities directly related to the primary sector. Rural areas are still confronted with various inclusiveness challenges, among them access to sanitation, clean water, schools and hospitals. The decentralisation of decision making authority, which aims to transfer greater autonomy to local and regional government agencies, has yet to prove effective. The general perception is that the political class is still reluctant to embrace this shift. In addition, the budget for rural areas remains insufficient in view of current needs and the growing young population. Nevertheless, the authorities are making efforts to improve conditions through: *i)* support to families in extreme poverty; *ii)* a school feeding programme; *iii)* a vaccination programme; and *iv)* increased allocations to the social sector in the state budget. At the country level, infrastructure continues to be a huge development constraint as corroborated in a 2010 AfDB study on the cost of insularity in Sao Tome and Principe. Deficiencies in the country's infrastructure limit its growth and trade potential. Shipping costs are estimated to be around 30% to 40% higher in Sao Tome than in Libreville. Limited accessibility and connectivity translate into high transportation and communication costs. As an island country, Sao Tome and Principe has access only to air and maritime transport for physical movement of goods and people and ICT for digital connectivity. The majority of infrastructure programmes are largely financed by external assistance due to weak government capacity to mobilise sufficient domestic resources.

Irregularities in data collection by the national statistics institute, INE, continue to affect the country's development prospects, including the organisation of spatial development strategies. There is an urgent need for a concerted approach between the government and its subnational agencies to support policy making through systematic statistical data collection on rural/urban areas. Despite its key role, the collection of statistics did not receive major funding in the government's 2014 national budget, and a significant investment is necessary. Furthermore, despite the ambitious reach of the 2014 budget, a system of local budgets is nonexistent. All budget preparation is undertaken at the central government level through a consultative process with local authorities, including the autonomous region of the island of Príncipe, given the limited available resources. There is no guarantee that the needs of each local government and district will be addressed through the national state budget, with resulting delays in the implementation of their local development plans. As for taxation, the public finance law stipulates that any increase in taxes needs to be endorsed by members of the national parliament. In addition, the country still has no strategy to address territorial inequalities. The first National Planning Document (NPD) dates back to 1977, two years after independence from Portugal. With support from the government of Yugoslavia, this first national plan on occupation, use and transformation of land took into consideration the comparative advantages of each zone and district. The current NPD is based on the principle of balanced and parsimonious use of land, bearing in mind the issue of protection of resources for future generations. The government intends to respond to the glaring housing shortage among youth by creating urban centres with housing programmes for various social groups. To sustain this housing policy there is an ongoing project, Urban Development Support of Sao Tome and Principe, that focuses on three interrelated components: *i)* spatial planning; *ii)* housing policy and nonconventional methodology for construction; and *iii)* structuring and management of the social development fund. To date, the country has urban expansion plans in place only in the city of Sao Tome, the northern sector between Gonga, Santo Amaro and Airport, and the capital district. A legal framework on territorial management has been prepared but is awaiting approval and publication. In 2015, the government envisages preparing a National Planning Scheme with financial support from the AfDB. There is a strong synergy between the country's spatial inclusion vision and the AfDB's strategy for inclusive growth in Africa. Both strategies seeks to expand the economic base across barriers of age, gender and geography through investment in infrastructure that will bring opportunities for the private sector, gender equality and community participation. The AfDB is playing a critical role by addressing gaps in African infrastructure via regional integration. The Africa50 initiative launched in 2012, which aims to mobilise private financing to accelerate the speed of infrastructure delivery in Africa, is also an important vehicle.



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