SÃO TOMÉ AND PRÍNCIPE

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Flávio A. Soares Da Gama / f.soaresdagama@afdb.org

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- **In 2013, the real GDP growth, at 4.3%, was lower than forecast. The economy is projected to grow by 4.8% in 2014 owing to a moderate increase in foreign direct investment, in particular from bilateral partners.**
- **Positive economic performance led São Tomé and Príncipe to be classified by the World Bank in 2013 as a middle-income country because its gross national income per capita surpassed the cut-off point of USD 1 205 for the third consecutive year.**
- **The French oil company Total abandoned exploration in block 1 of the Joint Development Zone with Nigeria, creating uncertainty over oil production in São Tomé and Príncipe, but there is continued interest from other oil companies, according to the government.**

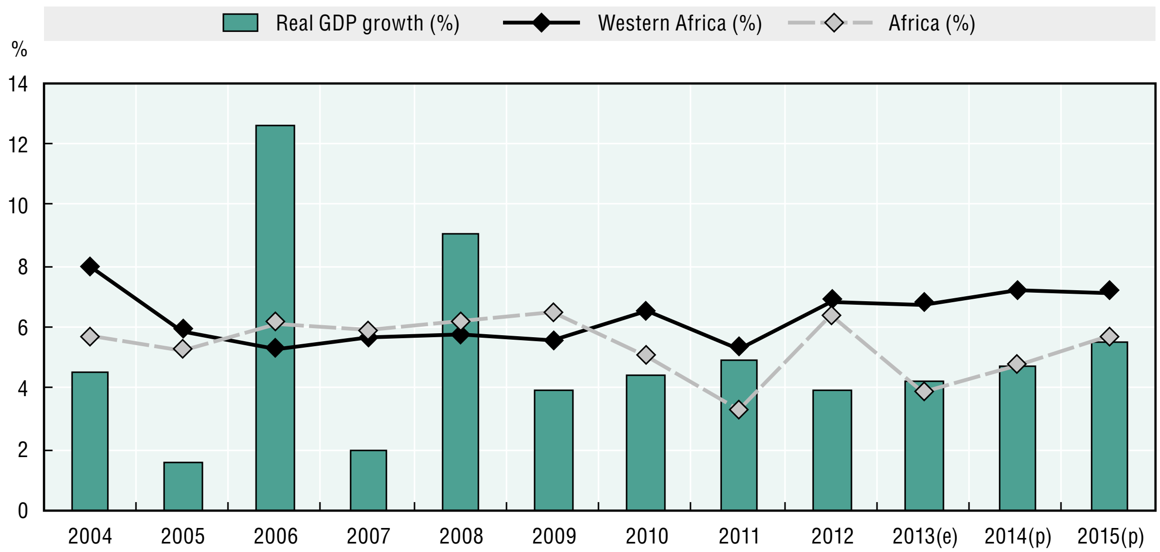
Overview

The economy of São Tomé and Príncipe grew by 4.3% in 2013, up from 4% in 2012, although growth was below initial 2013 forecasts of 5.2%. In the medium term, the economy is expected to improve slightly, with projected real gross domestic product (GDP) growth of 4.8% in 2014 and 5.6% in 2015, largely due to a moderate increase in foreign direct investment (FDI), notably from bilateral partners. The service sector remained the driving force of the economy, accounting for about 60% of GDP in 2012, followed by agriculture (22.5%). The country´s economic performance was rated satisfactory in the second review of the Extended Credit Facility (ECF) 2012-15 agreement with the International Monetary Fund (IMF), undertaken in September 2013.

In line with the government's commitment to enhance transparency and accountability in the management of public funds, the state budget was implemented through the new SAFE-e financial administration system in 2013. Infrastructure (transport and communication) accounted for 21% of total spending, although the government continued to pay special attention to expenditure in the social sector, notably on health (8.8%) and education (5.6%). Fully, 93% of capital expenditure was financed by external assistance. Fiscal performance was affected by a reduction in tax revenues, which dropped to 13.1% of GDP in 2013 from 14% in 2012. However expenditures decreased to 16.6% of GDP in 2013 from 17.4% in 2012, which helped to improve the public finance account. The domestic primary deficit is estimated at 6.3% of GDP in 2013, down from 10.1% reported in 2012. In September the government launched the ASYCUDA computerised system for streamlining customs clearance procedures and improving customs revenue collection.

The emergence of global value chains (GVCs) would represent an extraordinary opportunity for São Tomé and Príncipe, providing added value to its two main export crops, cocoa and coffee. The lack of highly qualified skilled labour in the cocoa industry has led to the export of raw materials, mainly to Europe, depriving São Tomé and Príncipe of the most profitable part of the confectionary market value chain – the processing of the cocoa into chocolate. In the last few years, with the construction of a chocolate factory in São Tomé and Príncipe, local processing of cocoa beans into chocolate has begun. This not only adds export value, but also generates employment.

Figure 1. **Real GDP growth**



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

Table 1. **Macroeconomic indicators**

	2012	2013(e)	2014(p)	2015(p)
Real GDP growth	4.0	4.3	4.8	5.6
Real GDP per capita growth	1.3	1.7	2.3	3.2
CPI inflation	10.6	8.5	7.9	8.1
Budget balance % GDP	-10.7	-6.9	-6.2	-5.1
Current account balance % GDP	-20.5	-18.4	-14.7	-13.9

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

Recent developments and prospects

Slow global economic growth is negatively affecting São Tomé and Príncipe, an island country highly dependent on overseas development assistance. Real GDP growth in 2013 was revised downward to 4.3% from 5.2%, and the forecast for 2014 also dropped to 4.8% from 5.8%. The downward revision is linked to delays in project execution and weak financing prospects for both public- and private-sector projects. Another factor is the recent announcement by the French oil company Total that it is abandoning oil exploration in block 1 of the Joint Development Zone (JDZ) with Nigeria. But the oil sector is expected to play a key role in the economy in the years ahead, and there is continued interest from other oil companies, according to the government.

One of the key challenges facing the economy is to generate productive employment. Despite an overall growth rate of 4.3% in 2013, this growth has not been inclusive. Unemployment is estimated at nearly 55%, and among those employed about 40% hold insecure or precarious jobs. Nonetheless, São Tomé and Príncipe was classified by the World Bank in 2013 as a middle-income country because its Gross National Income per capita surpassed the cut-off point of USD 1 205 for the third consecutive year.

In 2013 the engine of growth remained the service sector (wholesale and retail trade; transport, storage and communication; real estate; public administration, and other services), which contributed about 60% to GDP, followed by the agriculture sector with 22.5%. Inflation fell to 8.5% in 2013 (from 10.6% in 2012), mainly due to lower food prices. In August 2013, inflation hit a record low of 6.5%, down from 11.6% year-to-year. The current account deficit is projected to improve to 18.4% in 2013 from 20.5% in 2012 due to a slight increase in exports. São Tomé and Príncipe, which trades mainly with Europe, is not well integrated into regional markets. Regional trade within the Economic and Monetary Community of Central Africa (CEMAC) accounted for only 2% of total trade.

The medium-term economic framework is governed by the three-year ECF 2012-15 signed with the IMF. The future of oil production is uncertain. In this connection, it is important to recall that the 2008 Debt Sustainability Analysis undertaken by the World Bank and IMF showed that, under a no-oil scenario and fiscal adjustment, the public debt – both the net present value (NPV) of debt-to-GDP and the NPV of debt-to-export ratios – will increase by 2026 to 147% and 418%, respectively, putting the country at a high risk of debt distress.

São Tomé and Príncipe offers political stability and positive elements for business development, such as access to government properties. Nonetheless, doing business can be a challenge. The country's geographic status as an island state affects the business environment. The challenge is exacerbated by a lack of physical infrastructure and a weak judicial system. In 2013, the business environment was affected by a lack of the reforms and efforts seen in previous years. In the World Bank (WB) report *Doing Business 2013*, São Tomé and Príncipe slipped to 166th out of 189 countries in terms of the ease of doing business, down from 163rd in 2012.

The country's financial sector is also weak and underdeveloped, although the government continued to make significant efforts to increase stability and bring confidence to the banking sector. Fully 98% of the country's financial institutions are internationally owned, making them vulnerable to exogenous shocks. In September 2013, the Central Bank assessment of the financial sector concluded that there had been an increase in the volume of non-performing loans to 22.45% in June 2013 from 19.6% in March 2013, within the context of a weak lending culture and weak risk management.

Table 2. **GDP by sector (percentage)**

	2008	2012
Agriculture, hunting, forestry, fishing	19.2	22.5
of which fishing		
Mining	0.7	0.7
of which oil		
Manufacturing	8.6	7.1
Electricity, gas and water	2.9	1.9
Construction	9.7	8.0
Wholesale and retail trade, hotels and restaurants	27.0	28.5
of which hotels and restaurants	1.7	1.6
Transport, storage and communication	14.0	13.5
Finance, real estate and business services	7.6	5.6
Public administration, education, health and social work, community, social and personal services	4.6	3.8
Other services	5.7	8.4
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Strengthening transparency and accountability in the governance of public funds is central to the government´s economic reform agenda. In August 2013 the parliament endorsed a law on combatting money laundering and the financing of terrorism; this was recognised in October by GIABA, the Inter Governmental Action Against Money Laundering in West Africa. Freedom of speech is generally respected in law and in practice in São Tomé and Príncipe. In the Freedom House report Freedom in the World 2013, the country scored 2 (on a scale of 1-7, where 1 is best and 7 is worst), meaning free, on both political rights and civil liberties. This is similar to the 2012 ratings.

São Tomé and Príncipe is not on target to meet the Millennium Development Goals (MDGs) on reducing extreme poverty, gender equality and the establishment of partnerships for development. Indicators show that, in 2013, the literacy rate of individuals 15 years and older was estimated at 89%, up from 88% in 2011. The primary school gross enrolment ratio (the share of children of any age who are enrolled in primary school) is 136.1%, for a net ratio (children of primary school age) of 87.5%. In high school, the gross enrolment ratio is estimated to be 53.3% and the net ratio 35.3%. In addition, 10.8% of individuals aged 5 years and over have never been to school, and 29.1% of young people aged 15-24 are neither in school nor in the labour market.

Macroeconomic policy

Fiscal policy

During 2013, the government made significant strides to reconcile its fiscal accounts. Measures were taken to enforce compliance with tax laws, simplify customs procedures and control current expenditure, which declined to 16.6% of GDP in 2013 from 17.4% in 2012. On 10 September 2013, the government launched the ASYCUDA (Automated Systems for Customs Data) software for the external sector at the customs department in order to sustain revenue collection, which averaged 16% of GDP from 2010-12, and to streamline administrative procedures.

The 2013 state budget is conservatively estimated at USD 150 million, with 93% of capital expenditure financed by external assistance. Infrastructure (transport and communication) remains the main beneficiary, consuming 21% of total spending, although health and education also receive special attention, with 8.8% and 5.6%, respectively. In an economic review conducted in September 2013 under the ECF 2012-15 programme with the IMF, the government's performance was rated as good. Prudent control of expenditures and a cautious 2014 state budget forecast are imperative in view of upcoming legislative and municipal elections.

Fiscal performance was affected by a reduction in tax revenues to 13.1% of GDP in 2013 from 14% in 2012. The decline was due to a weak performance in the export tax, taxes on locally produced goods and other taxable items including stamps. However grants increased to 20.3% of GDP in 2013 from 17.4% in 2012. Total expenditure and net lending also declined, to 42.4% in 2013 from 44.2% in 2012. As a result, the domestic primary deficit is estimated at 6.3% of GDP in 2013, a significant improvement from the 2012 figure of 10.1% of GDP. In the last few years, highly concessional loans from multilateral institutions and bilateral partners have been the preferred method chosen by the authorities to finance the budget deficit, given the country's weak debt position.

The authorities' ability to set revenue targets over three years has improved through use of the SAFE-e financial administration system, along with the ECF 2012-15 framework for increasing efficiency in the public sector. But despite the government's efforts to balance expenditure, its Fiscal Responsibility Framework – designed to target recurrent budget deficits and enhance public accountability – has so far had minimum impact. The framework aims to help the authorities overcome cross-arrears between the government, the public electricity company EMAE (Water and Electricity Company), and the national fuel importer ENCO (Fuel Import Company).

As the government continues its efforts towards transparency and accountability in the management of public funds, bold measures are required to improve reporting of the public account, which has not taken place in several years. The 2012 state financial statement was the last publication made by the government, according to the Court of Auditors. In this connection, ongoing assistance from the African Development Bank through its Financial Management Support Project, PAGEF, will help the authorities publish the fiscal statement within the legal timeframe.

Table 3. **Public finances (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Total revenue and grants	**71.6**	**38.1**	**37.1**	**33.5**	**35.5**	**33.3**	**33.7**
Tax revenue	13.8	16.6	16.6	14.0	13.1	12.4	12.2
Grants	16.4	19.9	18.3	17.4	20.3	18.8	19.4
Total expenditure and net lending (a)	**44.3**	**49.1**	**49.0**	**44.2**	**42.4**	**39.4**	**38.8**
Current expenditure	24.2	19.8	19.4	17.4	16.6	15.3	14.6
Excluding interest	21.6	19.4	18.9	16.8	16.0	15.1	14.4
Wages and salaries	7.9	8.3	8.4	8.3	8.0	7.6	7.0
Interest	2.6	0.4	0.5	0.6	0.6	0.2	0.1
Capital expenditure	20.2	29.2	29.6	26.8	25.8	24.4	25.4
Primary balance	**29.8**	**-10.5**	**-11.4**	**-10.1**	**-6.3**	**-6.0**	**-5.0**
Overall balance	**27.2**	**-11.0**	**-12.0**	**-10.7**	**-6.9**	**-6.2**	**-5.1**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

The implementation of monetary policy in São Tomé and Príncipe is anchored on a fixed exchange rate pegging the dobra to the euro. Inflation fell to 8.5% in 2013 from 10.6% in 2012, mainly as a result of lower food prices. But inflation reached 10.7% in April 2013, against 8% in the same period in 2012. This was a result of disruptions in maritime transport and the weak absorption capacity of the port, as a significant portion of goods are imported from Europe. In August 2013, inflation hit a record low of 6.5%, down from 11.6% in the same period in 2012.

To complement the government´s efforts for inclusive growth, the Central Bank kept its benchmark interest rate unchanged at 14% in 2013. This is seen as a measure to provide incentives to local commercial banks to lower their lending rates, which currently stand at 24-26%, in order to boost the private sector and create opportunities for the development of small and medium-sized enterprises (SMEs).

The reformulation in 2012 of the Central Bank's NAP (*Norma de Aplicação Permanente*), a regulation created by the bank for the financial system on "Forex Market Access and Coverage", has helped to lower the pressure on the foreign exchange reserves. The level of foreign reserves remained strong at 4 months of imports (USD 37.7 million). In 2013 broad money growth decreased to 11.5% from 20.3% reported in 2012. While credit to the economy is expected to reach 9.4% in 2013, more than the 7.6% initially projected, the Central Bank kept its requirements in place for unprofitable commercial banks and maintained the capital adequacy ratio at above 10%.

Economic co-operation, regional integration and trade

The efficient integration of São Tomé and Príncipe within the regional economic community is limited by the country's insularity and its lack of developed infrastructure. The country´s full membership in the Economic Community of Central African States (ECCAS) has yet to display results. The bulk of foreign trade takes place with Europe, in particular Portugal for imports and the Netherlands for exports, and exchanges within the Central African grouping CEMAC accounted for only 2% of total trade. The government is still using the ECCAS five-band custom tariff structure and also eliminated export tariffs in order to prevent tax evasion and non-tariff barriers. The tariffs are organised into 5 486 items and cover 5 bands: 0%, 5%, 10%, 20%, and 30%.

The government has ratified all protocol agreements under its membership in ECCAS and the Community of Portuguese Language Countries (CPLP). Negotiations on the free movement of people among CPLP member countries have started, and the government has introduced electronic visa applications to enable visitors to be granted visas at the border. But the efficient transposition of these protocols at the national level has been undermined by weak institutional capacity. With support of its development partners, notably the WB Group, the government implemented the first phase of ASYCUDA for internal control at the customs departments. The second phase of ASYCUDA, creation of a single window for the external sector, entered into force in September 2013 with the objective of eliminating cumbersome procedures and facilitating trade.

Regarding regional financial integration, the country lacks the financial instruments needed to facilitate this process. Nonetheless, there were efforts to improve the financial sector with the launching of Dobra 24, an ATM system, for the use of domestic credit cards. The system is not yet able to accommodate the utilisation of international credit cards.

Table 4. **Current account (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Trade balance	-28.2	-42.4	-42.5	-37.3	-32.0	-27.2	-24.1
Exports of goods (f.o.b.)	5.5	5.4	4.4	6.1	6.9	7.9	10.2
Imports of goods (f.o.b.)	33.8	47.8	46.9	43.5	38.9	35.1	34.3
Services	-6.9	-5.4	-5.3	-2.6	-2.8	-2.9	-3.6
Factor income	-1.6	-0.2	-0.2	-0.8	-0.8	-0.9	-0.6
Current transfers	27.0	25.0	21.1	20.3	17.3	16.4	14.5
Current account balance	**-9.8**	**-23.0**	**-26.8**	**-20.5**	**-18.4**	**-14.7**	**-13.9**

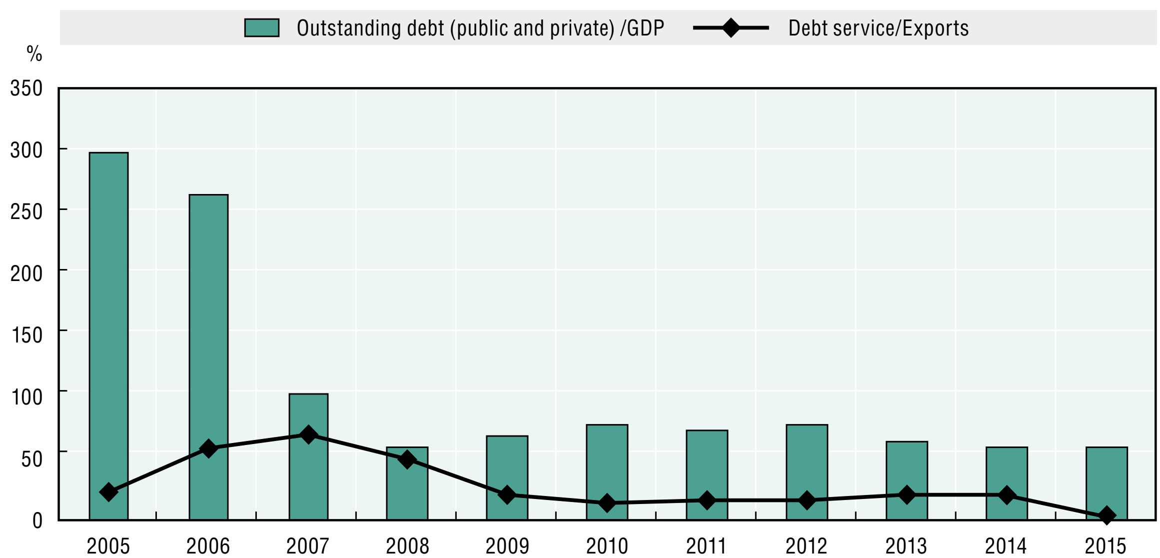
Source: Data from the Central Bank and domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

The government continues to exercise prudent expenditure control coupled with strict macroeconomic policy measures within the context of São Tomé and Príncipe's weak debt position. In recent years, the government has made significant efforts to reduce the country´s stock of debt. The debt stock was estimated at USD 360 million in 2006, before São Tomé and Príncipe qualified for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. It has decreased since qualification, and at the end of June 2013 was estimated at USD 222.4 million. Of this, USD 40.4 million was owed to multilateral donors and USD 182 million to bilateral creditors. Portugal remains the lead bilateral creditor (USD 41.8 million), followed by Angola (USD 23 million), while Nigeria (USD 30 million) is the leading short-term creditor. Algeria has written off the debt owed by São Tomé and Príncipe. The country's debt outstanding to the African Development Bank (AfDB) stood at around USD 2.1 million in June 2013.

A debt sustainability assessment conducted in 2008 by the WB and the IMF indicates that the country's risk of non-sustainable external debt remains high, despite benefiting from the HIPC initiative. To address the country's high risk of debt distress, a new Public Debt Management Law was approved in April 2012 with the support of the WB and Debt Relief International (DRI). The law defines a strategic framework and establishes responsibilities and governance structures within the Bureau of Public Debt (BPD). Co-ordination between the bureau and other agencies has improved in recent years, and all information related to debt is sent to the BPD. In January 2013 the government undertook two additional legal measures related to public debt management.

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

São Tomé and Príncipe enjoys political stability – a key ingredient for business development. Legislation allows access to government properties and engagement in private business activities except for those reserved for the Central Bank and the military. Nevertheless, doing business in São Tomé and Príncipe can be a cumbersome process. In addition to the country's insularity, factors negatively affecting the business environment include lack of physical infrastructure and a weak judicial system. Improvement is also needed in the areas of extent of disclosure, access to credit, resolving insolvency and the high cost of electricity. These factors contributed the poor ranking of São Tomé and Príncipe in the World Bank report *Doing Business* 2013. The country's rank slipped to 166th among 189 countries in terms of the ease of doing business, down from 163rd in 2012.

Substantial efforts are needed in various areas. For example, the country's ranking stands at 103rd among 189 countries in terms of the ease of dealing with construction permits. And São Tomé and Príncipe made obtaining a construction permit more expensive by increasing the fees, according to the WB report. Efforts are also needed to make the resolution of commercial disputes less cumbersome: the country ranks 183rd out of 189 in terms of the ease of enforcing contracts. However, progress has been made in other areas. To complement reforms implemented in recent years, the authorities in September 2013 launched a single window for the external sector by introducing the ASYCUDA hardware system at the customs department. This step, taken with the assistance of the International Financial Corporation and the Investment Climate Facility, will help to harmonise policy and procedures, reduce import/export transport costs and improve co-ordination among ministries. The awarding of an operating license to the Angolan telecommunications giant UNITEL was another measure undertaken by the government.

Financial sector

The financial sector in São Tomé and Príncipe is made up of eight financial institutions: one is authorised to engage in investment banking, two are non-bank financial institutions and five are commercial banks. However, the financial sector is underdeveloped and in need of improvement. The vulnerability of the sector to exogenous shocks is mainly linked to the fact that only two of these financial institutions have any state participation, while six are internationally owned. The foreign-owned share of the sector amounts to 98%.

In September 2013, the Central Bank assessment on the sector concluded that there had been an increase in the volume of non-performing loans within the context of a weak lending culture and poor risk management. The Central Bank took over management control of one of the commercial banks, which had not complied with the financial sector regulations.

Access to financial services is limited due to the absence of payment systems and clearing house systems. Through reforms initiated in 2007, the Central Bank has made significant changes to both prudential and behavioural supervision, and increased the minimum capital required to exercise banking related activities in the country by approximately 200%. The lack of data makes it difficult to estimate the proportion of the population and SMEs that have access to credit.

Public sector management, institutions and reform

Complex bureaucracy continues to impede the efficiency of the public sector in São Tomé and Príncipe. This impacts negatively on delivery of services, and urgent reforms are needed. The situation is compounded by the low level of salaries in the public sector: the average level of pay is currently estimated at EUR 100 per month. This leads to attrition as employees seek higher paying job opportunities in the private sector. Nonetheless, the authorities have been making efforts to bring up pay levels within current budget limitations and the global economic challenges facing the country.

Strengthening transparency and accountability in the governance of public funds is at the centre of the government´s economic reform agenda. To further improve transparency and accountability, in August 2013 the parliament endorsed a new law to prevent and combat money laundering and the financing of terrorism. This was recognised on 21 October 2013 by GIABA, the Inter Governmental Action Against Money Laundering in West Africa.

The National Constitution does offer a legal framework for property rights, although, the enforcement of contracts is cumbersome, lengthy and expensive. A new code approved in August 2012 continued to govern the legal rights for properties in the country. As for civic rights, freedom of speech is generally respected in law and in practice. In the Freedom House report Freedom in the World 2013, São Tomé and Príncipe scored 2 (on a scale of 1-7, where 1 is best and 7 is worst), meaning free, on both political rights and civil liberties.

Natural resource management and environment

The government has ratified the following international environmental conventions: the United Nations Framework Convention on Climate Change, the Convention on Biodiversity, and the Convention to Combat Desertification. Conscious of environmental challenges, the government developed legal environmental frameworks at the national level, but a lack of resources to implement these laws gives cause for concern. The laws include: *i*) law (n.5/2001) on deforestation; *ii*) law (n.6/2006) on the Obô natural park in São Tomé, and law (n.7/2006) on the Obô natural park in Príncipe; *iii*) decree (n.36/1996) on residual/waste products; *iv*) law (n.11/1999) on the conservation of fauna, flora, and protected areas; *v*) decree (n.35/1999) on the extraction of inert materials (e.g. sand); *vi*) law (n.9/2001) on fishing and maritime species.

Environmental challenges facing São Tomé and Príncipe include rising sea water and the overall problem of climate change. Going forward, implementation of the environmental basic law adopted in 1999 is critical for the government. The law specifies that all citizens have the right to a balanced green environment. A strategic vision for the sector, included in the national development programme, targets the problem of deforestation. It calls for: *i*) a co-ordinated approach to fight against illegal deforestation; *ii*) strengthening the capacity of forest guards and equipping them with tools that will enable them to perform their duties efficiently; *iii*) promoting community consultation on the impact of deforestation.

Political context

São Tomé and Príncipe became a sovereign country on 12 July 1975 and, after a period of single-party rule, has been a multiparty democracy since 1990. The country conducts regular and peaceful presidential, parliamentary, municipal and regional elections.

Following tensions over several issues, the government collapsed in the last quarter of 2012 and Gabriel Costa was appointed prime minister. His new coalition government – composed of 10 members, including two women – has been confronted with serious challenges since taking office at the beginning of 2013. These include: *i*) limited financial means for executing the 2013 state budget; *ii*) reform of the judicial system with a proposition to create a Council of National Justice; *iii*) frequent threats of the labour association to go on strike. Compounding these challenges is the risk of rising impatience among citizens over possibly delays in oil production after Total, the French oil giant, announced it was abandoning oil exploration in block 1 of the Joint Development Zone with Nigeria. Production has been expected to begin in 2015/16.

With regard to political governance, São Tomé and Príncipe is ranked 11th out of 52 countries in the 2013 Mo-Ibrahim Index of Africa Governance. It ranks 1st out of 8 Central African Countries and 2nd out of 5 Portuguese speaking countries, with a score of 59.9 of 100 possible points. However, the report indicates that significant improvement is required in public management, with the country scoring 46th out of 52 countries. As for corruption, São Tomé and Príncipe ranked 72nd out of 177 countries in Transparency International's Corruption Perception index, the same as in 2012.

Social context and human resources development

Building human resources

Equitable access to basic social services for the whole population is a fundamental priority for the government of São Tomé and Príncipe, as reiterated in the 2013-16 development frameworks. Nevertheless, many challenges persist. The national health strategy offers programmes to protect against the financial burdens of illness, but their implementation gives cause for concern. Infant mortality rates have declined to an estimated 30 deaths per 1 000 live births in 2013, compared to 54.2 deaths per 1 000 live births in 2001. The malnutrition rate stands at 25% as of November 2013, according to Health Ministry data; it is expected to decrease to 14% by 2018. Meantime the country is making progress towards the Millennium Development Goal of universal primary education.

The government has implemented several reforms to reduce levels of malnutrition and child mortality and to prevent disease. These include: *i*) support for families in extreme poverty; *ii*) a school feeding programme; *iii*) a vaccination programme; *iv*) a reproductive health programme that includes pregnant women. Challenges that negatively impact the most vulnerable segment of the population include: *i*) weak purchasing power; *ii*) the low employment rate; *iii*) households with many children; *iv*) weak productivity; *v*) lack of access to credit.

The government has put in place policies for the prevention and treatment of HIV/AIDS, tuberculosis and malaria, including the creation of a unit at the Ministry of Health in charge of prevention, treatment and a sensitisation campaign. This effort is complemented by some national and international NGOs, including the Red Cross.

That the literacy rate of individuals 15 years and older was estimated at 89% in 2013, up from 88% in 2011. The primary school gross enrolment ratio (the share of children of any age who are enrolled in primary school) is 136.1%, for a net ratio (children of primary school age) of 87.5%. In high school, the gross enrolment ratio is estimated to be 53.3% and the net ratio 35.3%. In addition, 10.8% of individuals aged 5 years and over have never been to school, and 29.1% of young people aged 15-24 are neither in school nor in the labour market.

Poverty reduction, social protection and labour

The government is not on track to attain the Millennium Development Goals on extreme poverty, gender equality and the establishment of partnerships for development. Based on the United Nations Development Programme's 2010 poverty profile, 49.6% of the population is living below the poverty line and 15.9% in extreme poverty, compared to 53.8% and 19.2%, respectively, in 2001. The incidence of poverty is higher for women (71.3%) than for men (63.4%). The districts most affected are Caué, Lemba, Agua-Grande, Lobata and the island of Príncipe. The high incidence of poverty in rural areas has led significant numbers of rural workers to migrate to the city. This migration can also be linked to food insecurity. At the same time, fewer than 20% of households are satisfied with their housing in relation to access to drinking water, waste disposal, drainage of rainwater and the supply of electricity.

The government has a social protection strategy in place (Law 07/2004), but its implementation is lagging due to a lack of financial resources. The legislation stipulates retirement and compensation benefits to be received from Social Security based on the number of years devoted to public service. This benefit amounts to STD 100 000 (São Tomé and Príncipe dobras), or about EUR 4, per month. As for elderly people who did not contribute to the retirement plan during their active life, they will receive monthly subsidies amounting to STD 70 000. Currently, there are approximately 3 050 people benefiting from the programme, against 7 000 who registered for it, a significant disparity that demonstrates the need to extend support to the most needy fraction of the population. Various NGOs, among them Santa Casa da Misericórdia and the Red Cross, receive financial assistance from the Social Protection department and are providing assistance to elderly people. The government has also instituted community driven policies such as hot meals for child survival, health promotion, and subsidies to mothers with more than three children, with support from its development partners.

Although the country has ratified various international conventions with regard to the labour market, including International Labour Organization conventions 138 and 182 on child labour, significant efforts are required towards their implementation. Nevertheless, legislation does exist to protect employees' interests, as outlined in Law 6/92 establishing the legal regime for public- and private-sector workers. Trends in key indicators of the labour market in 2013 confirm the structural limits of the national economy. Job creation is weak, with unemployment estimated at 54.9%. Of those employed, 40.6% are performing insecure or precarious jobs.

Gender equality

The government has created a national strategy for gender equality and a resolution concerning the participation of women in civil and political activity (n-74/VIII/09). Nonetheless, a gender gap exists, with more women than men living in poverty and women less likely to be employed than men. These problems are more severe in rural than urban areas.

The National Constitution, reviewed in January 2003, offers similar rights to all citizens and prohibits discrimination on social, political or religious grounds. The right to personal integrity, choice of profession, and the right to work and vote are defined in the Constitution. Similarly, the law on nationality (women married to foreigners) does not discriminate against women, and the penal code condemns sexual crimes. While legislation prohibits any kind of violence (Article 22 of the Constitution), its enforcement has been a challenge because national security forces lack the material and equipment to provide timely responses to those in need.

Thematic analysis: Global value chains and industrialisation in Africa

The emergence of global value chains (GVCs) presents an extraordinary opportunity for São Tomé and Príncipe, a small island state off the coast of Central Africa that gained its independence from Portugal on 12 July 1975. GVCs have the potential of increasing the value of the country's two main export crops, cocoa and coffee. This could bring major benefits to an insular country where nearly half of the population is living in poverty. According to the United Nations Development Programme's 2010 poverty profile, 49.6% of the population lives below the poverty line and 15.9% in extreme poverty, compared to 53.8% and 19.2%, respectively, in 2001. Beyond cocoa and coffee, which account for more than 80% of total exports, the tourism sector has become an engine of growth in recent years. The country also has significant potential in the agriculture sector, while the discovery of oil has raised expectations of growth.

São Tomé and Príncipe is still in the initial stages of gaining access to GVCs and joining global production networks. At present, cocoa and coffee beans produced in São Tomé and Príncipe are exported to Europe raw or roasted and packaged. This denies the country the most profitable part of the confectionary market value chain – the processing of the cocoa into chocolate. Growers in West Africa are estimated to receive only 3.5% to 6.0% of the final value of a chocolate bar, depending on the percentage of cocoa content. In the last few years, following the construction of a small chocolate factory, the country has observed some processing of cocoa beans into chocolate. This not only adds value to the raw cocoa and produces a higher price, but also generates employment. São Tomé and Príncipe also has an abundance of exotic and tropical fruits. In early 2013, a small company that processes fruit juices, Naturalismo, began operations in the country.

As an island economy, the country has an abundance of fish and marine resources, and in recent years the fishery sector has seen a high level of government investment. Private operators have been encouraged to enter the fish processing industry to prepare products for export, mainly to European destinations. However, the majority of São Tomé and Príncipe's fish continues to be processed abroad, hindering the country's potential to add value and increase employment. The lack of highly qualified skill labour also hampers the country's participation in GVCs.

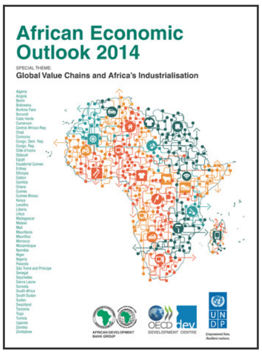
In the medium to long term, São Tomé and Príncipe needs to develop its comparative advantage in cocoa, coffee, tropical fruits and marine resources to benefit from GVCs. There is a critical need for future investment in research and development, as well as after-sales customer service. Beyond the European market, the Central Africa region has the greatest potential for linkage via GVCs and would allow São Tomé and Príncipe to benefit from its membership in the region. China/Chinese Taipei also represents a significant opportunity for linkages in GVCs.

In addition, there are positive prospects of São Tomé and Príncipe becoming oil-rich country, with oil production expected in 2015/16. Good governance and prudent management of the country's oil resources will provide an unparalleled opportunity for structural transformation of the economy. Research and development have already begun, with exploration contracts awarded. With the expected forthcoming production of oil, it is also advisable for the authorities to invest heavily in resource processing to fully benefit from the country's natural resource endowment.

Nonetheless, the country´s undiversified economy presents the government with several key challenges that could inhibit effective implementation of its growth agenda and prevent it from capitalising on the potential of GVCs. These challenges include: *i*) poor infrastructure development (e.g. roads, railways and ports and airports for connecting to foreign markets); *ii*) difficult access to credit; *iii*) a weak legal system; *iv*) the country's small size and low level of local consumption. These challenges are compounded by São Tomé and Príncipe's exposure to exogenous shocks owing to its high dependence on external assistance. Possible threats of participating in GVCs could include a decrease in (already weak) domestic resource mobilisation, in particular tax revenues, and volatility of trade flow as a result of changes in strategy by international financial institutions.

According to the African Development Bank´s study on Insularity and the Cost of Insularity in São Tomé and Príncipe, completed in July 2010, the above mentioned obstacles affect the potential of the country's participation in GVCs. Findings of the study included the following:

1. **Agriculture:** Bio-cocoa is of significant economic interest. Thus the reduction or elimination of additional transport and production costs related to insularity will substantially increase the producer's income.
2. **Fishery:** It is important for the country to capitalise on the economic viability of its tuna industry for export. As a World Food Programme study in 2009 reported: *"The average cost from packaging to exit from the local factory is about EUR 2 500/tonne, of which EUR 1 200 represents the raw material partially fished from STP's Exclusive Economic Zone, EUR 200 labour costs and EUR 300 intermediate consumption".*
3. **Tourism:** São Tomé and Príncipe needs to: *i*) develop legislation while maintaining the eco-tourism balance, taking into account the insular specificity of the country, in order to avoid uncontrolled tourism; *ii*) carry out the necessary training; *iii*) prepare promotion measures; *iv*) improve infrastructure, health and hygienic conditions. It is worth noting that tourism remains a capital-intensive activity (the investment needed for operation is higher, compared to the expected turnover, by a factor of 2 to 3), according to the insularity study.
4. **Construction:** The study found that the total cost of building an individual house of 200 m² is about USD 300 000, or USD 1 500/m². Imported goods represent a significant portion of materials (cement, bricks, plumbing, paint, etc.). Therefore, improving construction planning, diversification of supply markets and training will be beneficial to the country.



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