São Tomé & Príncipe

As a small island state, São Tomé and Príncipe faces geographic constraints and economic challenges that condition its development prospects.

The economy grew 4.9 % in 2011 driven by the construction, transport and retail sectors but in 2012 growth fell to an estimated 4%, mainly because of reductions in both private and public consumption.

São Tomé has great potential to become a middle-income country based on its size and GDP per capita, if its resource wealth from oil is efficiently and transparently managed, thus avoiding the resource curse.

Overview

The economy in São Tomé and Príncipe grew by 4.9% in 2011 compared with 4.5% in 2010. The growth was driven by the service, transport, construction and retail sectors. In 2012 the government reported a slight decrease in the growth rate to 4.0%, the result of a reduction in foreign direct investment (FDI) and private and public consumption. Real gross domestic product (GDP) growth is projected to be 5.2% and 5.8% in 2013 and 2014, respectively, thanks to an increase in FDI, the oil signature bonus and the inception of the country's major infrastructure projects, notably the deep-water seaport.

On the fiscal front, the emphasis was on consolidation. As a result, the budget deficit is projected to fall to a single digit of 9.4% of GDP at the end of 2012, from 11.9% in 2011. The strong performance is linked to structural reforms implemented in recent years aimed at improving revenue collection, including the establishment of a credit bureau, and enactment of legislation on natural resource management. Furthermore, the authorities are considering the implementation of the Fiscal Responsibility Framework aimed at tackling in 2013 the recurrent and chronic budget deficit and enhancing public accountability. To strengthen the financial system and improve its credibility, the Central Bank (CB) is planning to strengthen banking supervision by providing training to staff on risk management. The measure also includes revision of CB activities and restructuring of unprofitable banks. In 2013 a new chart of accounts will enter into force which is expected to comply with international financial reporting standards. A sound legal framework for banks with problems is also envisaged for 2014 with a view to assisting distressed banks with implementation, among other things, of appropriate monitoring and supervision instruments.

Conscious of the need to move the country away from the high risk of debt distress, with the support of the World Bank (WB) and Debt Relief International (DRI), in April 2012 the National Assembly approved a new Public Debt Management Law that defines the strategic framework and establishes the responsibilities and governance structure of the Bureau of Public Debt. In line with the sustainable growth objective of the country and to demonstrate further its commitment to improving transparency in the management of funds from its natural resources, the government enacted several laws on natural resources management including a framework for oil resource management, and the creation of a national petroleum agency and a national petroleum council (Law 8/2004, 5/2004 and 3/2004). This effort was reinforced with the re-application of the archipelago to participate in the Extractive Industry Transparency Initiative (EITI) and the acceptance of the application. The efficient management of oil revenues will therefore be a key challenge with the production of oil expected in 2016.

Table 1: Macroeconomic indicators

	2011	2012	2013	2014
Real GDP growth	4.9	4	5.2	5.8
Real GDP per capita growth	2.8	1.9	3.1	3.8
CPI inflation	14.3	9.5	7.9	7.7
Budget balance % GDP	-11.9	-9.4	-13.4	-13.2
Current account % GDP	-30.1	-22.5	-27.5	-27.7

Figures for 2012 are estimates; for 2013 and later are projections.

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Recent Developments & Prospects

Table 2: GDP by Sector (percentage of GDP)

	2007	2011
Agriculture, forestry & fishing	-	-
Agriculture, hunting, forestry, fishing	19.2	22
Construction	9.7	8
Electricity, gas and water	2.5	1.9
Electricity, water and sanitation	-	-
Extractions	-	-
Finance, insurance and social solidarity	-	-
Finance, real estate and business services	7.7	6.2
General government services	-	-
Gross domestic product at basic prices / factor cost	100	100
Manufacturing	7	7.1
Mining	0.7	0.7
Other services	5.9	8.4
Public Administration & Personal Services	-	-
Public Administration, Education, Health & Social Work, Community, Social & Personal Services	6.1	3.8
Public administration, education, health & social work, community, social & personal services	-	-
Social services	-	-
Transport, storage and communication	27.2	28.4
Transportation, communication & information	-	-
Wholesale and retail trade, hotels and restaurants	14.1	13.4
Wholesale, retail trade and real estate ownership	-	-

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The country has registered a good economic performance in recent years, with real GDP growth of 4.9% in 2011, driven by the construction, transport and retail sectors. In 2012, the economy suffered a setback as a result of a reduction in both private and public consumption. In 2013 real GDP is expected to grow by 5.2% on the back of a positive performance in FDI, any oil signature bonus, and the agriculture, tourism and infrastructure sectors. In terms of sectoral contribution, the service sector is still dominant, accounting for about 60% of GDP in 2011, followed by agriculture, which represented about 22% of GDP. Inflation has continued its downward trend and is expected to reach the single digit of 9.5% in 2012 against 14.3% in 2011, mainly because of the pegging of the dobra (STD) to the euro (EUR1=STD24 500). By the end of 2013 and 2014, inflation is expected to have fallen further to 7.9% and 7.7%, respectively.

The country’s economy is undiversified with a narrow export base that depends on the export of a single commodity, cocoa. The European market continues to be the country’s main trade destination, with 55% of imports coming from Portugal while 25% of the nation’s exports go to the Netherlands. In spite of a weak performance in recent years, FDI is expected to recover, averaging about USD 25 million during 2012-14, based on investment in the oil sector. The current account deficit, including official transfers, is forecast to be 22.5% of GDP in 2012 against 30.1% in 2011, linked to an improvement in the trade balance resulting from lower imports and an increase in current transfers.

At the macroeconomic level, the International Monetary Fund (IMF) review of the Extended Credit Facility (ECF) 2009-12 recognised significant strides by the government in fiscal consolidation and thus rated the overall economic performance as satisfactory. The review also highlighted the need to strengthen budget supervision and expenditure control. As a result of the successful economic performance, a new three-year ECF 2012-15 arrangement valued at SDR 2.59 million (Special Drawing Rights) (USD 3.8 million) was agreed and signed with the IMF. In April 2012, a new Public Debt Management Law was approved which defines the institutional arrangements in respect of the structure of the debt department. It is expected that this new institutional arrangement will help move the country from high-debt to medium-debt country status. According to the latest World Bank (WB) and IMF Debt Sustainability Analysis (DSA), the country’s debt situation is expected to improve with the start of oil production foreseen in 2016.

Conscious of the current financial crisis and the country’s high dependence on external aid, the government is committed to implementing the Fiscal Responsibility Framework, which aims to tackle the recurrent and chronic budget deficit and enhance public accountability in 2013. The 2012 and 2013 government budgets show the country’s high dependence on external aid. In 2012 it is estimated that over 50% of the budget was funded by donors and this level is expected to remain in 2013. Accordingly government reforms and measures to be implemented also include adoption of a realistic budget with clear identification of the Millennium Development Goals (MDGs) expenses and avoidance of unnecessary distortions in expenditure that will bring additional pressure on the weak capacity to mobilise domestic resources. In that respect the persisting global crisis and the Arab spring, particularly in Libya, have had a negative impact on the country’s development programme, with, in particular, the suspension of major infrastructure projects by Libya (*e.g.* construction of five star hotels) and FDI.

In spite of the government’s stated goal of reducing poverty, there is a reduction in the 2013 budgetary allocation to the health and education sectors. These two sectors, critical for poverty reduction, were allocated 10% each in 2013 compared with 15% in 2012. To reduce further the poverty level, create jobs and provide opportunity for the development of private initiative, in the first semester of 2012 the government offered training and microcredit to selected young people to enable them start up private businesses.

With good economic prospects in the light of the forthcoming start of oil production, continued implementation of sound macroeconomic policies and enhanced good governance are critical to achieving the desired development outcomes.

Macroeconomic Policy

Fiscal Policy

The government continued its efforts with fiscal consolidation during the third quarter of 2012. Being highly dependent on external assistance, the government has been implementing policies to make the country more resilient in the face of external shocks and to avoid unnecessary distortions in expenditures that will create further pressure on domestic revenue mobilisation. As a result, the budget deficit is projected to reach a single digit of 9.4% of GDP at end of 2012 from 11.9% in 2011. The strong performance is linked to structural reforms implemented by the government in recent years aimed at improving revenue collection, including the establishment of the credit bureau, legislation on natural resource management, reduction of corporate tax, improved collection of tax arrears and enforcement of the government’s new financial administration system (SAFE-e). In recognising these efforts, in March 2012 the World Bank approved a USD 4.2 million budget support for the country that focuses on improving economic governance and promoting sustainable economic growth. In the medium to long term, the government is envisaging further reforms, including improvement of the information technology (IT) system in the public administration, improving the taxpayer register, monitoring of tax compliance and enhancing tax administration capacity.

Although there has been progress in arrears collection, significant improvement is required from the authorities to overcome the existing cross-arrears between the government, the public electricity company – EMAE (Water and Electricity Company) – and ENCO (the national fuel importer), which remain significant and could compromise the fiscal deficit programmed for the end of 2012. In view of these, total revenue including grants is estimated to reach 38.6% of GDP in 2012 from 37.1% of GDP in 2011, while total expenditure and lending decreased to an estimated 48.1% in 2012 from 49% of GDP in 2011. Concomitantly, the fiscal balance deficit improved to an estimated 9.4% in 2012 from 11.9% of GDP in 2011.

The continuing euro crisis and disturbances in North Africa have had a negative impact on the country’s development agenda. This is reflected in slow progress in the implementation of public investment projects (*e.g.* the deep-water port and construction of two luxury hotels) scheduled for the first half of the year, which has led to delays in disbursement of grants and credits from abroad. By the end of 2012 the government planned to execute 68% of its main investment projects provided that implementation took place according to schedule during the second semester. Given the current global economic environment, grants are expected to decrease in 2013 to account for 15.4% of GDP against 20.4% in 2012. On the external sector, the current account deficit including official transfers is forecast at 22.5% of GDP in 2012 against 30.1% in 2011 stemming from an improvement in the trade balance as a result of lower imports and increase in current transfers.

Monetary Policy

Monetary policy has been supportive in complementing fiscal stimulus measures and responding to price volatility. The government has taken immediate measures to stave off inflation which averaged 17% from 2000-10. Two years after the implementation of the Memorandum of Understanding (MoU) with Portugal to index the dobra to the euro, inflation has continued its downward trend. As a result, the consumer price index stood at 9.5% in 2012 against 14.3% in 2011. By the end of 2013 and 2014, inflation is expected to further decline to 7.9% and 7.7%, respectively.

To create an enabling environment for private sector development, and based on the positive evolution of macroeconomic indicators in the first quarter of 2012, the CB lowered the benchmark interest rate, that had remained unchanged since July 2010, from 15% to 14%. Such policy actions were aimed at putting downward pressure on commercial banks' rates (currently at 24%-26%) to stimulate private sector credit.

Moreover, to protect the level of international reserves, which stood close to three months of imports at the end of third quarter of 2012, compared with six months observed in previous years, the Central Bank of São Tomé and Príncipe has reformulated its NAP (*Norma de Aplicação Permanente*: regulation created by the bank for the financial system) on "Forex Market Access and Coverage" to increase restrictions on access to foreign currencies and thus create less pressure on foreign reserves. However, since these are short-term measures, the CB and the government approved a law that institutionalises the use of treasury bills that will be regulated in both the primary and secondary markets. With technical assistance from the Bank of Portugal, the law is expected to become operational in the first quarter of 2013. In the long term, the country is planning to redenominate its currency.

To preserve financial stability and improve the credibility of the financial system, the CB intends to strengthen banking supervision by providing training to staff on risk-based supervision, and by reviewing commercial banks’ strategies. The measures also include revision of the CB’s strategy and restructuring of commercial banks that are unable to report profit. In 2013 a new chart of accounts will be introduced, and will comply with international financial reporting. A sound legal framework for banks with problems is envisaged for 2014.

Economic Cooperation, Regional Integration & Trade

The national economy is not diversified. Since independence in July 1975, cocoa has accounted for more than 80% of total exports, followed by coffee and coconuts. In recent years, a positive and growing trend has been observed in the export of new products such as pepper and vanilla and also in the widespread belief in the need for improvement in existing production, such as organic cocoa. In spite of these improvements, the country is still heavily dependent on external aid. As of September 2012, Portugal was the main trade partner accounting for 55% of imports while 25% of the country's exports were to the Netherlands.

The country's geographic position as an island state presents severe economic challenges to its effective integration within the region. Trade with the Economic and Monetary Community of Central Africa (CEMAC) accounted for about 2% of the country's commercial trade. Notwithstanding its isolation, efforts have been made by the government to comply with the World Trade Organization (WTO) customs service rules and regulations and to comply more closely with international standards.

São Tomé and Príncipe is also a member of the Economic Community of Central African States (ECCAS) and subscribes to the community's common external tariff agreement and respects the five-band customs tariff structure classification. The tariffs are organised into 5 486 items and cover five bands: 0%, 5%, 10%, 20%, and 30%. The country has not benefited from the community's regional integration projects such as the Central African Consensual Transport Master Plan (PDCT-AC). Non-trade barriers (such as unofficial checkpoints, overtaxing of goods, etc.) have been a major challenge to regional trade within the community, aggravated in the case of São Tomé by its geographic position, and further hamper the development of a viable private sector.

To increase competitiveness and expand regional integration, the government, with the assistance of the World Bank, has invested in infrastructure, in particular telecommunications with the construction of submarine cable that links the archipelago to the global fibre-optic network. Similarly, efforts are being made to develop maritime transport including the deep-water port[1] and airport infrastructure facilities.

Table 4: Current Account (percentage of GDP)

	2004	2009	2010	2011	2012	2013	2014
Trade balance	-27.6	-37.9	-46	-41.8	-40.7	-38.5	-37.6
Exports of goods (f.o.b.)	4.9	4.7	5.4	4.3	4.1	4.3	4.2
Imports of goods (f.o.b.)	32.5	42.6	51.4	46	44.8	42.8	41.8
Services	-9.2	-4.4	-9.5	-9.8	-8.7	-7.8	-7
Factor income	-2	-0.1	0.3	0.1	0.3	0.3	0.3
Current transfers	22.7	17	24.3	21.4	26.5	18.5	16.6
Current account balance	-16	-25.5	-30.9	-30.1	-22.5	-27.5	-27.7

Figures for 2012 are estimates; for 2013 and later are projections.

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Debt Policy

Maintaining macroeconomic stability is the government's main priority, since the country is at high risk of debt distress. The country's deep dependence on imports and limited export base make it vulnerable to exogenous shocks.

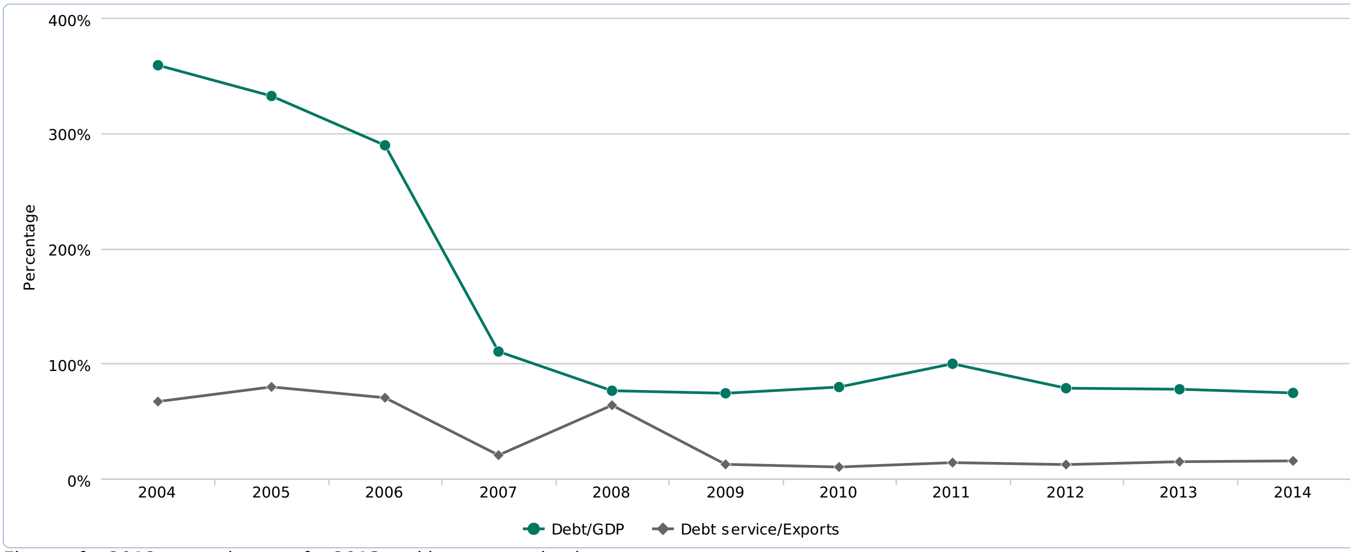
In recent years the government has made significant efforts to reduce its debt stock. Before the country qualified for debt relief under the Highly Indebted Poor Countries (HIPC) Initiative, its debt stock was estimated at USD 360 million in 2006. After qualifying for debt relief, the debt stock at the end of August 2012 was estimated at USD 191 million of which USD 45 million were owed to multilateral donors and USD 146 million to bilateral creditors.

Portugal remains the lead donor, followed by Angola. Also, a financial contribution from Nigeria was reported. The government is fully committed to debt reduction. As a result, Algeria has written off the debt owed to it. Furthermore, the government is also making progress in clearing its bilateral debt with recent success reported through debt relief of over EUR 4 million from the Russian Federation. The country's debt outstanding to the African Development Bank (AfDB) was projected at around USD 2 million.

The debt sustainability assessment conducted by the World Bank and IMF indicates that the country's risk of non-sustainable external debt remains high, despite benefiting from the HIPC Initiative. However, it is expected that with the coming on stream of oil production in 2016, the debt situation will improve. With a view to addressing the country's high risk of debt distress, and with the support of the World Bank and Debt Relief

International (DRI), in April 2012 a new Public Debt Management Law was approved. The law defines the strategic framework and establishes the responsibilities and governance structure of the Bureau of Public Debt. In the future, more rigorous fiscal control and economic policies are required to ensure debt sustainability in the long run.

Figure 2: Stock of total external debt and debt service 2013



Figures for 2012 are estimates; for 2013 and later are projections.

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Economic & Political Governance

Private Sector

The legal framework is favourable to private initiatives. Existing legislation allows access to government properties and engagement in private activities except in those reserved for the Central Bank and the military. The insularity also affects the business environment. This challenge is exacerbated by the lack of physical infrastructure and a weak judicial system. To improve the business regulatory environment, the government has implemented several reforms over the years, which enabled the country to be considered as one of Africa's top reformers in 2012. These reforms include: *i)* adoption of a one-stop shop to fast-track the process of starting a business; *ii)* reduction of corporate tax; *iii)* reduction of permits for construction; and *iv)* adoption of a new investment code. The adoption of a one-stop shop and revision of the investment code further illustrate the authorities' intention to boost the sector. Nevertheless, some improvement is needed in the areas of, among other things, extent of disclosure, access to credit and resolving insolvency, and the high cost of electricity.

In spite of the remarkable efforts acknowledged in the World Bank report *Doing Business 201*2, in the 2013 report the country has been ranked 160th out of 185 countries mainly because of a lack of continuing reforms and of the efforts shown in previous years. Substantial efforts are required in making the cost of imports more affordable (for example a container costs about USD 577), and the enforcing of contracts (ranked 181th out of 185) less cumbersome. As a means of overcoming some of these obstacles, the government has made a major investment of about USD 6.4 million in information and communications technologies (ICT). The arrival of the submarine cable connecting STP to Europe will significantly improve the quality of service offered and reduce the cost of communications.

Financial Sector

Over the past years there has been a significant improvement in the financial sector when the country's small population and the business environment are taken into account. Currently, there are eight financial institutions (of which one is authorised to engage in investment banking), two non-bank financial institutions (insurance companies) and five foreign exchange houses.

The mixed performance and irregular volume of credits to public/private entities in the total commercial banks' portfolio (21% in the first semester of 2012) is an element of concern. To mitigate the situation, commercial banks have increased provision levels, which in turn have been negatively affecting the process of granting new credits with the interest rate ranging between 24% and 26%.

In addressing these challenges, the Central Bank enforced the use of the NAP (*Norma de Aplicação Permanente*) 22/2009 that regulates the Risk System Centre. This assesses the evaluation in the process of granting new credit as well as the possibility of reducing the rate of business failure and has been fully in use since the end of 2011. Similarly, through the reform initiated in 2007, banking supervision was made more prudent and the minimum capital requirement for commercial banks was increased by approximately 200%.

Under the country's financial reforms to modernise and improve the financial sector the Rede Dobra 24 payment system as well as the new electronic platform of the BCSTP (SIBANC) became operational in October 2011. Automatic payment terminals have been installed by the main service providers since January 2013.

Public Sector Management, Institutions & Reform

In spite of government efforts to decentralise power from central to local government, challenges remain, chiefly linked to inadequate governance mechanisms and weak institutional structures. The country still faces institutional gaps that often hinder efficient co-ordination among all the actors involved in the country's development process and also penalise implementation of measures and policy reforms envisaged by the government.

Nevertheless, as part of their long-term development reforms through inclusiveness, the authorities have taken action to ensure the participation of civil society in policy implementation. As a result civil society organisations have been actively engaged in the country's policy dialogue, including participation and consultation in the development partners' strategic framework for the country.

There has been a mixed performance in respect of measurement of the efficiency of public service delivery. The organisational structure is still outdated as decision making is often a complex and time-consuming process since it involves different levels. Service delivery is also negatively impacted by the low salaries arising from the tight government budget, which encourages good employees to seek better opportunities outside the public sector. Upcoming reforms in the public sector should pay special attention to these issues.

The government continues to implement measures to strengthen public finance management (PFM) and increase transparency in the public administration, for example through the introduction of SAFE (PFM electronic platform) in early 2012. In addition to reforms and actions to improve governance of public funds implemented at the end of 2011, in particular: *i)* the new custom system ASYCUDA (Automated System for Customs Data); *ii)* oil resources management laws; and *iii)* publication of the 2011 state budget, the government is also envisaging reforms to combat corruption.

The government has outlined several reforms in its new development agenda, the *Estratégia Nacional da*

Redução da Pobreza 2012-2016. This includes: *i)* improvement of tax collection by enhancing tax administration capacity; *ii)* improvement of tax payer registration and custom services and strengthening transparency and accountability; and *iii)* frameworks for monetary policy and banking supervision.

Natural Resource Management & Environment

After the endorsement by the National Assembly of various laws and regulations that make provision for the efficient management of oil resources, the government has continued its efforts to maximise effectively the resources generated from oil reserves in its Exclusive Economic Zone (EEZ) and the Joint Development Zone (JDZ) with Nigeria.

Oil production is expected to start by 2016, and the government is continuing negotiations with oil exploration companies. In April 2012 it signed an exploration agreement on Block 5 with Equator Exploration Limited under which the country will receive about USD 2 million as a signature bonus. Similarly, the French oil company Total has announced plans to invest about USD 200 million, and has recently acquired Chevron's exploration rights in Block 1 in the JDZ.

As part of the government's commitment to enhance transparency in the management of its natural resources, and with assistance from the World Bank, the government made a renewed application to be a candidate country to the Extractive Industries Transparency Initiative (EITI), which was accepted. The country will now have to satisfy the criteria for becoming an EITI-compliant country. The AfDB is also envisaging a capacity-building training for the country's EITI committee under its new public finance management support project.

The country has also ratified several environmental protection conventions: the United Nations Framework Convention on Climate Changes (UNFCCC), Convention on Biodiversity (CBD), and the Convention to Combat Desertification (CCD). Nevertheless, challenges persist and include rising sea levels and climate change. To address these issues, the government passed legislation establishing an environmental framework and protection of national parks.

Political Context

Recently, there was a rise in political tension between the ruling party, the Independent Democratic Party (ADI) led by Prime Minister Patrice Trovoada, and the main opposition political parties. As a result, in July 2012 a censure motion against the government was submitted by the main opposition parties – the Movement for the Liberation of São Tomé and Príncipe-Social Democratic Party (MLSTP-PSD) – in the National Assembly, but was not considered strong enough to warrant debate in the assembly plenary. The opposition parties presented a second censure motion on 21 November 2012, which was accepted by the assembly. The motion focused on allegations against the government that it failed to comply with the recommendations and guidance provided during the discussion of the 2012 state budget. The recommendations were for the government to increase allocations: *i)* for the acquisition of seeds for agriculture; *ii)* to provide additional support to people with HIV/AIDS; and *iii)* for rehabilitation of school infrastructure in Porto Alegre and Santa Catarina. To pay for these increases, the members of parliament instructed the government to reduce the resources allocated to missions and travel as well as expenses related to capital expenditure. As a result of the political uncertainty on 26 November 2012 the president of the assembly Evaristo Carvalho resigned. A new assembly president Alcino Pinto was appointed at the 28 November 2012 meeting, and the parliamentarians voted for a censure motion that resulted in the collapse of the government.

In this context, and to avoid the deepening of political instability countrywide, on 11 December 2012 a new coalition government led by Prime Minister Gabriel Costa was formed without representatives of the ADI.

Social Context & Human Development

Building Human Resources

The country still faces human capacity gaps that hinder the effective implementation of its development programme. To address them the government has taken the necessary action by ensuring a capacity-building component in almost all projects financed by development partners. However, the 2012 state budgetary allocations to health and education were 10% each: lower than the 15% allocated to each sector in the previous year's budget.

To assist the government with its human capacity-building programme the AfDB will finance an institutional support project (PAGEF: estimated at about USD 11 million) that focuses on capacity building with a view to improving the country's economic and financial governance. In the same vein, the government, with the support of the International Development Association of the World Bank, developed a social programme (PASS: estimated at about USD 8.6 million) to enhance the capacity of public institutions. In the 2012 Mo Ibrahim Index the country's human development score was 66 out of 100, above the African average of 57.

In late 2011 the government made a diagnostic assessment of the country's training and education system, which now serves as a basis for the development of a new strategy for the sector. The findings of the assessment indicate that country is well positioned to achieve the second MDG, in particular with regard to universal primary education: primary education enrolment stood at 133.8% in 2011. The assessment also indicated a reduction in the rate of academic failure in primary education to 12.4% in 2011 against 15.5% in 2010.

Poverty Reduction, Social Protection & Labour

Based on the United Nations Development Programme (UNDP) 2010 poverty survey, 49.6% of the population are living below the poverty line and 15.9% in extreme poverty, compared with 53.8% and 19.2%, respectively, in 2001. The finding also revealed that the incidence of poverty is higher for women (71.3%) compared with men (63.4%). The high incidence of poverty in rural areas has led to significant number of rural workers migrating to the city. Migration can also be linked to food insecurity. Furthermore, the survey indicates as key determinants of poverty lack of job creation, weak purchasing power because of high inflation, and poor management of public resources.

The government in its new development framework (ENRP 2012-16) has recognised poverty reduction, social protection and job creation as crucial elements for the country to achieve inclusive growth. To ensure a minimal welfare service for its population, in the 2012 budget 10% is allocated to the social sector. Furthermore, the government has signed an agreement with the Gabonese Financial and Investment Bank (BGFI) to open a line of credit of EUR 200 000. The money will be administered in the form of microcredit to people engaged in fishing in the northern region of the country. Similarly, the authorities have received a USD 35 000 grant from the United States to support the special annual programme for civil society organisations in São Tomé and Príncipe with particular attention to agriculture, professional training and food processing. It is expected that the access to microcredit as a result of different government agreements will boost the private sector and lead to the creation of small- and medium-sized enterprises (SMEs). Moreover, the government has instituted several social protection programmes, including a school meals programme, promotion of child survival and health, and subsidies to mothers with more than three children, with support from its development partners.

In respect of social indicators, in spite of the poor health infrastructure, the government's commitment to preventing malnutrition and reducing child mortality and other diseases has been a success. As a result the infant mortality rate (per thousand live births) stood at 69.3 compared to an average in Africa of 78.6 in 2011, while the percentage of births attended by skilled health staff reached 80.7 compared with an African average of 50.2. However, significant efforts are required with regard to access to sanitation which was available to only 26% in 2011.

Although benefits (*e.g.* a minimum wage, maternity leave, holiday, etc.) are granted under the current law, the labour market is in need of improvement. The high literacy rate (88.8% in 2011) is not reflected in the number of people employed. According to data from the statistics department, the rate of unemployment fell to 13.9% in 2008 compared with 16% in 2002. The data also indicated that unemployment affected women (17.4%) more than men (13.9%). Although the country has ratified various international conventions in respect of the labour market, the implementation of these laws has been a challenge. Nevertheless, legislation on labour protection does exist to protect employees' interests, as outlined in the Law 6/92 establishing the legal regime of individual conditions of labour.

The country has yet to create and establish a labour market code. A further challenge is the absence of a labour tribunal to defend the interests of public sector workers.

Gender Equality

In spite of the challenge of complying with legislation stipulating a mandatory representation of women in parliament of at least 30%, encouraging progress has been made by the authorities in comparison with previous years when female representation was below the current 5%. According to the 2010 poverty survey the majority of inhabitants living under the poverty line are women: 71% against 63.4% of men. Nevertheless, gender equality and female empowerment are promoted. The ratio of female to male primary enrolment was 97.3% in 2011, while that of female to male secondary enrolment was 115%.

The law makes provisions for equal access to economic activity. According to the 2010 UNDP poverty profile, there is a discrepancy in respect of employment between women and men. The report indicates that 59% of men are employed compared with 41% of women. The gaps in economic activity tend to be more predominant in rural compared with urban areas. Even though unemployment affects both genders, women are less likely to be employed than men. This inequality is linked at some extent to the existence of some discrimination, though on a small scale, in access to jobs.

The government is also committed to full implementation of the United Nations Committee on the Elimination of Discrimination against Women (CEDAW) convention. To this end it has engaged in dialogue with partners with a view to strengthening the special programme that provides training to women in business management.

Thematic analysis: Structural transformation and natural resources

São Tomé and Príncipe has a narrow and undiversified economy that is highly dependent on one product and vulnerable to exogenous factors. Since the country's independence in 1975, the economy has been dominated by the export of a single commodity, cocoa, which used to account for about 80% of GDP. Nevertheless, there has been a significant change in the country's economy in recent years which has seen the service sector (wholesale and retail trade; hotels and restaurants; and transport, storage and communications) and the construction sector become its drivers, accounting for about 60% of GDP in 2012, and employing nearly 60% of the country's workforce, followed by the agriculture and industry sectors that each contributed 20% of GDP.

Economic transformation has continued with the announcement of the discovery of oil in the Joint Development Zone (JDZ) with Nigeria and in the Exclusive Economic Zone (EEZ), with production expected by 2016. In this context, in 2001 the government signed an oil exploration agreement with the government of Nigeria. The agreement makes provision for 60% of oil resources to be allocated to Nigeria and 40% to the government of São Tomé and Príncipe. So far, the country has only received an oil signature bonus as a result of exploitation contracts awarded from its different blocks. It was estimated that from 2005 to 2009 the country received USD 79 million. Furthermore, based on projections from the IMF country report No.12/34 of February 2012, the archipelago could receive about USD 106 million, which corresponds to 40% of the total revenue of USD 266 million from the JDZ shared with Nigeria. This translates into about 42% of the country's 2011 GDP, estimated at USD 254 million, or 265% of tax revenue (estimated at USD 40 million) or 160% of donor-funded capital investment.

The discovery of oil in a small island economy has a huge potential for inclusive growth. In the short term, however, some of the constraints to structural transformation – such as the lack of infrastructure, shortage of workers with appropriate skills in the labour market, uncertainty over property rights and poor land management, as well as undeveloped financial and private sectors – will need to be addressed.

Conscious of the need to manage efficiently its natural resources, the government has adopted legal frameworks to enhance transparency and accountability in the management of the revenues. These include the National Oil Law (law nº16/2009) and the Petroleum Revenue Management Law (nº8/2004), which clearly spell out the importance of using the oil resources for future generations and thus created a national wealth fund (the National Oil Account). The law on oil revenue also stipulates that only 20% of the oil resource will be transferred to the annual budget to finance the budget deficit. To further enhance transparency in the management of these resources, the government has reapplied to the Extractive Industry and Transparency Initiative (EITI) and became a candidate country in late October 2012.

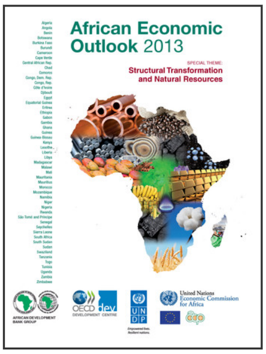
The announcement of the discovery of oil has also led to a migration of people from rural areas to the capital, which may put additional pressure on the authorities to enforce the economic diversification plan and avoid the so-called Dutch Disease syndrome. To this end, and in the context of abundant flow of oil resources, the findings of the AfDB's study on *Maximising Oil Wealth for Equitable Growth and Sustainable Economic Development* in the country, approved in January 2012, indicate that "good governance and efficient management of the oil resources will provide unparalleled opportunity to structurally transform the economy." It is, therefore, imperative for the country to learn from the positive experience of other African countries (*e.g.* Botswana, considered as a successful example) that have efficiently managed their natural resources wealth. Similarly experience could be obtained from other non-African and Portuguese-speaking countries such as Brazil and Timor-Leste, which have managed their hydrocarbon resources well and therefore avoided unnecessary distortions and undesirable outcomes to achieve higher sustainable growth.

In recognising the importance and potential of the agriculture, tourism and fisheries sectors for overall economic development including job creation, development of SMEs and poverty reduction, the government has been actively involved in and supportive of these sectors. In 2012 the government signed a USD 500 000 credit line with commercial banks, supported by the Taiwanese government, to be used in the fishing, agro-industry and agro-tourism sectors. Similarly, in the second semester of 2012, another credit line of about EUR 200 000 was agreed between the government and a commercial bank, with a local non-governmental organisation (NGO) acting as intermediary, that aims to boost the fisheries sector.

São Tomé and Príncipe has great potential to make the transition to a middle-income country, based on its size and GDP per capita, if its resource wealth is efficiently and transparently managed, thus avoiding the resource curse. Building capable institutions through reinforcing the capacity of line ministries, including judicial institutions, to enforce transparency and accountability, and the fight against corruption are key to sustainable and inclusive growth. In respect of development partners, continuous support and promotion of dialogue at all levels are seen as necessary.

Notes

1. Construction of the port, under the auspices of the French company Terminal Link (which was awarded the concession in 2007), has been delayed because of the financial difficulties facing the company.



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