São Tomé and Príncipe

2012

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São Tomé & Príncipe

- 2011 was a challenging year for São Tomé and Principe (STP). Real GDP growth is estimated to have fallen slightly to 4.3% in 2011 compared to 4.5% in 2010, driven mainly by the construction, consumer, retail, tourism and mining sectors. Looking forward, the growth rate is expected to increase slightly to 4.4% and 4.6% in 2012 and 2013, respectively.
- The government has made significant progress in implementing reforms aimed at economic welfare and development. These ongoing initiatives will continue to be focused on strengthening the management of public finances, banking supervision and labour regulations.
- Efforts to tackle youth unemployment have thus far failed to yield results. Poor integration of youth into the labour market is compounded by the absence of a youth employment policy and the inadequate flow of information between job seekers and employers.

Overview

São Tomé and Principe (STP), located on the Equator off the coast of West Africa, is Africa's smallest country in terms of population, with an estimated Gross Domestic Product (GDP) of USD 253 million and GDP per capita of USD 1 222 in 2011. The country is considered a fragile state according to the harmonized African Development Bank (AfDB) and World Bank Country Policy and Institutional Assessment (CPIA) score, which was below 3.2 in 2010. Its vulnerability to exogenous shocks is accompanied by high dependence on agriculture and overseas development assistance (ODA). In 2011, real GDP growth is estimated to have dropped slightly to 4.3% (down from 4.5% in 2010) and was driven mainly by the construction, consumer, retail, tourism and mining sectors. The service sector dominates the economy, accounting for about 60% of GDP in 2010 and 48.6% in 2011 and employing nearly 60% of the workforce. The industrial and agricultural sectors each contributed 20% to GDP. Since 2009, the government has made significant progress in reforming the management of public finances. The measures implemented have led the country to be ranked 12th out of 53 countries in the 2011 Ibrahim Index of African Governance.

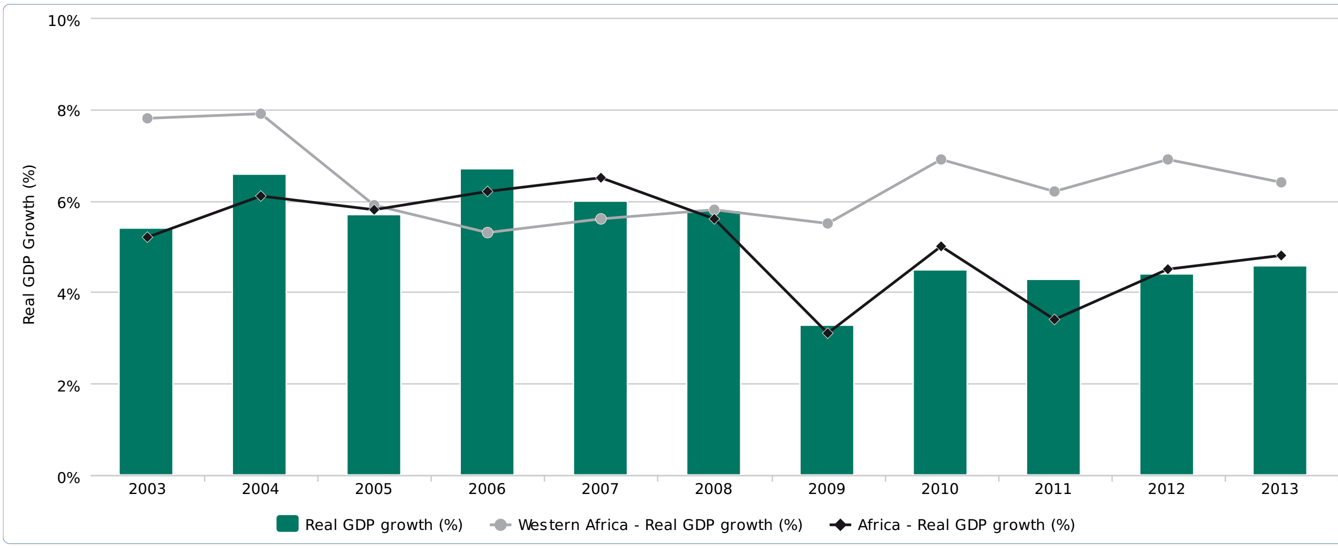
Looking forward, growth is expected to increase slightly to 4.4% and 4.6% in 2012 and 2013, respectively. These estimates are based on continued prudent fiscal policy, a projected increase in the oil signature bonus as well as investments in agriculture and infrastructure. Despite tight expenditure control, the overall budget deficit is estimated to have reached 15.9% of GDP in 2011 (up from 11% in 2010) and it is projected to remain high at 14.7% of GDP and 17.6% of GDP in 2012 and 2013, respectively. The outlook for the current account deficit is more encouraging however. From 33.9% of GDP in 2011, it is projected to improve slightly in 2012 and 2013, albeit, remaining in double digits.

The free and transparent presidential election held in July/August 2011 demonstrated the country's commitment to peace and stability. In early 2010 under an agreement concluded with Portugal, the Dobra was pegged to the Euro, which has so far helped to contain inflation. Inflation is forecast to fall to 9.2% in 2011, from 12.9% in 2010, and to continue this downward trend in 2012. The strict monetary policy also helped the authorities preserve its minimum threshold of international reserves at the level required by the agreement (3 months of imports). The pegging of the Dobra to the Euro was concluded with the opening of a EUR 25 million line of credit to maintain monetary stability. How this and the peg is affected by the ongoing crisis in Portugal remains uncertain but a revision may be in order.

Over the medium to long term, a number of opportunities at the regional level exist for São Tomé and Principe to bolster economic development. These include strengthening and intensifying political, economic and cultural relationships with neighbouring countries, and removing non-trade barriers such as excessive taxes on exports and unofficial checkpoints that hinder the integration of the island state into the region.

The integration of youth into the labour market is hampered by the absence of a national youth employment policy. The government's inability to generate employment makes youth the most vulnerable segment of the population, in turn posing a potential challenge to political stability and economic prosperity. Pro-growth fiscal policy should be focused on enhancing good governance, improving the business environment and easing access to credit for microenterprises in order to create jobs, especially for youth entering the labour market for the first time.

Figure 1: Real GDP growth (Western)



Figures for 2010 are estimates; for 2011 and later are projections.

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Table 1: Macroeconomic Indicators

	2010	2011	2012	2013
Real GDP growth	4.5	4.3	4.4	4.6
Real GDP per capita growth	2.7	2.4	2.4	2.5
CPI inflation	12.9	9.2	6.5	8.1
Budget balance % GDP	-11.1	-15.9	-14.7	-17.6
Current account % GDP	-25.4	-33.9	-30.8	-28

Figures for 2010 are estimates; for 2011 and later are projections.

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Table 2: GDP by Sector (percentage of GDP)

	2006	2010
Agriculture, forestry, fishing & hunting	17.7	19.3
Agriculture, livestock, forestry and fisheries	-	-
of which agriculture	-	-
Mining and quarrying	0.6	0.7
of which oil	-	-
Manufacturing	7.1	7.7
Electricity, gas and water	2.5	2.6
Electricity, water and sewerage	-	-
Construction	8.5	9.6
Wholesale and retail trade, hotels and restaurants	26.7	28
of which hotels and restaurants	1.4	1.5
Transport, storage and communication	16.4	14.7
Transport and storage, information and communication	-	-
Finance, real estate and business services	7.1	8.4
Financial intermediation, real estate services, business and other service activities	-	-
General government services	-	-
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	7.8	3.7
Public administration, education, health & other social & personal services	-	-
Other community, social & personal service activities	-	-
Other services	5.6	5.3
Gross domestic product at basic prices / factor cost	100	100
Wholesale and retail trade, hotels and restaurants	-	-

Figures for 2010 are estimates; for 2011 and later are projections.

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A key event in STP's economic development has been the discovery of commercially exploitable off-shore oil reserves. Although the country entered into oil exploration agreements in 1997, oil production is only expected to come on stream in 2016. This is bound to create major risks and challenges for the country's socio-economic development and stability, given the inadequacy of the country's legal and regulatory environment and weak capacity in both the public and private sectors. International experience has shown that large financial inflows, especially from oil production, may create policy imbalances that threaten both the sustainability of government spending and production in the non-oil sector. The country needs urgent safeguards against this "Dutch disease" syndrome. Such safeguards should be in the form of durable structural changes and enhanced economic diversification in the non-oil sector, in order to strengthen STP's embryonic private sector. With a view to addressing some of these challenges, the legal and institutional framework relating to oil revenue (Law 8/2004) makes provision for the centralisation of oil revenue in a special account held with the United States of America Federal Reserve.

Investment in the oil sector is expected to increase in the coming years. In 2011, the French oil company Total, announced that it will invest about USD 200 million in Block 1 of the joint development zone (JDZ)[1] shared with Nigeria. Similarly, negotiations with Kuwait over exploration in Blocks 5 and 12 of the Exclusive Economic Zone (EEZ) were resumed. If these negotiations conclude, the authorities can expect a USD 4.5 million bonus.

To ensure transparency in the management of natural resources and win investor confidence after the country's withdrawal from the Extractive Industries Transparency Initiative (EITI) in April 2010, STP has restarted the process of applying to become an EITI compliant country with the support of its development partners, notably the World Bank. Moreover, the 2012 budget makes provision for about USD 12 million to deal with issues related to EITI.

The country is highly dependent on ODA. In 2011, aid accounted for about 12.9% of GDP (down from 17.8% of GDP in 2010) and is projected to be 13.6% of GDP and 10.4% of GDP in 2012 and 2013, respectively. Donors are expected to continue financing social development programmes, although the current global crisis may negatively impact aid flows to the country.

STP is highly vulnerable to exogenous shocks. In recent years, food shortages as well as the ongoing international financial crisis have negatively affected the country. Despite this vulnerability, with the support of its development partners, the country has managed to gradually adopt more prudent fiscal and monetary policies that are promoting economic growth. Supported by an Extended Credit Facility (ECF) from the IMF, GDP is estimated to have grown by 4.3% in 2011, buoyed by the agricultural, construction, retail, and mining sectors, compared to 4.5% in 2010. The service sector has been the driving force of the economy, accounting for about 60% of GDP in 2010 and 48.6% in 2011. The wholesale and retail trade, hotels and restaurants contributed 27.3% to GDP growth followed by transportation, storage and telecommunications, and manufacturing, which contributed 14.7% and 8.7% of GDP, respectively. The industry and agriculture sectors each contributed 20% of GDP. The growth rate is expected to average 4.5% in 2012 and 2013 based on projected growth in the agriculture, fisheries, and tourism sectors. Capital spending in 2012-13 will prioritise health, education, agriculture and infrastructure (transportation, communications and energy), while current expenditure will finance public sector salaries and welfare transfers.

Higher growth is also supported by continued prudent fiscal policy that envisages using only a portion of the oil signature bonus expected in 2012 for Block 1 of the country's Exclusive Economic Zone. In 2011, the overall budget deficit was estimated at 15.9% of GDP compared to 11.1% of GDP in 2010, primarily owing to an increase in capital expenditure. The planned deficit for 2012 is forecast at 14.7% of GDP, reflecting the positive effect of the oil signature bonus expected in that year. For 2013, the authorities intend to maintain their prudent fiscal stance. As a result of the peg of the Dobra to the Euro and improved budget restraint, as well as changes in global commodity prices, inflation is expected to slow to 6.5% in 2012 compared to 9.2% in 2011. For 2013, inflation is expected to remain in the single digits. The current account deficit is also expected to improve in 2012 and 2013, reflecting the impact of the oil signature bonus.

Private consumption and public and private investment led economic demand in 2011. Private consumption was the major funder of the economy and accounted for about 4.8% of GDP in 2011, while the share of public consumption stood at 0.4% of GDP. Despite the increase in agricultural output in 2011 (boosted in part by the rehabilitation of the Roca Monte Café plantation) due to foreign investment, export volumes are expected to rise by less than 10% in 2011 compared to 10.6% in 2010.

The global financial crisis and social unrest in North Africa have negatively impacted foreign direct investment (FDI) flows to the country. Construction of two infrastructure projects has suffered major setbacks: the Laico hotel (to be financed by the Government of Libya) and the inception of the deep water port (financed by the

French company Terminalink). However, new infrastructure projects (including an airport, port and tourism facilities) will boost private investment in the coming years. The increase in private investment in 2012 and 2013 is expected to offset the decline in private consumption. Consequently, the portion of private investment in the economy is estimated at 1.7% of GDP and 1.6% of GDP for 2012 and 2013, respectively, compared to an estimated 1.1% of GDP in 2011. Government spending on infrastructure, transportation, communications and energy in the coming years should also create an enabling environment for private sector investment. Public consumption is also expected to lift in the years to come in light of official efforts to create favourable income generating conditions.

Macroeconomic Policy

Fiscal Policy

Despite progress in revenue collection and a restrictive fiscal policy, the domestic primary fiscal balance turned negative in 2011, as of 2010. This is mainly due to a contraction in ODA. Fiscal income was estimated at around 17% of GDP in 2011, as of 2010, driven mainly by indirect tax revenues. Current expenditure was anchored at 20.3% of GDP in 2011 against 20.5% of GDP in 2010; of which 8.5% was allocated to wages and salaries. The country's external debt is held mainly by bilateral institutions which in 2011 were estimated to hold 76.8% of the country's total foreign debt.

The economy is still guided by the three year Extended Credit Facility (ECF) programme with the International Monetary Fund (IMF), which provides the macroeconomic framework for fiscal policy. The first review of the arrangement was successfully completed, though the second and third reviews are still incomplete pending the Government's finalisation of its poverty reduction strategy paper (PRSP), expected at the end of March 2012. The new IMF programme may focus on increasing spending on priority social sectors with donor support.

The country is considered a fragile state according to the harmonised AfDB and World Bank CPIA score, which was below 3.2 in 2010. STP is highly dependent on foreign aid, which may be affected further by the ongoing euro zone crisis. In 2011, 50% of capital expenditure was financed by development assistance in the form project support. In the medium to long run, a key challenge will be to convince donors that aid will be efficiently managed. ODA is expected to fall to 12.9% of GDP in 2011 compared to 17.8% of GDP in 2010. External assistance is projected to expand slightly to 13.6% of GDP in 2012 and to contract to 10.4% of GDP in 2013. To better streamline financial aid, the government has identified budget support as its preferred channel for aid delivery. In April 2011, the World Bank pledged USD 4 million in budgetary support.

The authorities have also made significant strides in improving revenue collection and clearing the mutually accumulated arrears with the state-owned water and electricity company (EMAE). Specifically, they improved enforcement of the tax law (having lowered the unified corporate tax to 25% from 45%) and increased the collection of arrears. By July 2011, the Government had cleared about USD 5.8 million of arrears with EMAE that had accumulated up to the end of 2009, which in turn helped the company to clear its outstanding fuel tax obligations to the Government. The introduction in 2010 of unique fiscal numbers for individuals and enterprises paid off in 2011, with income taxes contributing about 20% of total tax revenue compared to 18% in 2010.

To further enhance transparency in the management of natural resources, the Government created a special account at the US Federal Reserve, which has been used in the past to finance the budget deficit.

Table 3: Public Finances (percentage of GDP)

	2003	2006	2007	2008	2009	2010	2011	2012	2013
Total revenue and grants	31.9	37.2	161.9	45.4	35.8	37.3	32.1	31.8	27.4
Tax revenue	10.2	17.6	37.7	15.4	14.3	17	16.7	15.7	14.6
Oil revenue	-	-	-	-	-	-	-	-	-
Grants	18.9	15.9	121.3	28.6	19.3	17.8	12.9	13.6	10.4
Total expenditure and net lending (a)	43.8	50.3	40.3	31.4	53.6	48.4	48	46.5	45
Current expenditure	22.9	30.5	28.7	23.3	19.9	20.5	20.3	19.3	17.8
Excluding interest	20.1	27.2	27.4	22.4	19.4	20.1	19.6	18.6	17.5
Wages and salaries	5.8	8.6	9	8.2	7.9	9.1	8.5	8.1	7.6
Interest	2.8	3.4	1.3	0.9	0.5	0.4	0.8	0.7	0.4
Primary balance	20.9	-9.8	122.9	8.2	33.7	27.8	27.7	27.2	27.2
Overall balance	-9.2	-13.2	121.5	14.8	-17.3	-10.7	-15.2	-14	-17.3

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

The decision to peg the dobra to the euro in January 2010 left the Central Bank of São Tomé and Príncipe (BCSTP) with limited tools for monetary policy. To efficiently manage the peg, the BCSTP uses a set of measures, notably reserve requirements and limits on margins of foreign exchange transactions. In that context, the BCSTP has established a law that requires commercial banks to hold reserves primarily in dobras.

The adoption of the peg has succeeded in reducing inflation from 17% in 2009 to 12.9% in 2010. However, inflation is expected to fall only slightly in 2011 to 9.2%, due to a decrease in wages and an adjustment in the domestic prices of petroleum products in March 2011 (to partially catch up on earlier increases in import costs). The easing of commodity and oil prices in 2012-13 will be more than sufficient to offset the weakening of the dobra against the dollar. Inflation is therefore forecast to reach 6.5% in 2012 and 8.1% in 2013.

In June 2011, in an effort to increase access to credit, the BCSTP reduced the dobra reserve requirement (which accounts for 90% of total required reserves) to 21% and subsequently, in September 2011, to 18%. The reserve requirement for foreign currency deposits was maintained at 21%. In October 2011, the BCSTP also implemented a new accounting plan and IT system, while commercial banks introduced ATMs (automatic teller machines) for operations involving domestic bank accounts.

The challenge for 2012-13 will be to maintain foreign exchange reserves at an adequate level and to ensure that foreign currency transactions are aligned with the Central Bank interest rate. The Bank's objective for the coming year is to reduce inflation in order to increase economic competitiveness and stabilise the domestic interest rate. Consolidating reforms already undertaken, increasing monetary surveillance and preserving international reserves and exchange rate agreements will provide a sound footing for economic growth in the forecast period and help to meet inflation targets.

Economic Cooperation, Regional Integration & Trade

STP is a member of the Economic Community of Central African States (ECCAS) and the Community of Portuguese Speaking Countries (CPLP), and has observer status in the Economic and Monetary Community of Central Africa (CEMAC). As a member of ECCAS, STP has endorsed the Common External Tariff (CET) agreement, part of ECCAS' vision (2025), which seeks to develop a free trade area and free movement of people and goods and services. The country will also benefit from the full implementation of the Central African Consensual Transport Master Plan (PDCT-AC) aimed at resolving the constraints of non-trade barriers, such as double taxation of goods at unofficial check points that primarily affect the island countries of ECCAS, including STP.

Bilaterally, co-operation with Angola has been strong. The Angolan government provided a USD 15 million line of credit to Angolan companies interested in investing in STP. Also, a partnership agreement was signed with the Angolan authorities to improve the port and airport of STP, on which work has already started. The country also signed a free trade agreement with the Lusophone countries and in May 2011 signed a co-operation agreement in the oil and gas sector with East Timor.

The government's vision of transforming the country into a regional trade hub, driven by oil discoveries both in the Joint Development Zone and Exclusive Economic Zone, has increased the interest of international companies and organizations in investing in STP. To effectively respond to this, the government has identified the following investment priorities with funding and assistance already secured from a variety of sources: improvement of the telecommunications network (World Bank); modernisation of the energy sector, port and airport (Angola); civil aviation and census (AfDB); and, rehabilitation of the road infrastructure (European Union).

On the trade front, Europe remains the country's key trading partner, with Portugal remaining the primary destination for exports (45%) and the main source of imports (60%). The persistent trade deficit is due to high import dependence and consistently lower export earnings since 2003. The ongoing crisis in the euro area has put further pressure on the country's trade balance. The fall in cocoa exports and high food imports caused the trade deficit to rise to an estimated 40.7% of GDP in 2011. The trade balance is expected to improve slightly to -37.6% and -33.9% of GDP in 2012 and 2013, respectively, mainly due to a reduction in food imports.

Table 4: Current Account (percentage of GDP)

	2003	2006	2007	2008	2009	2010	2011	2012	2013
Trade balance	-25.1	-41.1	-41.8	-46.3	-37.7	-39.6	-40.7	-37.6	-33.9
Exports of goods (f.o.b.)	8	6.1	4.7	4.3	4.6	5.3	4.7	4.4	4.3
Imports of goods (f.o.b.)	33.1	47.2	46.5	50.6	42.3	44.9	45.4	41.9	38.2
Services	-10.3	-15.6	-12.7	-7.3	-6.7	-9.5	-10.2	-8.9	-7.9
Factor income	-1.6	1.9	4.2	2.1	1.7	1.5	1.2	1.5	1.3
Current transfers	22.9	26.0	11.7	13.8	15.6	22.2	15.8	14.1	12.5
Current account balance	-14.1	-28.8	-38.6	-37.7	-27.1	-25.4	-33.9	-30.8	-28

Figures for 2010 are estimates; for 2011 and later are projections.

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Debt Policy

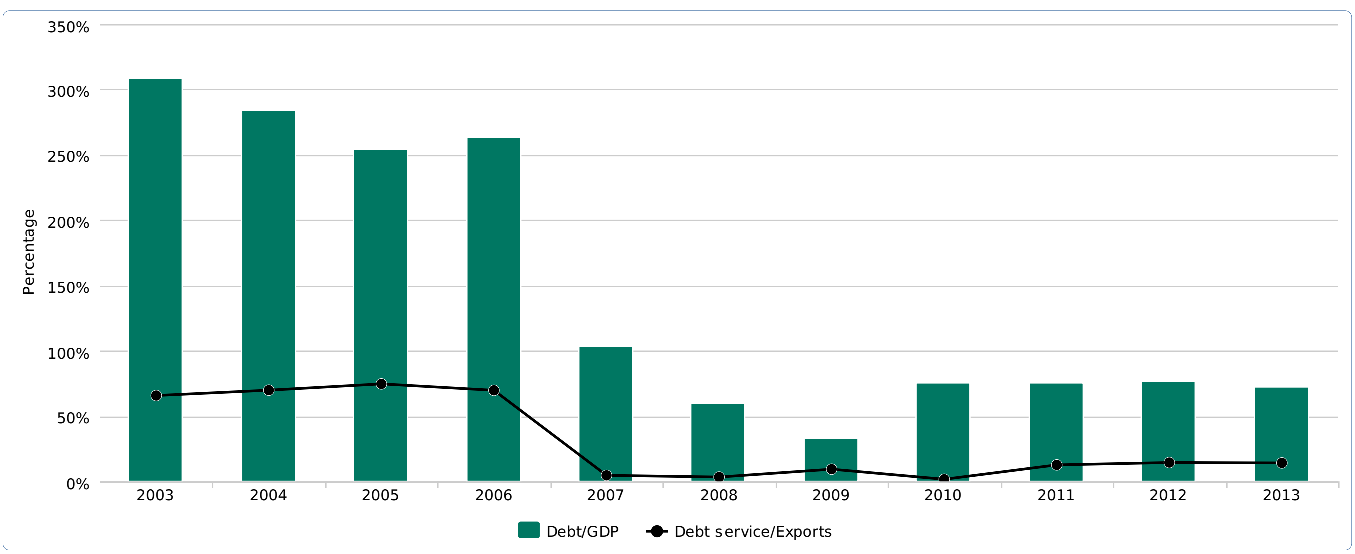
The SAFE (Public Finance Management System) law is the legal framework governing the country's debt policy. It permits the authorities to contract bank loans of up to 10% of the previous year's domestic revenue. In March 2007, STP attained Completion Point of the Highly Indebted Poor Countries (HIPC) Initiative, thereby qualifying for debt relief under it and the Multilateral Debt Relief Initiative (MDRI) of 91% of its multilateral external debt. This equated to USD 314 million under HIPC/MDRI and USD 24 million in Paris Club debt.

Despite this, the level of public indebtedness remains a challenge for STP. In 2011, the country's total external debt was estimated to represent 75.8% of GDP, up from 71.5% in 2010. Bilateral debt has been the government's major source of finance, accounting for about 76.8% of total debt in 2011 compared to 41% in 2005, while multilateral finance represented only 23.2% in 2011 compared to 59% in 2005. The government has signed bilateral agreements with all of its Paris Club creditors except Russia. Negotiations regarding debt relief are underway with the Russian government and an agreement is expected to be concluded in 2012. Also, the country is still waiting for debt relief from the following active bilateral creditors as part of reaching the HIPC completion point: China, Italy, Yugoslavia and Angola. Angola, Nigeria and Portugal.

The updated Debt Sustainability Analysis for Low Income Countries jointly assessed by the IMF and World Bank concluded that, despite having benefitted from debt relief, the country remains at high risk of debt distress in the short to medium term. The net present value (NPV) of the debt-to-exports ratio is forecast to surpass the 50% threshold during the 2012-14 period, and thereafter to fall until the start of oil production in 2016.

The government's commitment to avoiding commercial borrowing, relying instead on development assistance and highly concessional loans is crucial if the country is to avoid debt distress. The implementation of a sound fiscal policy accompanied by prudent debt management remains of paramount importance if sustainable long-term economic growth is to be achieved.

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



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Economic & Political Governance

Private Sector

The small size of STP and its geographical isolation set natural limits to private sector development; however, cumbersome investment regulations and procedures have all contributed to impeding private sector activity. The private sector in STP is embryonic and mainly composed of microenterprises that focus primarily on trade, construction, and tourism. These constraints have been compounded by high interest rates and limited access to credit. Furthermore, there are few Public Private Partnerships (PPP) in STP, mainly due to the absence of an adequate legal and institutional framework. The National Chamber of Commerce, created in 1998, is the main body responsible for promoting an enabling environment for private sector development. To deal with its challenges in this area, the country has requested assistance from its development partners, including the African Development Bank.

STP ranked 163rd out of 183 countries in the *Doing Business* 2012 report, representing a significant improvement over 2011 (when it was in 174th position). It was ranked best in trading across borders (7th out of 46 African countries), but needs significant improvement in enforcing contracts (45th) and access to credit (44th). In the 2012 Index of Economic Freedom, the country's ranking improved by 0.7 of a point over the previous year (giving a total score of 50.2), placing the economy 148th out of 184 countries. The country is also ranked 12th out of 53 countries in the Ibrahim Index of African Governance. This progress is the result of efforts by the authorities to reinforce the regulatory framework and attract foreign investors. Measures undertaken include: (i) the adoption of a new investment code, aimed at facilitating procedures for obtaining permits and licenses; (ii) reducing corporate tax rates from 45% to a flat rate of 25%; and (iii) adopting a one-stop shop to fast-track the process of starting a business. The new investment code provides incentives to attract FDI, including offering administrative services to facilitate access to state properties (buildings and land). Private ownership, establishment of companies, and business activity are permitted in all sectors of the economy with the exception of those reserved for the state (including the Central Bank and military).

Financial Sector

The banking system in STP has expanded significantly in recent years. The Banco Internacional de São Tomé e Príncipe (BISTP), a subsidiary of the Caixa Geral de Depositos (a Portuguese state-owned bank), is the largest and oldest commercial bank, having benefited from monopoly status until a revision of the Banking Law in 2003. Despite the government's recent efforts to liberalise the financial sector, which include opening two new commercial banks (increasing their number to eight in total), the banking system remains underdeveloped and in need of modernisation. In addition, there are only two small insurance companies and no stock or bond market.

To further strengthen and develop the financial sector, in October 2011 the Central Bank approved the launching by the commercial banks of the "Rede Dobra 24". This automatic payment system gives domestic account holders better access to their funds although it is not connected internationally.

Credit to private investors remains limited and expensive (with interest rates of 26%). The portfolios of commercial banks are comprised mainly of loans to small and medium-sized enterprises and a few individuals. A significant portion of the population lacks access to banking services. The challenges to financial sector development in STP relate, amongst other factors, to government administrative costs, the limitations of the country's judicial system and lack of collateral by potential investors. Foreign account deposits represent 60% of deposits in commercial banks. In addition Soares da Costa and Mota-Engil are few corporate enterprises that ensure commercial banks liquidity.

Public Sector Management, Institutions & Reform

São Tomé and Principe was one of the first African countries to implement democratic reforms, starting with the legalisation of political parties after independence in 1975. In 2011 the Ibrahim Index of African Governance ranked STP 12th in terms of safety and rule of law, compared to 11th in 2010. Its highest scores were in national security (89.9 out of 100) and health (86.5), while the lowest were in infrastructure (16.9) and rural sectors (40.8). The judicial system is independent, with the legal code based on Portuguese law.

The investment code adopted in 2007 and revised in 2009 provides incentives to attract FDI as mentioned above. The government also guarantees private property rights, and stipulates compensation if land is expropriated for public use.

The government has made significant progress in implementing reforms aimed at development and economic welfare. These ongoing reforms will continue to be focused on public financial management, enhancing banking supervision and improving labour regulations. The government has pledged to subsidise fuel and power to resolve the longstanding solvency issues of the state-owned water and electricity company Empresa de Agua e Electricidade (EMAE). Failing this, the production side of the company could be privatised due to its high production costs.

Natural Resource Management & Environment

STP has signed and ratified the Environmental Protection Convention, demonstrating its commitment to sustainable environmental management. However, implementation of the convention has been limited by the capacity gaps in the public administration.

The country is confronted with environmental challenges, including climate change, rising sea levels, and erosion in coastal areas, all of which affect infrastructure, housing, and tourism. To address these issues, during 2009-10 alone the government invested about USD 1.4 million in coastal protection. As a result of efforts to attain Goal Seven of the Millennium Development Goals (MDGs), CO_2 emissions were brought down to 0.9 kg per PPP dollar of GDP in 2010, compared to 1 kg per PPP dollar of GDP in 2000. In 2011, emissions are expected to increase slightly to 1.2 kg per PPP dollar of GDP. Over the same period, the percentage of people with access to improved water supplies reached 89.9% in 2011, against 79% in 2000. Despite this progress, developing sanitation facilities remains a challenge, although a slight improvement was marked in 2011 over previous years. The authorities have also launched efforts to preserve the environment, including laws to create an environment framework and protection of a natural park.

The discovery of oil has prompted the government to approve laws and regulations to ensure transparency in the management of oil resources. These include a framework to manage oil revenue by centralising revenue in a US Federal Reserve account (passed in August 2000), and the creation of a national petroleum agency and a national petroleum council (Decree n-3/2004). To further strengthen government capacity in the oil sector, the country has been benefiting from technical assistance provided by the Norwegian government focused on increasing comprehension of the sector’s international rules and regulations. Similarly, the African Development Bank in its upcoming country strategy paper 2012-16 for STP envisages a capacity-building and institutional-strengthening project to assist the authorities to prepare for the forthcoming oil boom.

Political Context

Since Independence in 1975, STP has evolved from a one party, Socialist state to a liberal, multi-party democracy. In 2009, the Freedom House report ranked STP 6th in Africa in terms of civil liberties and political rights and in 2011, STP scored 2 out of 7 (1 being the highest) in both of these categories. Freedom of the press is respected, and there are several independent newspapers.

The free and transparent presidential elections of July 2011 (with a run-off in August) demonstrated the country’s progress in consolidating stability. The second round was won by Manuel Pinto da Costa, STP’s first post-Independence president (from 1975-91), who ran against the Speaker of Parliament, Evaristo de Carvalho. The political outlook for 2012 and 2013, however, is a matter of concern. Collaboration between the President and Prime Minister Patrice Trovoada has proven to be a challenge, and constitutes a significant risk for social stability.

Prime Minister Trovoada barely managed to pass the 2012 budget, and his government may find itself in a vulnerable position as it lacks a parliamentary majority. He may seek to enter a coalition in the future, possibly with the Movimento Democrático Forças da Mudança-Partido Liberal (MDFM-PL) which helped to pass the 2012 budget. Should this fail, a new coalition government including the Movimento de Libertacao de São Tomé and Principe-Partido Social Democratico (MLSTP-PSD) and the Partido da Convergencia Democratica (PCD), which combined would hold a small majority of 28 seats might be another possibility.

Social Context & Human Development

Building Human Resources

Low public administrative capacities are a key factor hindering the implementation of the government's development programme. This has been highlighted in a number of studies including the African Development Bank (AfDB) study 'Insularity and Cost of Insularity in STP', which recommends that the government pay particular attention to human development. In recent years, the government has made efforts to address these issues. As such, the 2012 budget provides for 11% of resources to be allocated to education and 12% to health. For 2013, it is likely that efforts will continue to focus on education, infrastructure and health. Improvements in the provision of social services have helped the country to move up the human development index (HDI), ranking 0.5 against an average of 0.43 in Africa in 2011.

To support the government in its human capacity development programme, the Centro de Investigação, Análises de Políticas para o Desenvolvimento (Centre for Development Research and Policy Analysis - CIAD) and development partners at various levels of the public sector, have provided training in Public Finance Management (PFM), tax and customs administration, and banking, in order to increase productivity and responsiveness of public officials.

STP is on track to achieve most MDGs. Gross primary school enrolment stood at 133.8% in 2011 against 100% for Africa and 107% for developing countries, and the child mortality rate reached 69 per 1 000 live births in 2011 against 78.6 and 46.9 for Africa and developing countries, respectively.

Poverty Reduction, Social Protection & Labour

As part of its ongoing efforts to reduce social inequality, provide basic services and achieve the MDGs, the government, with the support of its social service partners (such as the Red Cross of São Tomé and Holy House of Mercy), has developed a national 'hot-meal' feeding programme, to improve the nutritional status of the most vulnerable section of the population.

In addition, a major initiative has been introduced to provide financial incentives to mothers of more than three children to further their children's education by ensuring a minimum mandatory education of six years. The subsidy is subject to proof of enrolment of the children in basic education until the sixth grade. Furthermore, the government has also signed a microcredit protocol with commercial banks to provide access to credit to 68 low income families in the district of Lembá and 160 in Agua Grande. It is hoped that access to credit will stimulate the private sector and lead to the formation of new small businesses.

Moving forward, the 2012 budget makes provision for early childhood education for "children of mothers that work in the informal market" offering these children a nurturing environment while their mothers are working.

STP has ratified 21 of the International Labour Organisation's (ILO) conventions including Convention 182 pertaining to the worst forms of child labour, and has made substantial progress towards their full implementation. The labour market continues to be oriented toward small-scale fishing and agriculture, particularly cocoa production. STP's workforce is well-educated, multi-lingual (Portuguese and French), and young. The current labour laws enshrine a minimum wage, workday overtime, paid annual vacations and holidays. Women are entitled to a state-funded maternity leave for 30 days before and after childbirth.

Gender Equality

The Constitution provides equal rights for men and women. STP has ratified CEDAW, the UN international convention promoting gender equality and combating discrimination. Statistics on domestic violence are scarce, though evidence shows that the most common type of violence is physical. The law protects citizens from all sort of violence, but its enforcement has been rather weak, owing to the limited capacity of the police force (in terms of training and facilities) to quickly respond to citizen's needs.

With regard to power and decision making, women have occupied high levels in government, including the posts of Minister of Finance, President of the Supreme Court, and Prime Minister. Despite Law 74/VIII/2009, which stipulates that at least 30% of women should participate in Parliament, the proportion of women in

Parliament is only 5%. While there is clear commitment by the authorities towards gender equality, more effort is required to extend opportunities for women's participation in decision making at all levels (central and district).

The government has also created a special programme focusing on gender issues in co-operation with the social protection services and development partners aimed at encouraging girls to remain in school. Training in business management and capacity building programmes were also offered to small farmers in collaboration with the CIAD.

In contrast to female participation in Parliament, no gender disparities exist in terms of access to education. The ratio of female to male primary enrolment was 97.5% in 2010, while that of female to male secondary enrolment was 100.6%. In 2011, the ratio of female to male primary enrolment stood at 97.3% and 115% for secondary enrolment.

Thematic analysis: Promoting Youth Employment

An important challenge to São Tomé and Principe's economic development is youth unemployment. Given that youths (between the ages of 15 and 24) represent 52% of the population, this situation is a matter for concern. According to the 2011 world economic outlook produced by the IMF, the unemployment rate in STP stood at 15.1% in 2010. The government's inability to generate employment makes youth the most vulnerable segment of the population.

In 2009, the government set a minimum wage for youths below that for those with similar qualifications but greater experience. The initiative, which was intended to foster youth employment, was conceived in partnership with the private sector with the authorities paying half the youth's salary. However, the scheme failed to have an impact due to the lack of a legal framework to sustain the arrangement.

According to 2010 data, the country had 91 000 youth, of which 31 850 were men and 59 150 were women. Despite the country's high literacy rate, which in 2010 stood at 88.3%, against 64.8% for all of Africa and 80.3% for developing countries, only 1 125 youth had graduated from post-primary education (370 from secondary school; 400 from vocational training; and 355 from college and university). Of those graduates, 55% were male and 45% female. Graduates from tertiary institutions specialised primarily in public administration, law, and business administration (25% of the students), followed by information and communication technology, engineering and social sciences, representing 10% each. Only 5% of students specialised in agriculture and natural sciences, despite the fact that agriculture has been the main driver of the economy throughout the Post-Independence era (although the service sector has now gained in importance). The potential of agriculture in terms of creating jobs opportunities is huge (in 2008 it accounted for 55% of all employment) taking into consideration that it represents the main source of income for the vast majority of the population, particularly the poorest.

Youth integration into the labour market suffers from the absence of a youth employment policy and the lack of an information exchange mechanism between job seekers and employers. Underlining these challenges is the average post-graduation period of inactivity, which is five years. A potential solution would be to increase job opportunities so as to capitalise on the gains in literacy rates. Providing targeted skills training, improving the flow of information in labour markets and facilitating access to vocational training are also imperative. Policy should be focused on enhancing good governance, improving the business environment, and easing access to credit for microenterprises with a view to creating jobs, in particular for youth entering the market for the first time. The government should also maximise its potential in tourism by investing in infrastructure, which can be an important source of employment. Greater public-private co-operation aimed at linking national youth employment programmes to projected needs for skilled workers in sectors such as those of construction and oil, could ensure that labour demand will be matched with adequate supply.

Notes

[1] In 2001, the governments of São Tomé and Principe and Nigeria reached an agreement on oil exploration in a Joint Development Zone (JDZ) under which 60% of revenues go to Nigeria and 40% to STP. While no further oil signature bonuses are expected for the JDZ, investments totaling some USD 200 million by Chevron and Total are supposed to lead to the start of oil production in 2016.