

INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

SÃO TOMÉ AND PRÍNCIPE

**Poverty Reduction Strategy Paper
Joint Staff Advisory Note**

Prepared by the Staffs of the International Development Association (IDA) and the
International Monetary Fund (IMF)

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I. OVERVIEW

1. **This first full Poverty Reduction Strategy Paper (PRSP)¹ prepared by the government of São Tomé and Príncipe builds on the strategy laid out in the interim PRSP (I-PRSP).²** The full PRSP capitalizes on the lessons from the I-PRSP and on previous efforts, mainly the 2000–2001 UNDP/ILO/WB survey of living conditions and UNDP’s 1991 and 1995 poverty analyses. The first Annual Progress Report of the PRSP will be prepared in the first quarter of 2006.

2. **The PRSP sets an ambitious policy agenda—with an overall cost of about US\$210 million for the first seven years of implementation.** The main long-term objectives are the following:

- reduce the percentage of São Tomé and Príncipe’s population living in poverty (54 percent) by one half by 2010 and by more than two thirds by 2015;

¹ This JSAN is based on a review of the PRSP, which was promulgated by the President of the Republic in January 2003, and an update of the government strategy approved by the Council of Ministers and issued in January 2005. The PRSP was not submitted earlier to the Executive Boards of the IMF and World Bank because the macroeconomic framework was insufficiently developed to put the poverty reduction strategy into full perspective. In this document, references to the PRSP include the original PRSP and the update.

² www.imf.org, includes both the I-PRSP and the JSA, presented to the IMF Executive Board on April 6, 2000. IDA/SecM2000-167 includes the I-PRSP and the JSA and was presented to the World Bank Board on April 12, 2000.

- provide access to basic social services for the entire population by 2015; and
- reduce the gap in social indicators across urban and rural populations, gender and geographical locations.

3. **The full PRSP is the result of an extensive consultative process by domestic and foreign stakeholders.** The process was managed by a steering committee chaired by the Prime Minister and consisting of representatives of government and civil society. Numerous workshops were organized for civil society, political parties and other domestic stakeholders in the six district capitals on the island of São Tomé and on the island of Príncipe. A PRSP unit was set up in the Ministry of Planning and Finance to ensure the implementation and monitoring of the PRSP.

4. **The PRSP provides a reliable framework for reducing poverty in São Tomé and Príncipe.** The main strengths of the PRSP are in : (i) providing a poverty diagnosis and a comprehensive private-sector-led development strategy for São Tomé and Príncipe; (ii) paying special attention to cross-cutting issues, notably governance; and (iii) identifying detailed indicators to monitor progress in poverty reduction.

5. **The staffs share concerns identified by domestic and foreign stakeholders in a number of areas where further analysis would be desirable.** In particular, the PRSP could benefit from: (i) prioritizing actions among and within sectoral strategies and making them fully consistent with the annual fiscal budget and the overall medium-term poverty alleviation strategy; (ii) launching an in-depth analysis of the impact of potential oil revenues on the economy; and (iii) making an assessment of the redistributive effect of the proposed reforms, including taxation, land redistribution, and privatization. The staffs also support further work in securing good governance and fighting corruption, especially in the context of rising oil revenue. Trade policy is another area that merits attention, particularly given the emphasis of the PRSP on the need for non-oil investment and the diversification of production and exports.³

II. POVERTY DIAGNOSIS

6. **The PRSP paints a stark picture of poverty in São Tomé and Príncipe.** The 2000–01 UNDP/ILO/WB survey of living conditions and the UNDP poverty reviews show that 54 percent of the population lives in poverty: 39 percent are poor and 15 percent are extremely poor. Poverty has geographical and gender characteristics: poverty is deeper and more widespread in the rural areas; and households headed by women have a lower consumption than those headed by men. The survey of living conditions identifies the most vulnerable groups and confirms an accelerating urbanization (55 percent of the total population in 2000 lived in the capital compared with 44 percent in 1992). It also provides

³ In the next PRSP annual progress report, the authorities should also review report the findings of the upcoming Diagnostic Trade Integration Study.

insights into the non monetary aspects of poverty and the domestic and foreign factors that are obstacles to poverty alleviation. However, the PRSP analysis is based on reference reports using different statistical methodologies and the 2001 survey suffered from a lack of disaggregated consumption expenditure data to calculate an absolute poverty line.

7. **The PRSP rightly considers that combating social exclusion is also fundamental for reducing poverty.** It identifies women, the elderly, and the young (especially the street children) in need of special support. In this context, it envisages improving the access of women and the young to literacy programs and occupational training; creating production and marketing cooperatives; and enhancing micro-credit assistance to help them carry out income-generating activities.

8. **Looking ahead, the staffs encourage further analysis of poverty and support the government's intention to conduct two surveys aimed at improving the present household and expenditure data.** The analysis should focus on a review of income and coping strategies at the household level across provinces, including the allocation of government and donor resources, access to basic infrastructure, and vulnerability to food insecurity and natural disasters. The surveys' results are to be used to monitor progress toward reaching the PRSP goals and Millennium Development Goals (MDGs).

III. PRIORITY PUBLIC ACTIONS

9. **Priority public actions to reduce poverty, increase access to social services to support reaching the MDGs, and shrink the geographical social and gender gaps** are based on the following strategic pillars: (i) maintain macro-stability while supporting accelerated and broad-based economic growth; (ii) increase population access to basic social services, particularly basic education and health; (iii) strengthen public institutions and foster good governance; and (iv) devise mechanisms for monitoring and updating the strategy.

A. Maintaining Macro-stability and Supporting Broad-Based Growth

10. **The PRSP acknowledges that attainment of its poverty reduction objectives will depend critically on maintaining macroeconomic stability.** Starting from this premise, the PRSP, as updated in the annex recently submitted by the authorities to the Bretton Woods institutions, is consistent with the financial policies underpinning the government's forthcoming request to the IMF Executive Board of a three-year arrangement under the Poverty Reduction and Growth Facility.⁴ The PRSP's medium-term macroeconomic outlook assumes an average growth rate of 4.3 percent during 2005–07, a declining inflation rate, and

⁴The authorities' readiness to engage in PRGF program discussions with the Fund staff, as well as ongoing work at the Ministry of Planning and Finance regarding the identification of pro-poor budgetary spending represent credible efforts by the authorities to take ownership of the process and implement the PRSP, while taking into account the need for substantial fiscal consolidation and the fulfillment of the poverty alleviation objectives.

broadly stable NIR, supported by a strong fiscal consolidation effort based on the enactment of revenue enhancing measures (see Tables 11 and 12 in PRSP update document) and the control over public expenditures, while safeguarding pro-poor spending; a prudent monetary policy aided by the introduction of indirect policy instruments; a flexible exchange rate arrangement; and the implementation of a comprehensive structural reform agenda that includes a new investment code to promote private investment.

11. **The authorities' expectation is that a program with the Fund would catalyze needed financing from other international financial institutions and donors to further accelerate investment and economic growth in São Tomé and Príncipe.** Preliminary analysis conducted by the authorities indicates that the country would need to grow at an average rate higher than 8 percent per annum (i.e., almost twice the average growth rate projected by the staff for 2005–07) during the next decade to meet the PRSP's ambitious poverty reduction targets. Staffs are of the view that while attainable, this growth rate will be contingent upon the authorities succeeding in attracting a higher level of private investment and additional donor support. Accordingly, the government is engaged with possible development partners, including, in particular, the World Bank, UNDP, the African Development Bank, and the US-led Millennium Challenge Corporation, with a view to attract further investment, boost the economy's supply response, and reach the high growth path that would secure achieving the PRSP's poverty reduction targets. A donors' roundtable, tentatively planned for the second half of 2005, could assist in securing adequate financing of the poverty reduction strategy while minimizing recourse to domestic inflationary financing and keeping the growth of the country's external debt in check.

12. **The updated PRSP includes an action plan in which guaranteeing debt sustainability is part of the poverty reduction strategy.** In this regard, the government created in late 2003 an external debt management unit at the central bank. However, the unit still needs to develop its analytical capacity and establish systems for the regular dissemination of debt statistics to the public. The staffs support these endeavors, especially given the country's very high indebtedness.

13. **A policy area that will merit attention as the PRSP implementation moves ahead is the impact of the upcoming oil era on the economy.** Provided a successful exploration campaign, beginning in 2010–12, São Tomé and Príncipe's economy will be to a significant extent driven by developments in the emerging oil sector. The staffs **consider that the Oil Revenue Management Law adopted in December 2004 is highly transparent and lays the foundation for a prudent use of the resources within the framework of the country's poverty reduction strategy.** On the way forward, the authorities should give attention to challenges they may face, such as the potential for Dutch disease issues that could hamper the growth of the non-oil economy and the importance of maintaining donor support until the start of oil production. In this respect, the staffs strongly support the government's broad-based discussions and information campaigns on the recently approved Oil Revenue Management Law.

14. **The PRSP highlights that increasing labor productivity and diversifying income-generating activities, especially in rural areas, is critical for reducing poverty.** The government's strategy emphasizes needed improvements in basic roads and marketing infrastructure for agricultural products and extension services, the development of downstream agro-industrial activities, as well as tourism and fishing networks in the archipelago. However, most of the actions related to these policies—which are listed in Appendix I of the full PRSP—will need to be costed and prioritized to assess their impact on macro-stability, growth, and poverty.

B. Securing Basic Services and Infrastructure

15. The need to provide basic education, health, and other basic services is extensively noted in the PRSP. Key sectoral policies are summarized below.

16. **Education.** The strategy on education emphasizes three broad areas for action: mandatory six-year primary education enrollment and promotion of adult literacy programs; access to education irrespective of gender or income level; and occupational training to meet the country's development needs. To address these goals, the PRSP proposes to increase the share of education in the government budget and the relative budgetary allocation for primary education. This in turn will help increase and equip classrooms in order to phase out two and three shift teaching, reduce regional and income disparities, retain more teachers through better training and higher salaries, and decentralize the education system. The staffs are in agreement with the strategy on education, which contains interventions with specific objectives, strategies, a sustainability plan and a preliminary costing of the interventions.

17. **Health.** The health sector strategy, a focal point in the government's development efforts, aims at universal and equitable access to health care and reduction in mortality and morbidity. To achieve these goals, the PRSP envisages an increase in the budgetary allocation for health. This will allow for a restructuring of basic health services, refocusing care on preventive approaches and on the diseases with highest morbidity, guaranteeing access to specialized (tertiary) care, and improving national nutritional levels. The staffs support the strategy, which contains interventions with specific objectives, strategies, sustainability plan and a preliminary costing of the interventions.

18. The PRSP gives due emphasis to **malaria** as the main cause of death in São Tomé and Príncipe. It also recognizes the danger of ignoring the low but potentially serious **HIV/AIDS** risks. While the document lacks an analysis of how malaria and HIV/AIDS impact poverty, gender, and economic growth, the action plan (see Appendix I of the PRSP) lists measures to reduce morbidity of both diseases. Strategies for HIV/AIDS and malaria were developed, costed, and adopted in 2003 and 2004. An anti-malarial campaign was launched in the first half of 2003; the campaign emphasizes prevention via education, use of mosquito nets, and spraying.

19. **Utilities and Infrastructure.** The PRSP comprehensively covers infrastructure issues, especially for telecommunications, water and sanitation, transport, and energy.

- **Telecommunications**—while a single company still dominates, the government intends to liberalize the market by end-2005 to foster investment, improve service, and reduce rates.
- **Water supply**—the government strategy foresees more connections, improved quality, and proper maintenance. This is to be supplemented by improvements in sanitation, envisaging additional latrines and ensuring proper disposal of towns' solid waste and polluted waters.
- **Transportation**—the PRSP notes that poor quality rural roads, as well as limited air and sea traffic, restrict the transport of products and people, hampering private sector growth and income creation. Accordingly, the strategy sets an ambitious agenda for repair and maintenance of roads; reform of the air traffic protocol (through an “open sky” policy and modernization of the airport); and the development of airports and sea transport;
- **Energy**—the PRSP envisages increasing electricity supply and service in São Tomé and Príncipe through enhanced private sector participation in the sector and reform of the finances and management of the water and electricity company (EMAE).

20. **Overall, the staffs commend the government's objectives as regards the health and education strategies and the public utilities and infrastructure projects. However, the PRSP acknowledges—and the staffs concur—that low institutional and human capacities constitute constraints to achieving the country's development goals.** With this view, the staffs recommend that future work in all three sectors benefit from further focus on: (i) prioritizing actions based on sound technical analysis, especially as regards to water, sanitation and transport, given the heavy investment costs; (ii) ensuring that the budgetary costs of the sectoral strategies are consistent with the government's overall fiscal envelope; (iii) increasing institutional and human capacity through systematic training, professional development, and reinforced managerial capacity in the various sectors and (iv) fully implementing the recently adopted telecommunications law and strengthening the existing regulatory authority.

C. Public Sector Reform and Governance

21. **The PRSP recognizes that good governance has a significant impact on poverty reduction in São Tomé and Príncipe.** The strategy stresses the need to consolidate the rule of law, including constitutional reforms to remove potential sources of conflict among the branches of the government. Other measures considered include basing the National Assembly on proportional representation, reforming and reinforcing the judiciary by training judges and civil servants in modern law and methods; establishing specialized courts; updating the legal framework to remove obsolete laws dating back to colonial days; and empowering law enforcement.

22. **The PRSP envisages a reorganized public sector to increase its efficiency and transparency.** The government would seek to eliminate overlapping functions between agencies; decentralize and strengthen local government structures; withdraw from productive activities; and reform the civil service to enhance the provision of public services. In addition, the PRSP emphasizes that efficient and transparent public expenditure management is critical for a successful implementation of the anti-poverty agenda. In recognition of this, the budgetary process (formulation, execution, and monitoring) is being reformed using HIPC-AAP guidelines and further supported by IMF and World Bank technical assistance to improve transparency and governance, and better target public spending, including pro-poor.

23. **The staffs support the government's intention to promote a responsible, effective, and transparent management of public resources.** The government is moving ahead with major reforms to improve procurement, inventory and accounting practices of government assets, receipts, and expenses. In this regard, the government will shortly begin the implementation of an integrated budget and treasury information system. Another key action in this area is the strengthening of the internal and external audit of government agencies by empowering the Auditor General's Office. The government would also benefit from adopting clear reform strategies and implementing action plans in the Ministry of Justice and at the Secretariat of the State for the Reform of the State (including civil service).

D. Targets, Indicators, and Monitoring

24. **The authorities have centered the monitoring of the PRSP implementation on indicators they consider essential and monitorable.** In the staffs' view, and given the limited human and institutional capacity in São Tomé and Príncipe, the PRSP provides a fairly comprehensive set of indicators and targets for monitoring and evaluating the sectoral strategies, especially in education, health, and infrastructure. The set of medium- and long-term targets broadly tallies with the MDGs. Some of the poverty targets, however, are more ambitious—particularly the 50 percent drop in poverty targeted by 2010—and will require major sustained efforts and financial support.

25. **The staffs support the government's efforts to enhance the quality and availability of poverty indicators in the context of a comprehensive program of statistical capacity building.** Efforts are needed to upgrade the national income accounts, balance of payments statistics, and government finance data, with the aim of ensuring adequate design and monitoring of policies that impact the poor. Annual indicators (such as the budget allocations for education, health, and agriculture) should be complemented with information from household surveys and employment data.

26. **The staffs also support the government's reinforcement of its PRSP unit to enhance implementation and monitoring.** This would provide more transparency in planning and spending decisions and reduce intra-governmental tension over policy priorities. The staffs consider that building an effective accountability framework for the PRSP process will require the government to: (i) enhance close consultation with civil society organizations and donors and contact with the media (including through greater

public availability of data); (ii) report transparently and regularly (publicized quarterly and annually progress reports) on PRSP implementation; and (iii) that ensure the recommendations from the PRSP reports are adequately reflected in the subsequent year's budget.

IV. CONCLUSION

27. **The Bank and Fund staffs believe that São Tomé and Príncipe's full PRSP contains substantial improvements over the I-PRSP presented to the Boards in terms of quality of the process and content of the document.** The staffs consider São Tomé and Príncipe's PRSP a credible but highly ambitious poverty reduction strategy. The authorities will need to address the identified shortcomings, however, to make the strategy fully operational and assure its effectiveness. Specifically they need to:

- undertake further in-depth analysis in poverty diagnostic, providing a sustained reliable base for monitoring and evaluation;
- undertake further analysis as to the consequences of the petroleum economy and assess the redistributive effects of proposed fiscal and structural reforms on poverty alleviation;
- cost and prioritize sectoral strategies, investment and action plans in the priority sectors identified in the PRSP, including agriculture, fisheries, infrastructure, governance, and justice to make them fully consistent with the annual fiscal budget and the overall medium-term poverty alleviation strategy;
- succeed in attracting a substantially higher level of private investment and additional donor support to achieve the desired high GDP growth rate targets until oil production starts.
- enhance institutional capacity to ensure the full implementation and monitoring of the PRSP.

28. Furthermore, implementation will in particular require prioritizing and monitoring progress in structural reforms in a context of price stability. In the view of the staffs, the commitment of the highest levels of government will be crucial for a successful implementation.

29. Do the respective Executive Directors of the Fund and the World Bank concur with the broad directions of São Tomé and Príncipe's PRSP and the staffs' identification of priority areas of action and the related recommendations for strengthening the PRSP over the coming years?