

## SAO TOME AND PRINCIPE COUNTRY REPORT 2008

<p><b>Background and debt sustainability</b></p>	<p>Sao Tome and Principe (STP) is one of the smallest countries in Sub Saharan Africa, with a GNI per capita of US\$800 (World Bank Atlas method) and more than 40% of the population living below the poverty line. Its agriculture-based economy has been subject to sharp price fluctuations on cocoa and coffee exports, though real GDP grew by an average 6% in 2006-07. Although petroleum reserves have been found, it is unclear whether international prices will be high enough to allow their exploitation. It reached its HIPC decision point in December 2000, but did not reach completion point in May 2007 due to non-compliance with IMF programmes. It will in future be using DSF indicators to determine the sustainability of its external debt, according to which as a post-MDRI country its external debt will be highly sustainable. It has no domestic debt. To maintain long-term debt sustainability the key challenges are to maintain the concessionality of new public sector borrowings, expand its donor base for grants and concessional loans, and avoid non-concessional borrowing linked to potential oil receipts.</p>
<p><b>CBP support and impact</b></p>	<p>The HIPC CBP has been working with STP since 1998. During 1998-2000, an intensive assistance programme financed by SIDA built the technical capacity for the government to play its role in tripartite decision point negotiations. STP held two national workshops which were timed to precede decision and completion points, helping the country to argue its case for maximum HIPC relief (including toping up at completion point), as well as assessing its impact on the budget and (in 2007) designing a new financing strategy to maintain long-term debt sustainability. The CBP also assisted STP to advocate an early decision point in 2000. In addition, 3 Institutional Missions assisted the Government to transfer all debt management responsibilities from the Central Bank to the Ministry of Finance, and 2 Follow Up Missions assisted the Government to get the Debt and New Financing Strategy discussed and approved at all levels of Government including the Presidency, Cabinet and Parliament, as well as debated with civil society. The country has also benefited from Regional Workshops organized for PALOPs as well as participating in 2 BEAC-BCEAO Pole-Dette Francophone regional workshops.</p> <p>So far in Phase 4 (to end 2008), CBP core funds have been used to conduct 2 institutional missions in 2006 and 2007 to help Government update and ensure approval of the national strategy by the Cabinet and Parliament, and to mobilise their support for strategy execution. A national workshop in December 2008 trained more staff to update and implement a new financing strategy to improve the quality of aid being received. The workshop also focused on training staff on the new DSF template. Additionally, 3 students have taken part in the Distance Learning programme, and will graduate by mid-2009. Sao Tome has participated in 3 regional workshops for PALOPs on Debt Pro, (February 2005), Training for Trainers (June 2007) and New Financing Policy (July 2008), as well as 2 inter-regional workshops.</p> <p>As can be seen in the table below, as a result of CBP assistance STP has sharply improved its debt strategy capacity, rising from 2 to 3.8, and already almost meeting (or in one case exceeding) its targets – even though the impact of the 2008 workshop is not yet reflected in the scores. Although its technical capacity and approval of the up-to-date strategy are strong, implementation of the strategy needs strengthening. Legal and institutional frameworks have also improved, with centralisation of debt management in the Ministry of Finance and Planning, though a new debt law remains pending. Trained personnel and capacity-building have also improved considerably before and especially during phase 4, so that STP now has trained personnel in each of the technical areas relevant to debt strategy (excluding domestic debt, which is not relevant to STP), and a high-quality capacity-building plan (which requires faster implementation).</p>

<b>Objectives and content of proposed country assistance</b>	<p>The current priorities for reinforcing STP capacity (and activities envisaged for the remainder of phase 4) are:</p> <ul style="list-style-type: none"> <li>• Approving the updated strategy, through a sensitisation seminar in 2009. This activity is expected to increase scores for indicator MT2a</li> <li>• Improving the legal and institutional framework for debt and new financing management, and linking the overall national capacity-building plan to individual training needs. This will take place through an institutional support mission to assist Government in the design of a new national regulatory framework for debt management. This activity is expected to increase scores for MT2b and ST3c.</li> <li>• Finalising the distance learning programme with a closing residential workshop in early 2009.</li> </ul> <p>These activities are expected to allow STP to meet its targets shown in the table below.</p>																																		
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<b>Progress and Intended Results</b>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">CBP Logical Framework Performance Indicators</th> <th style="text-align: center;">Initial Score</th> <th style="text-align: center;">Phase IV Baseline</th> <th style="text-align: center;">Current</th> <th style="text-align: center;">Phase IV Target</th> </tr> </thead> <tbody> <tr> <td>LT 1. Debt sustainability</td> <td style="text-align: center;">3</td> <td style="text-align: center;">4</td> <td style="text-align: center;">5</td> <td style="text-align: center;">5</td> </tr> <tr> <td>MT 2a. Debt management strategy updated at least once a year.</td> <td style="text-align: center;">2</td> <td style="text-align: center;">3.8</td> <td style="text-align: center;">3.8</td> <td style="text-align: center;">4.4</td> </tr> <tr> <td>MT2b. High-quality legal and institutional frameworks for debt strategy</td> <td style="text-align: center;">2</td> <td style="text-align: center;">3</td> <td style="text-align: center;">3</td> <td style="text-align: center;">3.6</td> </tr> <tr> <td>ST 3a Availability of trained personnel capable of formulating and executing national debt strategies</td> <td style="text-align: center;">1</td> <td style="text-align: center;">2</td> <td style="text-align: center;">4</td> <td style="text-align: center;">4</td> </tr> <tr> <td>ST 3c. High-quality capacity building plans which are implemented and annually updated.</td> <td style="text-align: center;">1</td> <td style="text-align: center;">1.2</td> <td style="text-align: center;">3</td> <td style="text-align: center;">2.5</td> </tr> </tbody> </table>					CBP Logical Framework Performance Indicators	Initial Score	Phase IV Baseline	Current	Phase IV Target	LT 1. Debt sustainability	3	4	5	5	MT 2a. Debt management strategy updated at least once a year.	2	3.8	3.8	4.4	MT2b. High-quality legal and institutional frameworks for debt strategy	2	3	3	3.6	ST 3a Availability of trained personnel capable of formulating and executing national debt strategies	1	2	4	4	ST 3c. High-quality capacity building plans which are implemented and annually updated.	1	1.2	3	2.5
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<b>Expenditure and Budget</b>	<p>Overall spending on STP since the start of CBP activity has been US\$382,875. The budget allocated to events to support STP in phase 4 is US\$274,563, which is to be financed from core funds</p>																																		