

## Country Brief

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### History



São Tomé and Príncipe comprise two small tropical islands in the Gulf of Guinea, 400 kilometers from Gabon. The total population, estimated at 205,901 as of end-2008, is growing at about 3.1 percent per year.

The official language is Portuguese, and the currency is the Dobra. São Tomé and Príncipe is ranked 123/177 in the 2008 UNDP Human Development Index. As of end 2007, life expectancy at birth was 63 years, adult literacy rate 83.4 percent, and the gross enrollment ratio for education was 62 percent. Upon attaining independence from Portugal in 1975, São Tomé and Príncipe inherited an economy based exclusively on agriculture and the production and export of a single crop, cocoa. Both the education and health indicators have generally been good compared to African averages.

### Political Environment

Soon after independence in 1975, the government adopted a socialist rule. However, by 1985, major political and economic liberalization initiatives were undertaken. In 1990, a new multiparty constitution was adopted, and Mr. Miguel Trovoada was elected president in the first multiparty election of 1991. He was re-elected in June 1996 for a second and last term, as allowed by the constitution. The following presidential elections in July 2001 led to the victory of Mr. Fradique de Menezes for a five-year term.

In July 2003, the political scene was disrupted by a bloodless military coup, but widespread international pressure, coupled with foreign mediation, resulted in it being reversed, peacefully, a week later.

The legislative elections took place in late-March 2006. The opposition party, the Movimento Democrático das Forças da Mudança (MDFM), won the election by a slight majority (23 out of 55 seats) and formed a minority government. The July 2006 presidential elections led to the re-election of Mr. de Menezes with 60.0 percent of votes for a second and last five-year term. After three Cabinet reshuffles in November 2007, February 2008, and June 2008 a new coalition Government formed by the Movimento de Libertação de São Tomé e Príncipe/Partido Social Democrata (MLSTP/PSD), the Movimento Democrático Força da Mudança (MDFM) and the Partido da Convergência Democrática (PCD) with a majority of 43 seats (out of 55) in the National Assembly, is expected to bring stability to the country political scene, and will encourage country's donors to maintain or raise their financial support.

### Economic Development

São Tomé and Príncipe's economy is fragile, having been burdened by a high debt per capita with a debt to GDP ratio of over 600 percent. The country's productive base is undiversified, as it relies almost exclusively on cocoa exports and external donations. This has substantially increased the country's vulnerability to exogenous shocks. A long period of decline in the world price of cocoa, combined with increased import food and petroleum prices, put severe strains on incomes and living standards. Additional economic activities include modest fishing, and small but growing construction and tourism sub-sectors.

Following a decade of large macroeconomic imbalances and state intervention in the economy, the Sãotomean Government has pursued economic reforms since 1998 that have helped increase real GDP growth, lower inflation, and push forward key structural reforms, with support from international donors.

In 2008, economic performance remained strong (real GDP growth of 5.8 percent), although inflation picked up (26 percent) against the background of sharp increase in international oil and food prices that were passed on to domestic consumers.

Prospective off-shore oil production could significantly modify the medium and long-term economic outlook. However, so far, a first exploratory well in Block 1 in early 2006 has been deemed commercially non-viable for now. Other blocks (2, 3 and 4) have also been contracted and are expected to be drilled in 2009. Negotiations on two additional blocks (5 and 6) are suspended until further notice.

## Aid coordination

The main donors include Portugal, France, the EU, AfDB, the World Bank and the UN family, as well as Taiwan, Province of China. The United States has also become an active donor in the past three years, with São Tomé and Príncipe benefitting from the United States Millennium Challenge Corporation (MCC) threshold program. The last UNDP-sponsored Round Table meeting took place in Brussels in November 2005. Three UNDP-sponsored sectoral Round Tables (in education, infrastructure and governance) took place in December 2006.

## World Bank partnership

São Tomé and Príncipe joined the Bank and IDA in 1977 and became a borrower in 1985. The Bank's previous involvement included structural adjustment operations, as well as support in the agriculture, health, and education sectors.

The country reached the HIPC completion point in December 2000 and Completion Point in March 2007, at which time the International Monetary Fund (IMF) and the World Bank Group's International Development Association (IDA) agreed to provide US\$317 in million in total nominal debt relief under the Enhanced HIPC Initiative, topping up and MDRI.

The country's PRSP was promulgated by the President of the Republic in January 2003 and presented to the IMF and Bank Boards in April 2005. The current IDA Country Assistance Strategy (CAS), adopted by the Bank Board in early June 2005, and covering the period 2006-2009, supports the government in promoting the implementation of the PRSP, focusing on strengthening the macroeconomic and public finance management, and building the required institutions and capacity to ensure the sustainable use of expected future oil revenues.

To date, the World Bank has approved fourteen IDA credits for São Tomé and Príncipe for a total amount of approximately US\$83.3 million. Current IDA commitments for the two ongoing projects amount to US\$11.5 million with US\$3.2 million undisbursed as of Today. The Social Sector Support Project of US\$6.5 million assists the country in achieving the human development goals as defined at the UN Millennium Summit. The Governance Capacity Building Project, in an amount of US\$5 million equivalent, supports São Tomé's public finance management and helps build the institutional framework of the nascent petroleum sector. A Development Policy operation of US\$6 million providing budgetary support was approved June 2008.

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