

THIRD UNITED NATIONS CONFERENCE ON THE LEAST DEVELOPED COUNTRIES

SAO TOME AND PRINCIPE

SUMMARY OF DRAFT NATIONAL PROGRAMME OF ACTION
(preliminary version)

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1. Introduction

Sao Tome and Principe is a poor island country with a generally undiversified economy in which cocoa continues to predominate. Overall, gross domestic product (GDP) is growing in real terms, though at a rate well below that of population growth (2.5 per cent a year). The primary sector accounts for about 20 per cent of GDP, with fishing accounting for only 2 per cent. The main positive development, which is linked to land reform, has been the sustained increase in food production in recent years. The manufacturing sector accounts for only 4 per cent of GDP. It consists of only 20 or so small enterprises which are all at a fairly rudimentary stage. The service sector dominates the economy (58 per cent of GDP), largely as a result of the size of the public sector (23 per cent) and, to a lesser extent, the boom in trade and transport after the liberalization of the economy. The contribution from tourism is still marginal.

It is vital for the country that the production sector should develop and diversify its export capacities to move away from the single-crop economy. That presupposes continued political stability, lower inflation and a stable exchange rate, further progress in agricultural production, an improved capacity to implement public spending programmes and action to create an environment that is favourable to domestic and foreign private investment. As there are few opportunities to diversify the economy, the glut of young people with no professional qualifications and without the knowledge necessary to follow training abroad presents a major challenge.

A problem common to all economic and institutional sectors in Sao Tome and Principe is low capacity due to a lack of qualifications and expertise. The lack of capacity in the public authorities explains the poor use made of foreign aid. Among the potential economic actors, the problem is one of poor capacity to start up and manage individual projects.

2. Recent economic and social developments

Over the 1990s, the country consolidated the macroeconomic reform process which had been under way since 1987 (the liberalization and privatization of the economy; encouragement of private initiative, especially in the primary sector). Some improvements have been made in water and electricity supply and health indicators are encouraging. There have been positive developments in the area of education, with the enrolment rate for children between the ages of 7 and 12 now at 90 per cent. However, the educational system is still of poor quality, with only 15 per cent of teachers being properly trained. Vocational education, which is very dependent on external funding, cannot provide young people with even minimal skills. Malaria is still the biggest killer and the health services are under-staffed.

Efforts have been made to sort out the problems in the energy sector but the only electricity and water company in the country still falls short of meeting domestic demand. The telecommunications sector is well developed and is being deregulated. Tourist development is being hampered by problems with air links. A law has been passed on free zones and offshore activities, and it appears that Sao Tome and Principe has great potential for oil extraction.

Since the beginning of the 1980s, foreign aid has offset the fall in foreign-exchange earnings from cocoa exports. However, the national debt has reached an unsustainable level

(four times as high as GDP), and this has had a disastrous impact on the development of the private sector and the implementation of social programmes. The debt has also led some traditional foreign partners to back off somewhat. Since 1998, there have been some encouraging signs in public finances, and inflation was down to 12 per cent in 1999 from 81 per cent in 1997. Nevertheless, the country is having to cope with a structural crisis in its public finances, characterized by a low level of current revenues, excluding donations.

Priorities of the national programme of action

The national programme of action presents the Government's main strategic choices, which deal with the engines of growth, the strengthening of economic capacity, efforts to open up and diversify the economy, social policies and the aims of good governance. The programme gives priority to two main areas of action, one macroeconomic and the other sectoral.

A. Macroeconomic framework

In the medium term, the following objectives will be pursued: renewed growth; a return to a sustainable external position; a reduced budget deficit; alleviation of the foreign debt burden; reduced dependence on foreign aid; and a response to growing social demand.

For the period 2000-2002, the macroeconomic priorities are to initiate a recovery in production, reduce consumption as a proportion of GDP and improve the process for allocating public expenditure at a time of shortages. This scenario should yield the following results for the country: (a) real GDP growth higher than population growth; (b) higher fiscal revenue thanks to increased production and structural reforms within the customs and tax authorities; (c) stabilization of current expenditures; (d) introduction of a three-year investment schedule matching sectoral or overall priorities; (e) consolidation of the budget surplus; (f) the rescheduling of part of the national debt through the Paris Club and confirmation of eligibility for the Heavily Indebted Poor Countries (HIPC) Debt Initiative at the end of the period; (g) a reduction in inflation between now and 2002; and (h) a stable exchange rate.

The inflation rate should stabilize at 3 per cent in 2001-2002, as a result of a rigorously applied monetary policy and the financing of the budget deficit (avoidance of central bank financing, inclusion in the budget of non-recurrent receipts, etc.), the creation of a climate of confidence and measures to control demand.

Government finances should continue to improve as a result of more sustained growth and the structural reforms undertaken. The improvement should be most clearly visible in the area of taxes on consumption and income tax. Current expenditure, on both wages and other expenses, will be kept in check. Trade-offs will be necessary to increase budgetary allocations to the three priority sectors of infrastructure maintenance, education and health.

It will be difficult to reach balance-of-payments equilibrium before 2002, even though a significant increase can be expected in exports of goods (cocoa and other agricultural products) and services (tourism). Increased imports of capital goods for oil-prospecting are likely to increase the deficit in the balance of non-factor goods and services. If no steps are taken to

alleviate the debt, the interest payments on the debt will peak at a relatively high level (30 per cent of exports). In this case, the deficit in the current balance of payments (including official transfers) will amount to 50 per cent of GDP in 2002.

These forecasts should be analysed in the light of the past and present situation of the country. The most important thing is to stem the downward trend. The aim of the later phase of financial adjustment (from 2002 onwards) will be to reduce external liabilities to a sustainable level as a matter of priority. It will be crucial to follow this policy, as the country is still very highly dependent on international aid.

B. Priority sectors of activity

For the 10-year period of the national programme of action, the Government's priorities come under five headings: productive sectors, including agriculture; infrastructure; education; health; and the building of institutional capacity.

Productive sectors

The overall strategy is aimed at diversifying agricultural production, improving productivity, developing fishing and tourist activities, stimulating construction and reforming and strengthening management capacity. An improvement in the economic and financial environment and a recovery in investment from its very low 1998 levels should make it easier to put this strategy into effect.

Growth will probably be led by the primary sector (with increased food production and better performance from the cocoa industry) and civil engineering. This assumes that the support measures undertaken in the cocoa sector (promotion, opening-up of channels) succeed and that the product commands higher international prices after the very unfavourable situation in 1999. Attempts at diversification in agriculture should lead to an increase in non-cocoa exports. The civil engineering sector should be very active in the period 2000-2002 as major infrastructure projects get under way.

The priority given to agriculture in the development strategy is justified by expectations of an economic impact from the process set in motion by land reform and improvements in conditions for the production and marketing of agricultural and livestock products. The following measures are envisaged for these two sectors: land redistribution (a land act); improved support services for agriculture and livestock farming; the setting up of a national system of rural credit; a quality policy for cocoa; and a country roads programme to make it easier to get products to market.

The service sector will benefit from the knock-on effects from the agricultural sector on certain services (particularly transport) and also from an increase in tourism. This increase will lead to higher export earnings related to travel and tourism.

After 2002, the macroeconomic indicators should gradually begin to show the effects of (i) structural measures to support the expansion and diversification of the agricultural sector, (ii) changes in domestic demand that will benefit local products and (iii) confirmation of

the role of tourism and certain free-zone activities in GDP growth. GDP growth could reach a very high level. Future developments are likely to be strongly influenced by the oil sector, whose impact on production, exports and budget receipts would be quickly felt.

Infrastructure

The Government intends to speed up development of transport capacities by improving the road network, developing port facilities and expanding international air transport. These changes are vital for developing agricultural production, diversifying exports, promoting tourism and attracting foreign investors. An improved electricity supply is another precondition for the development of the private sector, as is progress in telecommunications.

Education

Given the poor quality of teaching, the overcrowded secondary schools and the fact that the educational system is ill-adapted to the needs of the country in general, the reform and development of the educational sector is a high priority. The three main elements of this policy will be the provision of high-quality primary education, the development of selective secondary education of a higher standard and the introduction of an off-budget financing system for education.

Health

In the area of public health, the priorities will be to step up the campaign against malaria (a disease which, in addition to its human and economic costs, is a major obstacle to the development of tourism), to improve the quality of the preventive services offered to the public, to implement reforms in the health sector and to increase funding for the sector.

Institutional capacity

Lastly, increased institutional capacity is essential if the planned structural changes are to come about. The emphasis here will be on three areas: economic and financial management (strengthening the management of public finances and the services dealing with budget management, debt management, investment scheduling and statistics); the implementation of measures to restructure the State (to streamline the administration); and the modernization of the judicial system.

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