

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

September 16, 2016
Report No.: 110041

Operation Name	STP Programmatic DPO Series
Region	AFRICA
Country	Sao Tome and Principe
Sector	General energy sector (10%);Banking (20%);Central government administration (60%);Other domestic and international trade (10%)
Operation ID	P159010
Lending Instrument	Development Policy Lending
Borrower(s)	DEMOCRATIC REPUBLIC OF SAO TOME AND PRIN
Implementing Agency	Ministry of Finance and Public Administration
Date PID Prepared	September 16, 2016
Estimated Date of Appraisal	October 24, 2016
Estimated Date of Board Approval	November 31, 2016
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

São Tomé and Príncipe is a low-middle income country with a high poverty rate. São Tomé and Príncipe (STP) is a multi-party democracy and unitary state with a population of nearly 200,000 people. It is divided into six districts plus the Autonomous Region of Príncipe (RAP). Gross National Income per capita is estimated at USD 1,200 in PPP terms; GDP per capita is USD 1,692. One third of the population lives on less than US\$ 1.9 PPP/day (global extreme poverty line); more than two thirds of the population is poor, using a poverty line of USD 3.1 PPP/day. STP's economy is based on agriculture and services, with a very small industrial sector. The main economic activities are tourism, retail, transport, communication, and construction. Agriculture and fishing is the mainstay for the majority of the population, despite a modest contribution to GDP. The main export is cocoa. Few goods are produced locally, leaving STP very dependent on imports, including the oil needed to generate power in the country.

Recent growth performance has been positive and steady, but it conceals the country's fragilities. Growth has been constant in the last years for STP. From 2008 to 2014, the economy grew by 4.4 percent yearly on average, with a low of 4 percent in 2009 and a high of 4.8 percent in 2011. This steady pace, however, conceals the country's fragilities that pose risks to growth and may cause large output losses if risks are triggered. Among these risks are: debt distress, recurrent fiscal deficits, high current account deficits, banking sector crisis, fiscal risks from state-owned enterprises and natural disasters and risks deriving from environment and climate change. Other factors such as costly and unreliable energy supply and inadequate framework for credit constitute bottlenecks to faster growth.

Despite recent growth performance, poverty has not been reduced and remains widespread. Growth has not been pro-poor because the most vulnerable population lacks the skills to access

economic opportunities. Social protection policies have not been able to alleviate poverty and provide a path for the vulnerable population to grow out of poverty. Current programs are fragmented, underfunded and suffer from design and control issues. In this current scenario, it is unlikely that acceleration in growth would bring a significant reduction in poverty and boost shared prosperity.

II. Proposed Objective(s)

The objective of this operation is to assist the government in dealing with risks and bottlenecks to growth and allow the benefits of growth to be more equally shared. This will be sought by supporting policies that address the risks to growth, help remove growth bottlenecks and the establishment and implementation of a new social protection policy framework.

III. Preliminary Description

The operation is structured in two pillars. The first one groups the policies aimed at dealing with risks to growth and addressing bottlenecks to faster growth. The second pillar puts together measures to allow the benefits of growth to be more equally shared among the vulnerable population, namely social protection and financial inclusion. Every pillar is also divided into two components. Each component clusters the prior actions and triggers of a specific sector and theme. The rationale for this structure is to highlight the multisectoral nature of the development challenges faced and the complementarities between the prior actions from different sectors. For example, benefits of the SP core programs will be paid preferentially by the banking sector to allow for better control and auditing of payments and beneficiaries. Such choice will be only feasible due to the policy reforms supported to allow for agent banking and mobile finance. This choice will also contribute to financial inclusion.

***Prior action #1** – The Recipient has enacted a banking resolution law that provides the Central Bank with the powers and authority necessary to resolve distressed financial institutions.*

***Prior action #2** – The Recipient has reduced legal fees associated with the registry of property and mortgages*

***Prior action #3** – The Recipient has changed the threshold for exempt income taxation and presumptive corporate taxation.*

***Prior action #4** – The Recipient has frozen in nominal terms the expenditure on higher education scholarship program in the 2017 budget.*

***Prior action #5** – The Recipient has enacted a law on the Extraction and Exploration of Aggregates to improve the control of coastal inert.*

***Prior action #6** – The Recipient has submitted to parliament a draft law on payment system.*

***Prior action #7** – The Recipient has developed an operational manual for the new Social Pension program approved under the Social Protection Policy and Strategy.*

IV. Poverty and Social Impacts and Environment Aspects

The proposed DPO series has strong, clear and positive social impacts and on poverty reduction. The most relevant and direct impact comes from the reform and consequent expansion of the social protection policy framework. It is expected that new policy will be better targeted and its coverage be extended to encompass the majority of the extreme poor in STP. Expected positive

and indirect impacts will come from more access to credit and reduction of risks to growth. A more detailed analysis of the poverty and social impact aspects of the operation will be carried out for the decision meeting.

The proposed DPO series has positive environmental impacts. Main environmental impacts will come from the redesign of the process to explore coastal inerts. It is expected that in the short term this reform will allow the exploration of sand to be done on a more sustainable way, reducing coastal erosion. On a medium-term perspective, it is expected that alternative materials to the use of sand in civil construction be developed and sand exploration is discontinued. Other relevant positive impact on the environment will come from the support to the energy sector, which will contribute to an increase in renewable energy supply in the country.

V. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	5.00
Borrower/Recipient	
IBRD	
Others (specify)	
	Total
	5.00

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