Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 18-Mar-2018 | Report No: PIDISDSA23379

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Sao Tome and Principe	P162129	Sao Tome and Principe: Institutional Capacity Building Project	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	20-Mar-2018	24-May-2018	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Finance, Trade and Blue Economy	Central Bank	

Proposed Development Objective(s)

To contribute to improved capacity of public institutions to: i) supervise the banking system; ii) promote access to finance; iii) manage public finances; and, iv) produce national statistics.

Components

Financial Soundness and Access
Strengthening Budget Credibility, Tax Base and SOE Governance
Property Registration and Statistical Development
Project Implementation Support

Financing (in USD Million)

Financing Source	Amount
IDA Grant	12.00
Total Project Cost	**12.00**

Environmental Assessment Category

C - Not Required

Decision

The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

São Tomé and Príncipe (STP) is a lower middle-income country with a population of nearly 200,000 located on two islands off the western equatorial coast of Central Africa. Gross National Income (GNI) per capita is estimated at US$3,160 in PPP terms; GDP per capita is US$1,811. Around one third of the population lives on less than US$1.9 PPP/day; more than two thirds of the population is poor, using a poverty line of US$3.1 PPP/day (World Bank, 2017). The country met the Millennium Development Goals on universal primary education, maternal and child health, and HIV/AIDS, TB, malaria and other diseases. It is highly dependent on external support—with 45 percent of its budget financed by development partners. Unemployment was at 13.6 percent in 2012 (latest data available). The agricultural and retail sectors generate together 50 percent of all jobs in the country.

Economic growth has been stable, but it is heavily reliant on public spending and susceptible to fiscal, financial, and external shocks. GDP growth rates averaged 4.5 percent from 2009 to 2015. Government spending was subdued in 2016, bringing down growth to an estimated three percent despite positive developments in agriculture and tourism. Agricultural goods, especially cocoa, constitute the bulk of STP's exports. Tourism is an important area of economic activity, but is not yet reaching its potential. Oil exploration has taken place since 2013, but commercial activity is not expected before 2020. Few goods are produced locally, leaving STP dependent on imports, including the oil needed to generate power. 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 exit poverty.

Poverty reduction has been marginal despite solid economic growth and public investment. Urban poverty is higher than rural poverty due to limited employment opportunities, notably for youth. Human capital formation has steadily progressed in recent years, as health and education have improved. STP had remarkable success in curbing infant mortality and ranks below sub-Saharan Africa averages in malaria control and maternal mortality. Between 1980 and 2014, its Human Development Index increased by about 23 percent, life expectancy at birth increased by 5.9 years, and mean years of schooling by three years. STP completed a new household survey at the end of 2017 to update information on poverty and social indicators. A survey dataset is expected to be available by June 2018.

Income generation is hindered by limited productive capabilities and low competitiveness. The currency peg to the euro, which was introduced in January 2010, provides an anchor for price stability and led to some limited real effective exchange rate appreciation. During 2010–15, the average current account deficit was 20 percent of GDP, which was financed by external assistance and Foreign Direct Investment. From 2013–16, external grants were equivalent to 13 percent of GDP. STP is at high risk of debt distress. Total external public debt was 75.5 percent of GDP in 2016, relative to 58.8 percent of GDP in 2015 according to the recent debt sustainability analysis. The increase in debt stock is mainly due to the incorporation of domestic arrears (17 percent of GDP). STP's main fiscal risks come from its inefficient State-owned enterprise (SOE) sector.

Sectoral and Institutional Context

Financial Sector

STP has one of the smallest financial systems in the world. Total banking sector assets were US$ 187,6 million in 2016, equivalent to 58.4 percent of GDP, up from 26 percent of GDP in 2001. The financial sector is comprised of six commercial banks with 98 percent of financial sector assets, two insurance firms that specialize in property and casualty business and four small consumer lenders. Following independence from Portugal in 1975, and up until 1993, only one commercial bank, Banco Nacional de São Tomé e Príncipe (BNSTP), operated in the country as an agency within a centrally directed economy where the state owned or controlled most of the means of production. In 1993, the Government split BNSTP into the Banco Central de São Tomé e Príncipe (BCSTP), responsible for monetary and regulatory functions, and the Banco Internacional de São Tomé e Príncipe (BISTP), for commercial banking.

The liberalization of the banking sector in the early 2000s and the potential for offshore oil led to the entrance of private and regional banks from nearby Angola, Cameron, and Gabon. Afriland Bank from Cameroon entered the market in 2003; followed by Banco Equador, National Investment Bank, and Island Bank in 2004; Commercial Bank in 2005 (renamed Banco Privado STP after 2016); Ecobank in 2007; Oceanic Bank from Nigeria in 2008 (renamed Energy Bank after 2011); and BGFI from Gabon in 2012. Island Bank failed in January 2014 and in 2015 was acquired by Energy Bank while Banco Equador is undergoing liquidation after its insolvency in August 2016. On February 11, 2018, BCSTP intervened Banco Privado, a small bank with less than 2 percent of system assets which has been incurring losses, and appointed an official administrator to prepare the bank for liquidation (including possible transfer of assets and liabilities). The remaining five banks are all foreign owned, although the Government owns 48 percent of BISTP (the largest bank).

Public Financial Management

The institutional capacity for public financial and fiscal management led by the Ministry of Finance (MoF) has improved but remains weak. The main challenges include a lack of resources, low technical capacity, a lack of coordination and political economy factors which prevent prudent fiscal management. Some PFM practices are reinforcing fiscal fragility instead of supporting fiscal discipline. Previous assessments, including a 2013 Public Expenditure Financial Assessment (PEFA), have identified the need for improvements in areas of budget preparation and execution (including public procurement and public investment), accounting, treasury, banking payments and reconciliation, payroll control, and internal control, external auditing and follow-up and implementation of audit findings.

The Government is aware of these shortcomings and has prepared a Public Financial Management (PFM) Reform Plan which was approved in 2017. This plan consolidates all the MoF's reform priorities and corresponding needs on technical advisory, capacity building and IT systems. The reform plan is being used as the basis for dialogue and for identifying areas for support from the World Bank and other donor partners. The Government and the donors expect the plan to serve as a mechanism to coordinate donor's support to PFM in STP and as a guide to prioritize government's own PFM reform program. While technical assistance can help to solve some of the technical capacity challenges of improved PFM, the non-technical drivers must be effectively dealt with as well since they may continue to reduce the impact of planned reforms. These include political interference/influence over technical spheres of work, including budget projections and expenditure approvals, as well as weak performance monitoring and low proactivity on under-performing SOEs. One key challenge is to move beyond cosmetic reforms towards meaningful and sustainable changes in the workings of key PFM institutions. A key element to overcome such resistance is to engage with a broad set of stakeholders beyond the technical nexus of Ministry of Finance, including civil society and media organizations, parliamentary commissions, as this can help strengthen coalitions for reforms and accountability, thereby keeping a focus on impact and results. Increased transparency and monitoring of government spending and results is another important focus area which can have broader impact across the entire public sector.

Systems for registering national statistical data and immovable property

STP lacks some of the basic data required to inform economic and social policy. Timely data is absent, particularly on poverty, inequality, socio-economic issues, and agriculture. The latest poverty and inequality data is seven years old and only two poverty surveys have been implemented in the last 25 years (in 2000 and 2010). Despite progress, the National Statistical Institute (*Instituto Nacional de Estatística* [INE]) is not able to produce reliable statistics on a regular basis, fill data gaps, nor improve data quality. There is only one INE staff with experience in household surveys, who is close to retirement. In general, staff at INE and other ministries have limited analytical capacity to interpret economic data. STP’s lack of improvement in the World Bank's Statistical Capacity Indicator (score of 60 out of 100, the same as the Sub-Saharan Africa’s average) is partly due to the lack of regular surveys to monitor key socio-economic indicators, an outdated base year for national accounts, and the inability to accurately report basic social statistics.

Despite recent progress, the existing land and property registries are inefficient. The existing registry is paper-based and procedures for consultation and registration are performed manually. Despite recent improvements, the existing land and property registries are inefficient and outdated, which constrains its contribution to secure property rights that can be used as collateral to finance productive investments. The General Directorate for Registries and Notaries - DGRN within the Ministry of Justice oversees the land registry (Registo Predial) and the property registry (Registo de Propriedade), among others. Mortgages are registered at the property registry. Existing land titles, pledges, and mortgage registries are paper-based and are performed manually, which forces officers to consult the existing paper books to process land transactions. As a result, registering and consulting is inefficient and expensive, which undermines its value as collateral for bank credit. The Strategic Plan for Registries and Notaries 2017-2019, call for i) Legal reforms through the new Land Registry and Notary Codes (Código do Registo Predial e do Notariado) and for the ii) modernization and improvement of this public service.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To contribute to improved capacity of public institutions to: i) supervise the banking system; ii) promote access to finance; iii) manage public finances; and, iv) produce national statistics.

Key Results

Key project outcomes include enhanced institutional capacity in financial sector policy and regulation, public financial management and fiscal planning, statistical capacity, and property registration. Improving institutional capacity in these areas will result in: (i) a more stable, competitive, and inclusive financial system capable of providing affordable financial services and products, a precondition for economic development and poverty reduction; (ii) better revenue forecast, expenditure controls, and oversight of SOEs, which will improve the credibility, accountability and transparency of public finances; (iii) timely and quality statistics to inform policy making; and (iv) more transparent and efficient property registration, which increases its potential to be used as collateral for bank lending, through the design and implementation of the IT infrastructure towards a sustainable parcel based land administration system.

The PDO Indicators are:

- Credit Registry Coverage
- Banks that corrected provisioning and capital shortfalls identified by AQR
- VAT revenues collected
- Improvement in Overall Statistical Capacity Score (SCI)

D. Project Description

The Project aims to improve financial soundness and access, strengthen public financial accountability and management, build statistical capacity, and improve the framework for registering property which are inter-linked and mutually reinforcing. An inclusive financial system that is capable of providing diverse and affordable financial services and products is an important precondition for greater diversification and private sector development, while a more stable financial system with robust supervision framework would reduce fiscal liabilities of dealing with distressed banks. Transparent and accurate fiscal accounts is an important condition for improving the credibility, accountability and transparency of public financial management. A more credible and competitive public procurement landscape will contribute to lower fiscal costs and greater private sector opportunities. Accurate and timely national statistics are necessary to inform policy makers and development partners of trends and developments. The three areas are interlinked as financial sector performance relies on sound fiscal accounts based on reliable systems for measuring national developments and registering immovable collateral. Annex five provides a graphic depiction of the project's "theory of change" and the results chain, show the link from activities to outputs to intermediates outcomes, and to final outcomes.

For a successful implementation of the project's institutional capacity-building activities, the needs have been identified and presented in the project activities, below, considering the following three (3) levels: (i) the enabling environment level, (ii) the organizational level and the (iii) individual level. All in relation to the following four (4) fundamental themes: (i) institutional arrangements, (ii) leadership, (iii) knowledge and (iv) accountability; four themes applicable to each one of the three levels, mentioned above. Finally, the five (5) functional capabilities, as a foundation for the capacity development process construction: (i) the ability to mobilize stakeholders, (ii) the ability to assess a situation and define a vision, (iii) the ability to formulate policies and strategies, (iv) the ability to define a budget, manage it and implement it and (v) the ability to assess.

The Project will be implemented through four components: i) Financial Soundness and Access; ii) Strengthening Budget Credibility, Tax Base, and SOE Governance; iii) Property Registration and Statistical Development; and iv) Project Implementation Support.

Component 1: Financial Soundness and Access (US$4 million)

Drawing on the 2016 Financial Sector Development Implementation Plan (FSDIP) and complementing the existing FIRST TA Projects on financial stability and inclusion as well as other donor initiatives, this component would aim to strengthen the Central Bank capacity and systems in order to enhance financial sector soundness and increase access to financial services. Component 1 will be implemented by BCSTP as the lead technical institution.

Component 2: Strengthening Budget Credibility, Tax Base, and SOE Governance. (US$4.5 million)

Component 2 will be implemented by the MoF. The overall objective of this component is to strengthen the capacity of the MoF to increase budget credibility, broaden the tax base and improve the governance and oversight of SOEs. Specifically, activities under this component support the objectives of the Government's PFM reform plan and related analytics and have been identified through several rounds of consultations with the authorities. The component will be organized around the following results areas and sub-components.

Component 3: Property Registration and Statistical Development (US$2 million)

This component would support the systems, capacity, and information reporting abilities for property registration and the National Statistics Agency (INE) as follows:

Component 4: Project Implementation Support (US$1.5 million)

The project would finance staff of the project implementation unit (PIU) in AFAP (Agência Fiduciaria de Administração de Projectos) in charge of coordination, procurement, and financial management of the project. It would also support capacity building to enhance the capabilities of the PIU, particularly in relation to the management of a high number of relatively small TA contracts. A Project Steering Committee (PSC) will be established to coordinate the work of the PIU and the technical beneficiary agencies (BCSTP, MoF, INE, DGRN, COSSIL). The PIU will coordinate implementation of project activities.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance, Trade, and Blue Economy will be the responsible Government counterpart for this Project. The Ministry will draw on the Fiduciary Agency for Project Administration (*Agência Fiduciária de Administração do Projetos* – AFAP), which has implemented numerous investment projects since being constituted in 2004. AFAP is currently implementing World Bank projects including STP Power Sector Recovery Project (P157096), STP Quality Education for All (P150828), and Household Budget Survey (P159667).

AFAP will be responsible for implementing the IDA project with full fiduciary responsibility. Its financial management capacity is adequate to meet the minimum requirements of the Bank. Having implemented complex IDA-financed projects, AFAP has extensive experience with Bank procurement rules and procedures, which would help the implementation of the project. To carry out its responsibilities and effectively implement the various components of the project, AFAP will receive training on the Bank's requirements, recruit additional staff, and work with stakeholders. AFAP has already appointed a dedicated focal point for the project who joined all the project preparation meetings. Focal points for each of the beneficiary agencies of the project (Central Bank, Ministry of Finance, Ministry of Justice, DGRN ,INE, COSSIL) have been appointed. AFAP undertake the PIU role focusing on fiduciary tasks, project facilitation, and coordination. The appointed technical focal points will take the lead in technical review and supervision of support activities benefiting their agency. This should greatly facilitate project preparation and implementation. In order to ensure high level coordination and supervision of the project, a Committee for Reforms housed in the MoF will serve as the Project Steering Committee (PSC) established to provide policy guidance and oversight. The PSC will be chaired by the Minister of Finance and will comprise of representatives from the Ministry of Justice and the Central Bank.

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F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

Technical assistance will be provided to the central bank and line ministries located in the city of Sao Tome.

G. Environmental and Social Safeguards Specialists on the Team

Hocine Chalal, Environmental Safeguards Specialist
Benjamin Burckhart, Social Safeguards Specialist
Medou Lo, Social Safeguards Specialist
Melissa C. Landesz, Environmental Safeguards Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	The project is designed to support the Central Bank, Ministry of Finance, National Statistics Institute, and the General Directorate for Registries and Notaries to improve their institutional capacity in the area of financial sector policy and regulation, public financial management and fiscal planning, statistical capacity, and property registration. The project is expected to have no adverse environmental and social impacts.
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	

Physical Cultural Resources OP/BP 4.11	No
Indigenous Peoples OP/BP 4.10	No
Involuntary Resettlement OP/BP 4.12	No
Safety of Dams OP/BP 4.37	No
Projects on International Waterways OP/BP 7.50	No
Projects in Disputed Areas OP/BP 7.60	No

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
N/A

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
N/A

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
N/A

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
N/A

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
N/A

B. Disclosure Requirements

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

Have costs related to safeguard policy measures been included in the project cost?

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

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APPROVAL

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