

São Tomé e Príncipe

Integrated Framework: Main Mission

Aide-Memoire

A World Bank mission consisting of Messrs. Robert Lacey (consultant, mission leader), Enrique Aldaz-Carroll (World Bank staff, co-mission leader, link between trade and poverty reduction), Paulo Brigido de Macedo (consultant, business climate, judicial and regulatory framework), Jean-Marie Burgaud (consultant, international trade), Richard Lacroix (consultant, renewable natural resources, agri-business), Acacio Elba Bonfim (local consultant, business climate), and Nelson Abreu de Assunção (local consultant, renewable natural resources) visited São Tomé e Príncipe between October 2 and October 23 2004. The main purpose of the mission was to gather information for the preparation of the Diagnostic Trade Integration Study (DTIS). The mission met with a wide range of organizations and individuals in the public and private sectors as well as in the NGO and donor communities. The mission also traveled extensively on both islands, São Tomé and Príncipe. The mission would like to express its appreciation to the Authorities, and in particular to Dr. Idalino Rita Lopes dos Ramos, Director of Commerce, and his colleagues, for their support and collaboration, without which the work of the mission would not have been possible.

The mission believes that São Tomé e Príncipe is at a critical point in its development path. Strong vision and firm action on the part of the country's leadership are required if the situation is not to continue deteriorating to the extent that possible oil revenues become a curse rather than a blessing. Above all, a clear and coherent development strategy, built upon the country's natural advantages, needs to be formulated on the basis of broad consultation, and applied in the near future in order to face both the immediate challenges and those of the future oil era. Chief among the former are the related issues of poverty reduction, enhanced governance and public sector reform. Higher growth, more international trade in goods and services, and concomitant expansion in much needed employment opportunities for the young population, are certainly possible, but they will only come about through increased investment, both local and foreign. This will not materialize to the extent required without significant improvements in the business climate. There is an urgent need for greater transparency, less corruption and a streamlining of bureaucratic procedures, especially those related to the establishment of new businesses and the expansion and diversification of existing ones. It must be recognized, however, that given the current structure and remuneration of the public service, such goals may be difficult to attain in the absence of a substantial civil service reform.

São Tomé e Príncipe's main comparative advantages are its image and its location. It is regarded as an island of peace and low political risk in the midst of a region which is rich in natural resources (notably oil) but subject to political turbulence and insecurity. These advantages are threatened by current public sector inadequacies.

If, however, these advantages can be preserved and built upon, then there is no lack of opportunities for enhanced economic activity related to international trade which would also have a substantial poverty reduction impact. First, well-targeted support for the existing production base with its well established marketing channels would enable more small

producers to benefit from increased output. Actions in this area would include expansion of research, expanded and improved extension services, facilitating the provision of credit through private local initiatives, a more rational exploitation of fishery resources consistent with national interests, improved road access to rural areas, and storage and basic processing to increase local value added. More effective donor coordination would also benefit smallholder agriculture.

Second, the potential for new export-oriented agricultural activities has already been demonstrated on a small scale (flowers, high value coffee, tropical food products etc.). The mission believes that substantial expansion in these higher risk activities should be undertaken in partnership with foreign investors who can offer a “package” including technical assistance to producers, supply of inputs and guaranteed market access. Existing enterprises already operate in this way and, after an initial start-up period, are able to rely increasingly on smallholders for exportable output. There may also be scope for attracting enterprises offering broader services for the agricultural sector as a whole including warehouse and cold storage operators. Attracting such investment on a larger scale would require not only addressing general governance and procedural problems, but also issues related to the state ownership of a large portion of the country’s land. The process of granting land concessions needs to be more transparent and effective. A mechanism for insuring that concessions are indeed used productively should also be put in place. Together with other measures, this would foster the growth of a market in land titles and concessions. The (mostly cacao) processing and marketing facilities still in state hands would benefit from privatization.

Lack of medium and long term credit for productive activities could be alleviated by the granting of a license to a privately owned investment bank.

High international transport costs raise input, production and transaction costs, impede investment and hurt the poor (because of the high ratio of imports to income). These costs result mainly from the inadequacies of the sea port and airport facilities. Feasibility studies of improvements to both are currently underway. Airport modernization is expected to be initiated in 2005. However, there may be several years delay before a deep water sea port is in operation. An interim solution is urgently required. Options will be considered in the DTIS.

São Tomé e Príncipe’s trade opportunities would be enhanced by greater integration with international markets. The decision to apply for full World Trade Organization membership has been taken, and this could enhance efficiency through trade liberalization. Negotiation, together with the CEMAC countries, of an EPA with the European Union could improve access to markets in Central Africa. These issues will be analyzed in depth in the DTIS. Although the tariff structure has been lowered and simplified, there is still considerable scope for reforming Customs procedures.

The mission also discussed with the Authorities the establishment of a satisfactory institutional arrangement for supporting the Integrated Framework (IF) process in São Tomé e Príncipe. The Focal Point in the Government is the Director of Commerce who would head the IF Secretariat to be located in his office. He would also chair the IF Steering Committee (IFSC) which would consist of representatives from the public and private sectors and from the NGO and donor communities. The IFSC is currently being constituted and a letter is expected to be issued by the Minister of Commerce shortly. The IFSC would help to ensure full integration of the IF into the country’s poverty reduction strategy, since the team in the Ministry of Finance and Planning directly responsible for the elaboration of the PRSP would

be represented on the IFSC. The IF donor facilitator is the UNDP. The Government has formally requested support for the IF Secretariat and the IFSC under UNDP project GLO/03/A/JX/34, and UNDP has placed approximately US\$38,000 at the Government's disposal for this purpose.

The mission discussed and agreed with the Authorities the scope and content of the DTIS as outlined in the Concept Paper, modified where appropriate in accordance with mission findings. The mission agreed the following schedule for the DTIS:

Draft Report sent to Government and other stakeholders for review	January/February 2005
Validation Workshop	February/March 2005
Implementation Workshop	March/April 2005.