



**United
Nations**

Committee for
Development
Policy

CDP2023/PLEN/9.f

Committee for Development Policy 25th Plenary Session

United Nations
20-24 February 2023
UNHQ Headquarters, New York
Conference Room 8

Monitoring of countries graduating and
graduated from the LDC category:

São Tomé and Príncipe



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Summary

The CDP takes note that São Tomé and Príncipe has, with external support, been able to effectively mitigate the socio-economic impacts of the pandemic. However, the CDP acknowledges that the country continues to be highly dependent on external support. The country is in debt distress due to the prolonged unsettled external arrears to bilateral partners, while the debt sustainability assessment varies across sources. The significant macroeconomic and structural challenges make it difficult to assess the stability of the country's developmental trajectory.

Overall, the country continues to show improvement in all LDC criteria indicators, and its graduation is not at risk. Nevertheless, the country has a very low participation rate in CDP's monitoring exercise, and the CDP strongly recommends the country to actively participate in the EMM and provide more information to CDP so that appropriate actions and support can be delivered in a timely manner.

Macroeconomic situation

São Tomé and Príncipe's macroeconomic fundamentals remain weak. The country's export concentration, agricultural instability, relatively high level of external public debt (87 per cent of GDP in 2020¹, with external debt equivalent to 43 per cent of GDP and domestic debt equivalent to 44 per cent of GDP), macroeconomic fragility and extremely high reliance on international support (ODA financed 97.3 per cent of the 2019 State Budget² and 96 per cent of total public investments in 2020³) represent a challenging situation for a country characterized by consistently high poverty rates.

Table 1. Selected macroeconomic data for Sao Tomé and Príncipe, 2016-2021

Indicator	2016	2017	2018	2019	2020	2021
GDP growth rate (per cent, constant price)	4.2	3.8	2.9	2.2	3.1	1.8
Inflation rate (%)	5.4	5.7	7.9	7.7	9.8	8.1
Government revenue (billions of national currency)	2.2	2.0	2.1	2.1	3.0	3.0
Government expenditure (billions of national currency)	2.5	2.3	2.2	2.1	2.4	2.8
Government balance (billions of national currency)	-0.3	-0.2	-0.2	-0.0	0.6	0.2
Government balance (per cent of GDP)	-4.2	-2.7	-1.9	-0.2	6.0	1.5
Net ODA received (millions of US dollars)	47.0	40.2	52.2	50.8	92.0	69.8
Balance of Payments (millions of US dollars)						
Current Account	-61.5	-73.1	-75.1	-90.0	-59.6	-95.2
Goods, Credit (Exports)	13.6	15.6	16.0	13.1	13.9	20.8
Goods, Debit (Imports)	119.1	127.7	132.9	126.4	116.7	152.0
Balance on Goods	-105.5	-112.1	-116.8	-113.2	-102.8	-131.2
Services, Credit (Exports)	82.9	76.6	82.2	59.4	35.4	54.5

¹ IMF (2022), Staff Report for 2022 Article IV Consultation, Fourth Review under the Extended Credit Facility Arrangement, Request for waivers for nonobservance of performance criteria, Modification of performance criteria and Financing assurances review - Debt Sustainability Analysis

² São Tomé and Príncipe's National Sustainable Development Plan 2020-2024

³ Ministry of Finance (2022), Conta Geral do Estado 2020

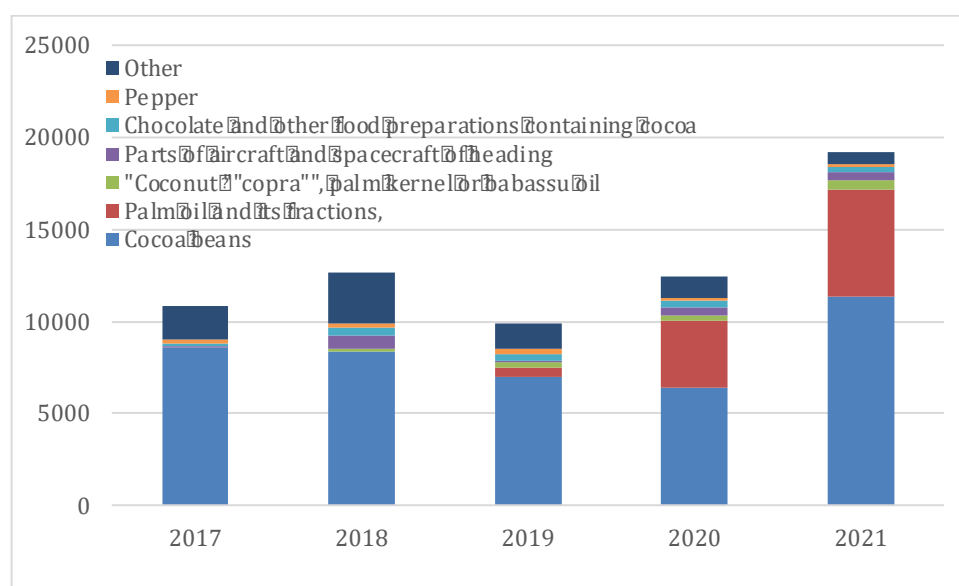
Services, Debit (Imports)	65.7	65.5	64.3	63.2	43.4	49.1
Balance on Services	17.2	11.1	17.9	-3.8	-8.0	5.3
Balance on Goods and Services	-88.3	-101.0	-98.9	-117.0	-110.8	-125.9
Balance on Income	2.8	-1.4	-2.7	-0.5	2.9	2.7
Balance on Current Transfers	23.9	29.3	26.5	27.5	48.2	27.9
Capital Account	29.7	29.7	29.9	14.9	18.7	37.0
Financial Account	-66.4	-45.2	-65.9	-24.3	-43.6	-62.3
Direct investment (net)	-22.3	-33.9	-21.3	-23.3	-46.3	-58.9
Portfolio investment (net)	0.6	0.6	0.1	0.4	-0.5	-2.5
Financial derivatives (other than reserves) and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-32.1	-8.7	-31.8	-6.4	-18.4	-7.2
Reserve assets	-12.5	-3.3	-12.9	5.1	21.6	6.3
Reserves (months of imports)	4.0	3.6	2.6	2.9	5.5	..

Source: GDP growth is from UN DESA, WESP 2023 for 2021 data and UNSD for 2016-2020 data. Inflation is from UN DESA, WESP 2023. Government balance is from IMF, World Economic Outlook Database. Net ODA is from OECD, OECD.Stat. All external sector indicators are from IMF, Balance of Payment Data Reports.

Being a small economy, São Tomé and Príncipe's fragmented internal market and relative isolation from the African mainland are key structural vulnerabilities that need to be factored in when considering its development prospects following LDC graduation. São Tomé and Príncipe is ranked as the 37th most vulnerable country in the world by the ND-GAIN Index. Indicators making up the vulnerability score where Angola fares particularly poorly include low dam storage capacity, high proportion of urban population living in slum households, low number of medical staff.

The economy of São Tomé and Príncipe has a very narrow production and export base, concentrated essentially on cocoa production and export and, more recently, on palm oil production and export, which is shown in figure 1.

Figure 1. Exports by main products (in thousands of US dollars)



Source: [ITC Trade Map](https://www.trademap.org/) accessed on 01.02.2023

The tertiary sector, largely informal, represents 73.5 per cent of GDP, while the primary and secondary sectors contribute to 12.5 per cent and 12.3 per cent of GDP, respectively.⁴ Tourism, its main service export, experienced substantial growth up until 2020. However, the impact of COVID-19 has been substantial, negatively affecting the income of businesses and households. The pandemic has disproportionately impacted the most disadvantaged and vulnerable groups, who have suffered with the disease itself and with the increase in inequalities, which threatens to undermine development gains achieved in recent years, including progress made towards the SDGs,⁵ as noted in the country's Voluntary National Review of 2022.

Figure 2. Total Arrivals of Tourists (thousands)



Source: [UNWTO](https://www.unwto.org/tourism-statistics/key-tourism-statistics) accessed from <https://www.unwto.org/tourism-statistics/key-tourism-statistics> on 01.02.2023

The pandemic has seriously affected the economy, mainly through losses in the tourism industry. There was a complete stop in tourist arrivals in March 2020 due to the pandemic-related lock-down, as shown in figure 2. Tourism, which has been an engine of growth for the private sector in recent years and is responsible for a large part of formal employment, came to a complete halt, with losses in labor income, foreign exchange, and tax revenue. Nonetheless, the country registered a 3.1 per cent GDP growth in 2020, due to high levels of grants and loans supporting public spending, as well as a considerable increase in palm oil export revenue.⁶

In 2021 and 2022, economic growth decreased again to 1.8 per cent and 1.3 per cent respectively, with inflation climbing to 15 per cent in 2022.⁷ The tourism receipts which account for over 70 per cent of exports receipts, fell sharply from \$66 million in 2019 to \$18 million in 2020, recovering to an estimated \$36 million in 2021 and \$52 million in 2022. However, the impact on the current account deficit was somewhat mitigated by the rise in net ODA received in 2020.

As regard the developments in inflation, it increased sharply in 2022 by 15 per cent (see figure 3), mainly due to the increase in global fuel and food prices caused by the war in Ukraine (see figure 4).

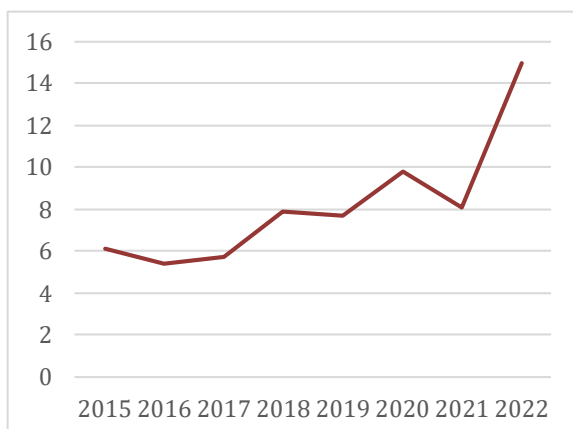
⁴ UNDP (2020), Impacts of the Covid-19 Pandemic in São Tomé and Príncipe Rapid Socio-Economic Analysis UNDP, March 2020

⁵ National Resilience and Socio-Economic Mitigation Plan in the face of Covid-19

⁶ São Tomé and Príncipe Central Bank

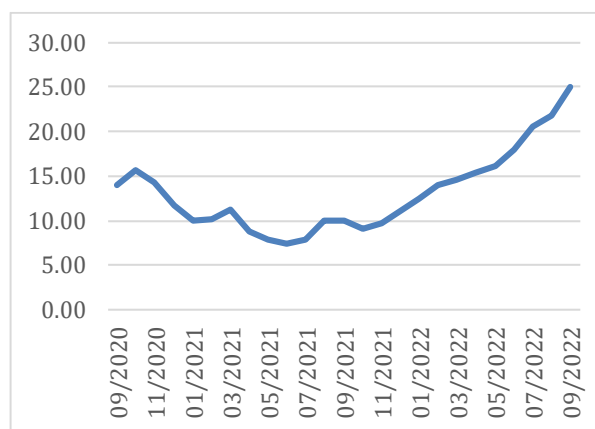
⁷ UN DESA, WESP 2023.

Figure 3. Inflation rate, average consumer 2020-2022 (%)



Source: Based on data from IMF WEO

Figure 4. Food Price Inflation (%)



Source: FAO

The development of São Tomé and Príncipe has been largely funded by Government expenditures, sustained by external aid and government borrowing, as well as by foreign direct investment mostly in the tourism and related services sectors. More than 90 per cent of the public investment budget is financed through debt and external aid. The country has grown accustomed to relying on foreign resources to fund its development. However, national sources of wealth and the country's comparative advantages as a small island state have not yet been sufficiently exploited to cater for the needs of a youthful population with a median age of 22.5 years, 61 per cent of which is under the age of 25.⁸

In 2020, external sources of financing, specifically grants and loans, represented 46.8 per cent of total funds collected.⁹ As for internal sources—treasury, consigned resources, resources from the HIPC initiative and revenues from Petroleum Signature Bonuses—, these represented 53.2 per cent of total revenues¹⁰.

Regarding ODA disbursements to São Tomé and Príncipe, and despite a relative decreasing trend over the past few years, 2020 was an exception, recording the highest ODA disbursement received since the country's independence. São Tomé and Príncipe remains in debt distress due to the existence of post-HIPC sovereign arrears, while PPG external and total public debt remain sustainable (external debt of 43 per cent of GDP and domestic debt of 44 per cent of GDP for 2022).

LDC criteria and supplementary indicators

GNI per capita in São Tomé and Príncipe has been on an upward trend since 2019, as has HAI, both surpassing LDC graduation thresholds for several years now, as shown in table 2. As for EVI, it increased considerably in 2023, reaching 37.6, which now places São Tomé and Príncipe above the LDC graduation threshold of 32 or below. The increase in EVI is largely attributed to the devastating floods at the end of December 2021 which affected about 9,000 people.

⁸ United Nations Sustainable Development Cooperation Framework 2023 - 2027

⁹ Ministry of Finance (2022), Conta Geral do Estado 2020

¹⁰ Idem

Table 2. Indicators for LDC identification, São Tomé and Príncipe, 2019-2023.

	GNI per capita	EVI	HAI
2019	1,679.5	28.3	89.7
2020	1,754.4	27.3	90.1
2021	1,850.2	26.3	90.6
2022	1,989.2	26.4	90.9
2023	2,134.9	37.6	91.0

Source: CDP Secretariat Time series estimates (LDC criteria) dataset (2002-2023), available at <https://bit.ly/LDC-data>

Notes: a) Year refers to the year of a (actual or hypothetical) review. The timeliness of source data varies by indicator; generally, criteria capture data up to two years prior to a review. See the 'read me' in the source as well as the data sheet (Annex 1) for details on original data sources.

b) Data for 2021 might differ from official triennial review data and previous monitoring reports due to data revisions.

Table 3 provides additional information on selected economic and social indicators. Access to electricity and clean water has improved, but reliability of electricity remains a challenge with frequent power cuts. The low level of mean years of schooling and female labour force participation hinders the productivity of the country.

Table 3. Supplementary indicators for LDC, São Tomé and Príncipe, 2015-2021

Indicators	2015	2016	2017	2018	2019	2020	2021
ODA as per cent of GNI	15.5	13.6	10.7	12.6	11.9	19.2	
Tourism receipts as share of exports	69.5	71.6	71.5	73.2			
Access to electricity	67.3	69.3	74.3	71.00	75.0	76.6	
Access to basic drinking water	77.1	77.6	78.1	78.2	78.2	78.2	
Mean years of schooling	5.6	5.8	5.9	6.1	6.2	6.2	6.2
Female labour force participation rate	37.9	37.9	38.0	38.1	38.2	36.8	37.1
Women empowerment index	0.8	0.8	0.9	0.9	0.9	0.9	0.9

Source: CDP Secretariat, Supplementary graduation indicators

Data gap

The World Bank's Statistical Performance Indicator (SPI)¹¹ for the country is 39.9 (based on the latest available data, referring to 2019), which places São Tomé and Príncipe at the bottom 20 per cent quintile, lower than both the Sub-Saharan African average (51.3) and the lower middle-income country average (56.7). However, up-to-date data required for monitoring are readily available from international and/or national sources.

Smooth transition, national plan and country specific factors

Sao Tome and Principe has yet to participate in the monitoring by the CDP - the participation rate is zero per cent. It has not submitted an annual report (2020-2023) nor attended a consultation meeting with the CDP (2022 or 2023).

With graduation scheduled for 13 December 2024, the Government has been working with the RCO, UNDP, UNDESA, OHRLS and other development partners to prepare for graduation, including the preparation of the STS. Following an Ex-ante Impact Assessment and a Vulnerability Profile, both

¹¹ World Bank. <https://datanalytics.worldbank.org/SPI/?tab=country-reports>, accessed 09 January 2022.

undertaken by the CDP in 2018, a joint UN Workshop in support of the country's LDC graduation was held in São Tomé, in September 2019, co-organized by the UN Inter-Agency Task Force on LDC Graduation, the Government and the UN RCO and sponsored by Portugal. It assessed challenges and opportunities resulting from LDC graduation and gathered technical advice on the process.

In 2020, the Government established an Inter-Ministerial Governing Body for the design of the STS, integrated by relevant stakeholders¹², to coordinate LDC graduation. Its secretariat is integrated by the Prime Minister's Office, the Ministry of Finance and the Ministry of Foreign Affairs. Additionally, focal points were appointed at the Ministry of Foreign Affairs and Ministry of Finance, to facilitate consultations with national stakeholders. However, to date, this Governing Body has never met.

Through technical assistance sponsored by UNDP, RCO and DESA, a Background Report for the preparation of the STS has been drafted, intended to serve as a basis for the country to formulate its STS. The Background Report resulted from various stakeholder interviews and consultations undertaken from December 2021 to May 2022, generating relevant inputs from a broad spectrum of stakeholders from the public, private and non-profit sectors. Additionally, a joint meeting with focal points from several government sectors¹³ was held in May 2022, to collect additional inputs. The document has also benefitted from technical support by the CDP and aims, essentially, at maximizing the benefits of LDC transitioning and mitigating the negative impacts of such a status change. It is aligned with the country's National Resilience and Socio-Economic Mitigation Plan in the face of COVID-19¹⁴, one of the main strategic instruments currently guiding development efforts. This alignment should promote synergies in implementation and resource optimization.

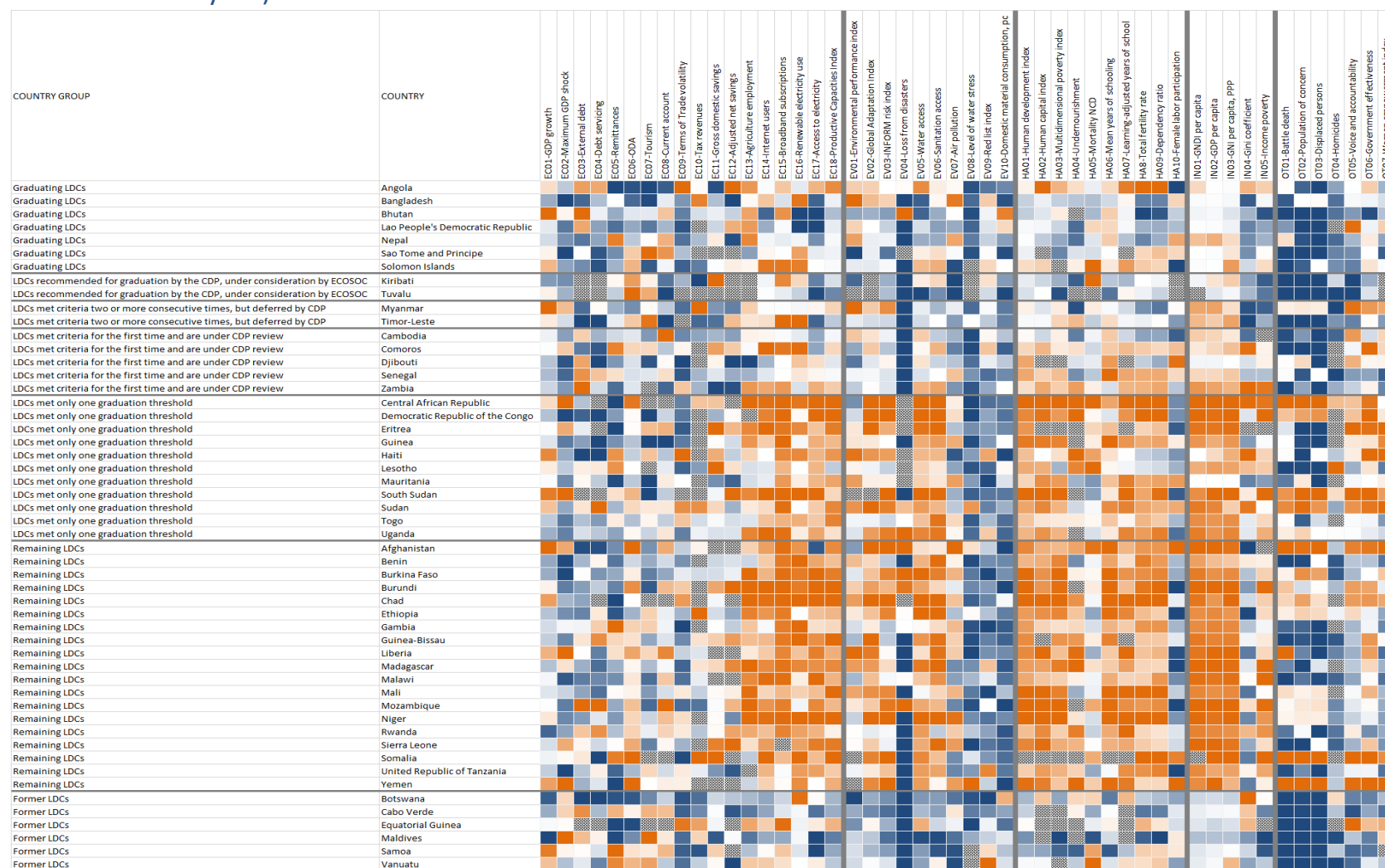
The government has not yet started the development of a national STS and has not submitted a report on the country's progress on preparing for the LDC graduation.

¹² Ministry of Foreign Affairs, Cooperation and Communities, Ministry of Finance, Planning and Blue Economy, Ministry of Health, Ministry of Education and Higher Education, Secretariat for Trade and Industry and the Presidency of the Regional Government

¹³ The following sectors were represented: Office of the Prime Minister, Ministry of Foreign Affairs, Ministry of Finance, Ministry of Health, Ministry of Tourism, Secretary of State for Commerce, Ministry of Infrastructure and Natural Resources.



¹⁴ The PNARME is considered an essential governance instrument to support policy options adopted to face the Covid-19 crisis and guide public measures towards economic recovery, aligning reform actions aimed at economic recovery, reduction of vulnerability to future shocks and overcome the severe inequalities exposed by the pandemic.

Annex 1: Heatmap extract of the supplementary graduation indicators (SGIs) for LDCs and former LDCs (2023 or latest available year)



Legend:

- Indicator furthest below reference point, indicating most concern (5th percentile)
- Indicator furthest above reference point, indicating least concern (95th percentile)

 Reference point (e.g. 33th percentile)
 No data available