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Item 5 (b) (iii) of the provisional agenda

PROGRAMME PLANNING
Country and intercountry programmes and projects
THIRD COUNTRY PROGRAMME FOR SAO TOME AND PRINCIPE*

<table>
<thead>
<tr>
<th>Programme period</th>
<th>Actual resources programmed</th>
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<tbody>
<tr>
<td></td>
<td>(480 000)</td>
<td></td>
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<tr>
<td></td>
<td>Third cycle IPF balance</td>
<td>2 387 000</td>
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<tr>
<td></td>
<td>Other resources programmed</td>
<td>4 969 440</td>
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<tr>
<td></td>
<td>Total</td>
<td>7 356 440</td>
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</tbody>
</table>

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* Detailed listings of projects and other related data prepared as part of the country programming exercise are available on request. These listings include: (a) ongoing projects; (b) proposed projects; (c) distribution of resources by objective; (d) planned activities of operational funds and programmes under the authority of the Administrator; and (e) distribution of new country programmes by sector.

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I. DEVELOPMENT TRENDS, STRATEGIES AND PRIORITIES

A. Current economic trends

1. The Democratic Republic of Sao Tome and Principe, whose economy is based almost entirely on cash crop production, is faced with a very difficult economic and financial situation, the main features of which are the absence of real economic growth, considerable internal and external imbalances and sharply increasing external-debt servicing. At the heart of this economic decline is the fall in cocoa production, which has been, and still is, the mainstay of the country's economy, accounting for 75 per cent of rural employment and 90 per cent of the country's exports. It has fallen increasingly in recent years, from 10,000 tons in 1975 to 4,150 tons in 1986. The decline in the production of cocoa and of other agricultural products (copra and coffee) can be attributed to numerous factors, including the lack of incentive for workers and management, the shortage of imported intermediate goods, a lack of maintenance, and limited access to appropriate modern technology. Although local production of foodstuffs has increased, the country continues to depend to a very large extent on imported foods, much of which still comes in the form of donations from other countries.

2. The Government has had large budget deficits, current expenditure generally far exceeding income. The Treasury's overall deficit accounted for an average of 27 per cent of the gross domestic product (GDP) during the period 1983-1986. The overall budget deficit, including investments financed from abroad, was equivalent to 45 per cent of the GDP during the same period.

3. Debt-servicing in 1986 absorbed 66 per cent of that year's export revenue. As a result, the external debt increased from 792 million dobras (Db) at the end of 1981 to Db 2,707 million at the end of 1986, equivalent to 177 per cent of the GDP.

4. The overvaluation of the dobra, the national currency, in relation to its true exchange rate, has produced a considerable imbalance in the country's foreign trade, affecting the profitability of the cocoa sector and increasing the demand for imported goods and services. Furthermore, because of the artificially low prices of imported goods on the domestic market, there is no incentive to develop domestic alternatives and, therefore, a growing dependence on imports.

5. In an endeavour to remedy the general situation, the Government has gradually directed its policy towards the elimination from the economy of bottle-necks which have been weakening it for several years, producing and fostering a lack of competitiveness and the continuous decline in cocoa production. Accordingly, at the legislative level, the country has adopted a number of economic policy measures: (a) short-term economic measures connected with the problem of feeding its population; (b) development guidelines, 1986-1990; (c) medium-term economic measures to deal with the problem of increasing production and reducing the State's general budget deficit; (d) the publication of an investment code. A round-table conference of the country's development partners was held in Brussels in December 1985 to agree upon a common strategy to support the Government's economic reform and development plans. Consultations continued in 1986 with a meeting to follow up the round-table conference, and a conference of non-governmental organizations.

/...
The Government also continued to have contacts with the group formed by the International Monetary Fund (IMF), the World Bank and the African Development Bank (AfDB), with a view to alleviating the persistent imbalances in the economy. These negotiations resulted in a structural adjustment programme, which came into operation in July 1987 with a 120 per cent devaluation of the national currency.

B. National development strategies


7. The five-year plan for 1986-1990 provides the means of implementing the strategies adopted for that period. It contains a well-organized set of development projects intended to guide and shape the economy in accordance with the objectives that have been set. It includes a core investment programme supplemented by a number of other projects grouped together in the collateral programme. The core and collateral programmes were presented at the round-table conference in December 1985, at the follow-up meetings and at the conference of non-governmental organizations. The core investment programme as a whole calls for financing of over $100 million. Funding has already been found for some of the projects in both programmes. The core programme is currently being updated by the Government with the assistance of consultants engaged to help with preparations for another round-table conference in 1988.

8. The main objectives of the five-year plan are as follows: (a) to restore the productive and innovative capacity of national undertakings; (b) to invigorate labour relations; (c) to offset the effects of geographical isolation by appropriate technical means; (d) to initiate far-reaching fiscal and monetary reforms, based on an appropriate analysis of the situation; (e) to promote modernization of the economic apparatus.

9. Although these objectives and priorities continue to be valid, the scale and extent of the liquidity crisis and the persistent economic distortions have forced the authorities to slow down implementation of the five-year plan to some extent in order to deal immediately with the current situation, giving priority to implementation of the structural adjustment programme (1987-1991). The aim of that programme is to institute a number of economic reforms in order to create the conditions required to revive cocoa production, part of a medium-term economic liberalization strategy whereby the State will gradually reduce its involvement in the management of production, rational and efficient use will be made of public-sector resources and a system of incentives will be established to increase and diversify production. This medium-term macro-economic adjustment strategy will in turn be based on an internal and external financial strategy aimed at reducing the debt-servicing burden and mobilizing financial support on favourable terms.

10. The main objectives of the Government's medium-term structural adjustment policy are as follows: (a) to allow systematic introduction of the change in the terms of trade between commercial and non-commercial products in order to stimulate
the production of goods for export and import substitution; (b) to bring about improvements in the mobilization and utilization of public resources. In the long term, the programme aims (a) to increase real per capita income and to re-establish internal and external macro-economic balance; (b) to achieve gradual diversification of the economy, based on the production of other crops and tourism-related activities.

11. The new Government, which took office on 29 January 1988, has made implementation of the structural adjustment programme its first priority and intends to do everything possible to carry out the activities planned in that connection.

12. In order to fulfil the twofold objective of increasing production and promoting economic growth, the Government has announced a programme of action whose objectives are, inter alia, (a) to restore macro-economic balance; (b) to improve the system of economic planning and management; (c) to ensure an adequate supply of consumer goods and intermediate products.

13. Apart from these overall objectives, the Government has set out sectoral objectives and strategies in priority development areas.

C. Technical co-operation priorities

14. Technical co-operation priorities in the third country programme are closely linked with the strategies and priorities of the five-year plan for 1986-1990, the structural adjustment programme and the programme of the new Government, described above.

15. Apart from the new investment programme which is being prepared for presentation at the next round-table conference, the main technical co-operation priorities in the structural adjustment programme and in the new Government's programme are as follows: (a) revival of agricultural production and economic growth; (b) improvement of the system of economic management and planning; (c) mitigation of the effects of geographical isolation.

16. Special emphasis will be placed in this context on basic and advanced training of managers and administrators.

D. Aid co-ordination arrangements

17. At national level, the Ministry of Co-operation is the lead government agency with respect to all activities connected with foreign aid and is the recognized co-ordinator of such activities, collaborating closely with the Ministry for Economic and Financial Affairs. To facilitate these tasks, it has just developed a system for registration and classification of information on negotiations and aid and project follow-up. It is also developing arrangements for liaison with the technical ministries receiving aid and directly responsible for its management. It lacks, however, a technical service to back up project preparation and evaluation.
It is recommended, therefore, that a highly flexible interministerial structure be set up, provision also being made for the use of independent consultants, whose services might sometimes be made available by donors.

18. Provision is also made in the current country programme for a project designed to reinforce this key Ministry, to help the Government mobilize and manage external aid.

II. THE COUNTRY PROGRAMME

A. Assessment of the previous programme

19. The UNDP programme of assistance to Sao Tome and Principe, adopted by the Governing Council at its special session in February 1983, was intended to cover the period from January 1983 to December 1986, 1982 having been included in the previous cycle when the programme for 1977-1981 was extended by one year. As a result, the programme for the third cycle coincided with the first interim ("prospective") national development plan which the Government was preparing at that time. In fact, the programme reflected the priority objectives set out in that plan, which accorded high priority to the agricultural sector.

20. After deducting the cost overrun for the period 1977-1981 ($46,000) programme resources for 1983-1986 totalled $1,154,000, of which roughly 66 per cent went to finance the project to develop cattle- and pig-raising, in keeping with the Government's decision to devote virtually all indicative planning figure (IPF) resources to projects in the agricultural sector.

21. On 14 November 1984 the Government and UNDP conducted a joint review in Sao Tome and Principe under the chairmanship of the Minister of Co-operation. The principal conclusion of this exercise was that all UNDP-assisted projects were consistent with the priorities identified by the Government in the country programme.

22. In addition, the internal evaluation of the country programme conducted in October 1986 found that UNDP assistance met the needs of the country and the aspirations of Government authorities, whose desire to give absolute priority to the primary sector had been established in the prospective development plan. The cattle- and pig-raising project and two other ad hoc projects prepared for the agricultural sector at the Government's request were specifically designed to: (a) help satisfy the population's animal protein requirements and develop stock-raising throughout the country in order to limit meat imports while conserving foreign exchange (STP/84/006); (b) increase the production of food crops by developing support for small farmers (STP/85/004); and (c) train future mechanics specializing in farming machinery (STP/84/006).

23. At the request of the Government, the second country programme for Sao Tome and Principe was extended to the end of 1987 (DP/CP/STP/2/Extension I).
B. New programme proposal

24. The third country programme for Sao Tome and Principe covers a four-year period, from January 1988 to 1991. It thus coincides with the last three years of the five-year development plan for 1986-1990 and with the period covered by the structural adjustment programme.

25. The IPF for the 1987-1991 programming cycle is $2,867,000. After the second programme cost over-run is subtracted, available IPF resources total $2,387,000, supplemented by approximately $4,969,440 from other sources of financing listed in the annex. Thus the provisional total of UNDP-administered programme resources amounts to $7,356,440.

26. With a relatively modest IPF as compared with real assistance needs, the Government plans to use the UNDP programme more as a frame of reference for attracting additional resources, either through cost-sharing or through co-financing with other bilateral or multilateral donors. To that end, the next round-table conference of donors will provide the Government with an opportunity to solicit additional resources to finance technical assistance projects that fall within the priority objectives of the country programme. This will allow the UNDP programme to play a catalytic role vis-à-vis other sources of financing, by attracting as many other contributions for the country as possible.

27. A number of factors and criteria were taken into consideration when the objectives of the third country programme were formulated. Account was taken in particular of the advantage presented by the United Nations system, given its universal experience and, above all, its ideological and political neutrality in certain politically sensitive areas of assistance, such as development planning, policy analysis and evaluation, civil service reform and the mobilization, co-ordination and monitoring of external assistance. UNDP assistance in the areas of development and management in the broad sense is required to help the Government mobilize and administer external and internal resources more effectively and formulate, implement, co-ordinate and evaluate development projects and programmes. Consequently, technical co-operation in this area is one of the top priorities of the third programme.

28. The following global programmes and objectives, which reflect current UNDP concerns, were also considered by the Government:

(a) Women's participation in development (a women's food production project in Rio Vouga constitutes part of the assistance requested under this programme; financing from the United Nations Development Fund for Women (UNIFEM) has already been secured);

(b) Co-operation among developing countries (Sao Tome and Principe, a Portuguese-speaking country, would like to benefit as soon as possible from the experience other Portuguese-speaking countries, particularly Brazil, have gained through UNDP-financed projects); and
(c) Development of the private sector (one of the priority objectives of the structural adjustment programme is to promote the private sector's participation in national economic recovery efforts).

29. Finally, at the request of the Government, the third country programme will place greater emphasis on training than had been the case in previous programmes. Given the special importance the Government attaches to human resources development during the course of the programme, all projects include a "training" component. Training thus constitutes one of the programme's global development objectives, in addition to the sectoral objectives described below.

30. In view of the above-mentioned consideration, the third country programme for Sao Tome and Principe will focus on three main objectives in support of the national economic recovery and structural adjustment programmes: (a) strengthening the piloting capacity of State machinery; (b) broadening the base of production in the agricultural/livestock sector, with the ultimate goal of self-sufficiency in food; and (c) providing greater access to other countries.

31. All these objectives are included in the development strategies and programmes identified by the Government.

1. **Strengthening the piloting capacity of State machinery**

32. This general term refers specifically to the ability of the government offices concerned to prepare forecasts, plan for development, promote physical planning, guide investments, oversee training and monitor and evaluate all these efforts. This implies the existence of methodologies, statistical tools and forecasting instruments along with a sufficient number of trained officials capable of carrying out their responsibilities and the adaptation of external assistance to domestic needs. At present it is imperative that this capacity be strengthened, given the imbalances which may arise as a result of the structural adjustments the country must make. To respond to this dictate, the future programme contains the following project proposals:

**Ongoing projects**

33. **Fiscal reform (STP/86/001):** This project provides assistance to the Government in its efforts to balance public finances with a view to promoting economic development and growth. An expert in fiscal matters has been working since June 1986 in the Finance Office of the Ministry of Finance. The project will end around mid-June 1988.

34. **Assistance in economic forecasting and planning (STP/87/003):** This project is aimed at strengthening the capacity of the Central Planning Office in the areas of economic forecasting, investment programming and evaluation and data collection. At the same time, the project will provide assistance in the production of economic policy documents and of the tools needed to implement the structural adjustment programme and to prepare for the round-table conference. Begun in July 1987, the project will run for three years.

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New projects

35. **Administrative reform (STP/87/002):** This project has been designed to restructure the civil service so that it can become an effective tool for national development and to introduce a new and effective system of personnel management based on genuine management principles.

36. **Preparation and organization of the round table (STP/88/001):** This project will provide logistical and technical support for the round-table conference scheduled for mid-1988.

37. **Strengthening of aid co-ordination (STP/88/002):** This project will help the Ministry of Co-operation to co-ordinate and administer external assistance to Sao Tome and Principe more effectively. (This assistance is growing in quality and volume as a result of the structural adjustment programme and the round table.)

38. **Assistance in privatization (STP/88/003):** This project, which is in the pipeline, will support the Government's efforts to privatize public enterprises and reduce State enterprises to their essential.

Linkages

39. All projects are linked not only to objectives but also to each other. In fact, fiscal reform, planning, aid co-ordination and administrative reform are all aspects of development management which will reinforce the advantages to be derived from the individual components of each project. In addition to these internal linkages, the projects have links with the reform efforts that were introduced in the wake of the structural adjustment programme, efforts which have been supported by IMF, the World Bank, AfDB and other bilateral and multilateral donors.

40. In this connection, France intends to co-operate with UNDP within the framework of project STP/87/003, "Economic forecasting and planning", by providing an expert in national accounts to the Department of Statistics and study grants for candidates designated by the project. In addition, there is the link with the UNDP regional programme through regional project RAF/86/037, the purpose of which is to measure the social impact of the structural adjustment programme.

2. Broadening the productive base in the agricultural sector

41. While the first objective is intended to assist the Government's efforts in the area of development management, this objective is intended to provide support for practical development efforts. As such, the projects in this sector are intended to broaden the productive base in the agricultural sector - the most important for the country in promoting not only economic growth but also food self-sufficiency. The following projects are proposed in support of this objective.
Ongoing projects

42. Development of cattle- and pig-breeding (STP/87/001): The purpose of this project, which is in its second phase, is to assist the Government in developing a policy for domestic meat production and to contribute to the development of livestock-breeding in order to reduce imports in this sector. During this phase, the project will attempt to revive and promote livestock-breeding among the rural population, which was its greatest source of income and protein until 1979, when an African swine fever plague decimated the entire pig population.

43. Development of infrastructures for pig-breeding (STP/83/C01): This project, financed by the United Nations Capital Development Fund (UNCDF), began in 1984/1985 and will continue for some years. It finances the construction of piggeries and the purchase of feed and other inputs for pig-breeding.

44. Strengthening of agro-meteorological and climatic services (STP/86/006): The aim of this project is the strengthening and organization of the agro-meteorological service as regards the provision of agro-meteorological and climatic data.

New projects

45. Support for small farmers (STP/87/C03): This project, the details of which are still to be worked out, relates to food production by small farmers. It is financed by UNCDF.

46. Food production in Rio Vouga (STP/87/W01): This project is financed by UNIFEM and relates to food production by women.

Linkages

47. The projects proposed for UNDP assistance in this sector are linked to the activities of several other programmes, including the World Food Programme (WFP), which in the next four years will provide food aid worth about $9 million. The recipients of this WFP assistance will be 6,000 farm workers and their families under the programme for the rehabilitation of cocoa and coffee plantations. The International Fund for Agricultural Development (IFAD) will also continue to provide financing (estimated at about $1.6 million) for a project on the development of small-scale fishing executed by the Office for Project Services (OPS). In addition to this IFAD assistance, the Japanese Government is making a contribution in the form of fishing equipment. The country will also receive assistance from the major multilateral donors, such as the World Bank, AfDB and the European Economic Community (EEC), for its efforts to revive and diversify the production of cash crops. The World Bank is financing technical assistance for the revival of two State farms (Ubabudo and Bela Vista), while EEC will continue to provide assistance to Ribeiora Peixe. As regards the rehabilitation of plantations, the Central Fund for Economic Co-operation (France) has recently taken over the management of the Santa Margarida State farm.

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48. In addition, the Ministry of Agriculture receives assistance under interregional project INT/84/022. It is worth noting, finally, that the country will benefit from the various training courses and seminars planned as part of the assistance which the regional project will provide to the African Timber Organization (ATO) (RAF/87/073), of which Sao Tome and Principe is a member.

3. Communications - combating the country's geographical isolation

49. Sao Tome and Principe is geographically isolated. Being an island country is a handicap to social and economic development efforts because it increases both the costs of maritime and air links and the difficulties of trade and social and cultural exchanges with overseas countries. The absence of infrastructure also hampers travel not only within Sao Tome and Principe, which comprises two islands, but also between Sao Tome and Principe and other countries. The country's isolation is therefore considerable and Sao Tome and Principe does not control its links with the outside world. There are frequent shortages of basic goods because of the unreliability of maritime link to the country. As a partial solution to this problem, it is imperative to ensure air and sea links between the two islands and between Sao Tome and Principe and foreign countries by improving the ports and airports. In line with the objectives of the five-year plan for 1986–1990 and the Government's declaration of January 1988, UNDP will provide, within the framework of the country programme, assistance focusing on the following areas:

Ongoing projects

50. Study of the role of air transport in the economic and social development of the country (STP/86/004): The purpose of this project is to identify the role of air transport in the economic and social development of Sao Tome and Principe.

New projects

51. Telecommunications master plan (STP/88/004): The project involves the conduct of a study for the best suited telecommunications network and providing the Government with a coherent and controlled development strategy taking into account actual investment opportunities. This strategy is aimed at objectives which will enable telecommunications to play an increasingly important role in the country's economic development.

52. Improved use of the ports of Sao Tome and Principe and Santo Antonio (STP/87/C02): The purpose of this project, financed by UNCDF, is to improve various operations at Sao Tome and Santo Antonio. It will be co-financed by EEC and the Federal Republic of Germany.

Linkages

53. The projects proposed in this sector for financing from the country programme resources are linked to other assistance projects financed by other sources. First of all, the organic link with the following regional projects should be noted: Survey of manpower and training needs in civil aviation (RAF/85/023) and the Multinational Centre for Training in Civil Aviation (RAF/87/027).
54. Sao Tome and Principe will benefit from these projects by the training of pilots and mechanics. In addition, the country will receive financing from AfDB for the extension of and the procurement of equipment for the capital's airport. A French company associated with a Brazilian firm will carry out the work. In the area of maritime transport, UNCDF will co-finance the improvement of the port of Sao Tome with EEC and the Federal Republic of Germany. The latter's contribution to the project will amount to DM 3 million. In the field of telecommunications, the master plan will be financed by UNDP, with co-financing probably being financed from the regular programme of the International Telecommunication Union (ITU), while that agency will continue for three more years to execute the project on microwave links between Sao Tome and the island of Principe which is financed by AfDB and for which training grants are provided by France.

C. **Unprogrammed reserve**

55. Some resources should be set aside as an unprogrammed reserve in order to provide for activities resulting from changes in strategies or from new priorities. An unprogrammed reserve of $261,428 is therefore proposed to provide the programme with the necessary flexibility and to put into practice the principle of continuous programming.
Annex

FINANCIAL SUMMARY

I. ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING

A. UNDP-administered sources

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<th>Description</th>
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<td>Third cycle IPF balance</td>
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<td>1987 estimated expenditures</td>
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<td>Fourth cycle IPF</td>
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<td>Subtotal IPF</td>
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<td>Special programme resources</td>
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<td>Third-party cost-sharing</td>
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<td>Subtotal, UNDP non-IPF funds</td>
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B. Other sources

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<tr>
<td>Funds from other United Nations agencies or organizations firmly committed as a result of the country programme exercise</td>
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<td>Parallel financing from non-United Nations sources</td>
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<td>Subtotal, other sources</td>
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TOTAL ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING                      | $7,356,440
I. USE OF RESOURCES

<table>
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<tr>
<td>Ongoing projects</td>
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<tr>
<td>New project proposals</td>
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<td>Programmed reserve</td>
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<td>Subtotal, programmed resources</td>
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<td>Unprogrammed reserve</td>
<td>261,428</td>
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<td>TOTAL USE OF RESOURCES</td>
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