Report Number : ICRR0020429

1. Project Data

Country
Sao Tome and Principe

Practice Area(Lead)
Macro Economics & Fiscal Management

Programmatic DPL
Planned Operations: 2 **Approved Operations:** 2

Operation ID
P128023

Operation Name
STP DPO PROGRAMMATIC

L/C/TF Number(s)
IDA-H7640

Closing Date (Original)
30-Mar-2013

Total Financing (USD)
4,200,000.00

Bank Approval Date
29-Mar-2012

Closing Date (Actual)
30-Mar-2013

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	4,200,000.00	0.00
Revised Commitment	4,200,000.00	0.00
Actual	4,267,819.49	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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Operation ID
P130925

Operation Name
STP DPO2 PROGRAMMATIC (P130925)

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IDA-H7640,IDA-H8450	30-Jun-2014	5,500,000.00
Bank Approval Date	**Closing Date (Actual)**	
03-Jun-2013	30-Jun-2014	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	5,500,000.00	0.00
Revised Commitment	5,500,000.00	0.00
Actual	5,625,517.00	0.00

2. Program Objectives and Policy Areas

a. Objectives

The objective of the DPO series was 'to assist the Democratic Republic of São Tomé and Príncipe to: (i) strengthen economic governance, with a focus on improving the transparency and monitoring of public and natural resources, improving the management and reporting of public finances, promoting fiscal stability, and strengthening public debt management; and (ii) support broad-based growth by improving the business climate, with a focus on simplifying business regulations and reducing the cost of trading across borders, and by raising tourism prospects." Program Document (PD) 1, p.28, and PD 2, p. 34.

b. Pillars/Policy Areas

The DPG supported two policy areas as follows:

Policy Area I: Strengthening Economic Governance:

Measures under this policy were to: (i) improve the transparency and monitoring of public and natural resources, (ii) improve the management and reporting of public finances, (iii) promote fiscal stability, and (iv) strengthen public debt management. Twelve prior actions were completed under this policy area during the program.

Policy Area II: Supporting Broad-Based Growth by Improving the Investment Climate and by Promoting Tourism:

Measures and actions under this policy area aimed to: (i) simplify the process of business regulation, (ii) reduce the costs of trading across borders, and (iii) raise tourism prospects. Three prior actions were completed during the period of program implementation.

c. Comments on Program Cost, Financing, and Dates

This was initially a programmatic series of three single-tranche development policy operations (DPOs), but only two were delivered. The third operation was prepared, but due the Government's breach of IDA's non-concessional borrowing policy, its presentation to the board was delayed and eventually cancelled. A new series of programmatic operations is now under preparation.
Costs: The total program cost for the two DPOs was US$9.7 million at appraisal. This amount was entirely disbursed.
Financing: The DPG program was financed by an IDA grant.
Co-financing: There was no planned co-financing.
Dates: The first DPO was approved on March 29, 2012 in the amount of US$5.5 million, made effective on July 26, 2012, and closed on schedule on March 03, 2013. The second DPO was approved on June 03, 2013, made effective on August 08, 2013, and closed on schedule on June 30, 2014.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The objectives of the DPO series were consistent with the 2010-14 Government Program, which acknowledged the centrality of sustained economic growth and the role of the private sector in generating it. The National Development Program indicates that growth underpinned by solid institutions, sound public expenditure management, fiscal sustainability, and good governance, is the appropriate path toward poverty reduction.

The reform program supported by the DPOs was also consistent with the Bank's Interim Strategy Note for 2011-2012, and with the FY14-18 Country Partnership Strategy, which was designed to support the implementation of the Democratic Republic of São Tomé and Príncipe's (STP's) Second Poverty Reduction Strategy Paper, notably by creating the conditions for growth and job creation. The two pillars of the Second Poverty Reduction Strategy Paper aimed at reforming public institutions, strengthening the strategy of good governance and promoting integrated and sustainable economic growth. The relevance of objectives is rated as high.

Rating
High

b. Relevance of Design

The design appropriately focused on structural reforms that would eventually help to diversify the economy, regardless of any oil production which was uncertain. Economic governance would be improved through greater transparency, improved statistics, fiscal stability, and strengthened public debt management. Broad based growth would be improved by simplifying business regulations, reducing the cost of cross-border trade, and facilitation of tourist visas.

The programmatic series was ideal as an instrument geared to moving toward the stated objectives, as it gives the beneficiary country the chance to build on achieved progress. The cancellation of the third DPO may have slowed down the reform momentum, although the 2016 IMF Article IV mission states that structural reforms are broadly on track.

STP's macroeconomic framework during the period 2012-15 provided an adequate basis for the proposed series of programmatic operations. Growth projections assumed that a pursuit of prudent fiscal and monetary policies, appropriate levels of capital expenditure, some reduction in inflation, and commitment to addressing arrears and overruns could lead to a decrease in the current account deficit. However, the risk of debt sustainability was still considered high, justifying the agreement of pursuing a high level of grant element in all subsequent lending operations. This framework was maintained, with support from the series to strengthen debt management and fiscal balance.

Rating
Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective
Objective I. Strengthening Economic Governance

Rationale
Efficacy is assessed against several result areas, which were selected building on experience from prior operations, the IMF program, and recent analytical work (see Section 7a):

• **Improving the transparency and monitoring of public and natural resources:** This outcome was measured against four indicators, and targets were met as follows: (i) the Government makes budget information available to the public in a timely manner as stated in the 2013 Public Expenditure Framework Assessment (PEFA)-PEFA indicator 10, (ii) the budget information is comprehensive as reported by the 2013 PEFA (the PEFA Indicator 6 received an A score) and the 2015 budget included 8 out of the 9 elements, (iii) the Government is in compliance with the Extractive Industries Transparency Initiative (EITI)

principles and criteria, and the country was accepted in 2013 as an EITI Candidate Country. In 2014, the STP-EITI Multi Stakeholder Group and National Secretariat were operational and the first reconciliation report was published and accessible to the public, and finally (iv) fishing agreements and registry of fishing licenses are accessible to the public and both industrial and artisanal fishing capacity improved.

• **Improving the management and reporting of public finances:** Progress towards achieving this outcome was mixed. The availability of public accounts indicator was partially met, as Public Accounts (PA) were submitted to the Court of Accounts with a delay of more than 15 months: PA 2012 and PA 2013 were presented on April 2015 and on November 2015 respectively. However, the ICR states that by 2014, the 15 month timeframe for submission, with one month after completion for public disclosure would be met. The 2016 IMF Article IV reports that financial statements are being aligned with GFS standards, thus meeting the DPO target of presenting in a consistent format over time. The target of forecasting fiscal aggregates for a three year period was also met. In addition, demographic information was updated in September 2014 and aligned to international standards, by quantifying demographic distributions by age group, gender, district, and socioeconomic conditions.

• **Promoting fiscal stability:** The two indicators assessing progress toward this outcome were met: (i) multi-year forecasts of fiscal indicators were prepared reflecting the major categories of budget classification starting in 2013 and made available to the public, and this practice continues currently, and (ii) the total stock of public-sector arrears owed to EMAE (*Empresa de Água eElectricidade*) at the end of December 2013 was reduced by the Government to about 8 billion dobras, and have now been totally cleared. A medium-term fiscal framework (MTFF) was integrated into the 2013 Budget Proposal, and the updated MTFF for the period 2014-2016 was also published as part of the pre-budget proposal submitted in October 2013.

• **Strengthening public debt management:** The targets related to this outcome were all achieved: (i) a medium term debt strategy was made public, and it included specific indicators, a minimum target of grant element in external borrowing, and a plan for domestic debt market development; the minimum target of grant element was recently reduced from 50% to 35%, and (ii) the quality of coverage of the legal framework for managing debt was met, and the 2012 legislation met all indicator requirements.

In summary, the objective of economic governance was strengthened through: (i) enhanced availability and comprehensiveness of budget information, preparation and publication of multi-year forecasts of fiscal indicators and a medium-term fiscal framework (MTFF), and the submission of public accounts to the Court of Accounts despite some delay, (ii) clearance of the stock of public-sector arrears owed to EMAE, (iii) publication of fishing agreements and registry of fishing licenses, and the first reconciliation report following effective EITI presence in the country, and (iv) the adoption and implementation of a medium term debt strategy. The latest IMF Article IV consultation confirmed that the IMF program supporting closely related economic governance measures is broadly on track as of end 2015, with progress in implementing structural reforms as planned.

Rating
Substantial

Objective 2

Objective

Objective 2. Supporting Broad-Based Growth

Rationale

Efficacy is assessed against progress in three result areas, building on prior experience and analytical work:

- **Simplifying the business regulations:** The three outcome targets were all achieved using the Doing Business (DB) indicators: (i) the number of days to start a business was reduced from 144 to 6 days against a target of 8 days, and the number was further reduced to 5 according to the DB 2015 and 2016, (ii) the paid in minimum capital as a percentage of income per capita was reduced from over three times the average per capita income to zero according to DB 2015 and 2016, exceeding the target, and (iii) the number of days to get a construction permit was reduced from 255 days in 2011 to 105 days against a target of 118 days, according to DB 2016.

- **Reducing the costs of international trade:** Targets under this policy reform were exceeded at the time of the ICR preparation: (i) it took 7 days (167 hours) against a target of 24 days to deal with export regulations, and, (ii) it took between 7 and 8 days (173 hours) to deal with import regulations against a target of 24 days.

- **Promote economic diversification:** An indicator important for tourism was fully met: the number of visas processed electronically were over 4,000 by end-2014, against a target of 2,000, despite the abolishment of a visa requirement for a number of countries.

The ICR noted that data from STP's one-stop shop suggests that regulatory improvements have led to an increase in business formalization, which is likely to promote job creation and a broadened tax base over the medium term. However, the latest IMF Article IV consultation stresses the need for continuing reforms to improve competitiveness and investment climate to enable expanded and diversified exports.

Rating

Substantial

5. Outcome

Relevance of objectives is rated as high, with extensive links to Government and Bank strategies for STP.
Relevance of design is rated as substantial, with prior actions clearly supporting targets and objectives which

were prioritized based on extensive analytical work. Efficacy of the first objective is rated substantial, as economic governance improved, owing to progress in transparency and accountability of public and natural resources, management and reporting of statistics, and fiscal stability, including public debt management. Efficacy of the second objective was also rated substantial, with improved business regulation, and streamlined visa processing.

a. Outcome Rating

Satisfactory

6. Rationale for Risk to Development Outcome Rating

Outcomes achieved in the areas of economic governance, and broad-based growth have shown signs of holding, and the majority of the results have been maintained by mid-2017. Additional information provided by the team indicates that potential risks identified in the ICR and the latest IMF Article IV Consultation Report on the macroeconomic, institutional, and fiduciary fronts have either passed or have been addressed by the Government. The Government, with assistance from the Bank, has been working to address business climate issues in the case of energy, access to credit and property registry. The remaining drawback so far is the reappearance of arrears between the Treasury and the Water and Electricity Company. Based on the above recent developments, the risk to development outcome is rated as modest.

a. Risk to Development Outcome Rating

Modest

7. Assessment of Bank Performance

a. Quality-at-Entry

The program design including objectives, prior actions, and targets built on experience from prior operations, the IMF program, and analytical work including the Public Expenditure Management and Financial Accountability Report (2007), Debt Management and Performance Assessment (2011), the Debt Management Reform Plan (2012), the Country Economic Memorandum (2011), the Investment Climate Assessment (2010/11). The series was informed by sustained policy dialogue between the STP authorities and key development partners. The content of the reform program was also informed by the Second Poverty Reduction Strategy Paper and was mostly consistent with it, as it emphasized accelerating economic diversification and support to broad-based growth, leaving the oil sector aside, due to uncertainties surrounding its development. The DPO series supported critical reforms aimed at strengthening the links between public finance and the development of sector strategies.

The Bank designed a programmatic series of three single-tranche DPOs that aimed to scale up the country's economic governance, and facilitate broad-based growth. Internal and external risks were reviewed, and mitigation measures were identified. Implementation arrangements were designed after taking into account critical capacity constrains and the recognition of technical complexities, and the M&E arrangements were

relevant, and included mostly easy-to-monitor indicators.

Quality-at-Entry Rating
Satisfactory

b. Quality of supervision
There were five supervision missions during the period 2012-14, which covered the first two series and the preparation of the last one, which did not materialize as the Government breached the non-concessional policy agreement. Documentation of the supervision activity included one Implementation Status and results Report (ISR) for DPO2, with aide-memoires detailing the progress of the reforms and indicators. The Bank team worked together with other donors including the IMF in areas of common interest. Finally, the ICR reported that the STP was without a country economist for almost a year, which affected the implementation of the DPOs.

Quality of Supervision Rating
Moderately Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

8. Assessment of Borrower Performance

a. Government Performance
The Ministry of Finance and Planning oversaw implementation of the series of DPOs, and coordinated the reporting of progress from all participating ministries and agencies, including from the Ministry of Public Works, Natural Resources and the Environment, and the Ministry of Defense. The series built on the Ministry's experience in carrying out the Public Resource Management and Governance DPO approved in 2011, as well as the IMF Program. Achievement of the DPL targets reflect the commitment of the Government in moving forward with reforms in a timely manner. However, the Government failed to observe the non-concessionality agreement with IDA, as STP contracted a credit from Angola on terms below the agreed level of grant element to diminish the risk of indebtedness.

Government Performance Rating
Moderately Satisfactory

b. Implementing Agency Performance
The Government as a whole was also the implementing agency and hence, there is no separate assessment for implementing agency performance.

Implementing Agency Performance Rating

Overall Borrower Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The program's 16 indicators were selected based on the joint Bank and STP government experience in implementing the previous DPOs. Overall, the identified indicators were relevant, had baselines and targets, and were easy-to-monitor. The program used a monitoring system which was already in place and used successfully in previous operations. The Ministry of Finance and Planning was the key Government institution to oversee the coordination of the reporting of performance indicators.

b. M&E Implementation

The ICR provided limited information of the M&E implementation. The Bank filed one ISR in April 2014 for DPO2 as required, but no ISR was filed for DPO1. However, the ICR reported that the Bank maintained its dialogue with the government and other partners through its field missions and at headquarters. Implementation was also affected by the absence of a country economist for an entire year.

c. M&E Utilization

According to the ICR, the Ministry of Finance and Planning provided timely reports and were utilized to undertake corrective measures, as was the case with the EITI process, and the adoption of legislation to foster debt management in particular. A parallel monitoring of the macro situation of the country by the Bank and IMF informed the decision to cancel the third operation of the series of DPOs when it emerged that the country had breached the IDA's Non-Concessional Borrowing Policy by signing a non-concessional loan with Angola. The Bank also followed on the progress of reforms under DPO1 and DPO2 during the preparation of DPO2 and DPO3, although the latter was in the end cancelled.

M&E Quality Rating

Substantial

10. Other Issues

a. Environmental and Social Effects

The ICR did not report on environmental and social effects.

b. Fiduciary Compliance

The ICR did not report any fiduciary issues

c. Unintended impacts (Positive or Negative)

The ICR noted that there were no significant other unintended outcomes or impacts.

d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---
Risk to Development Outcome	Modest	Modest	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Substantial	---

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

IEG concurs with the three findings and lessons spelt out in the ICR, which emphasized: (i) the importance of the coordinating role of the Government, which ensures that all key partners are aligned behind the reform agenda supported by the DPO, (ii) the central role of the implementing agencies, whose mission is to track day to day progress toward outcome, and finally (iii) the limited budget allocations to small countries are a handicap for more Bank's engagement and efficacy on the ground.

Most importantly, IEG finds that the key lesson from the implementation of this program is that efficacy of a DPO follows to a major extent the Government's seriousness and commitment to reform. It is the above engagement that generates the support of both internal and external stakeholders, and makes possible an appropriate tracking of the daily implementation and any needed correction.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is candid, concise and articulated around the results of the reform program. While the assessment of results achievement was overall well done, it limited the performance discussion at the level of indicators, instead of broader outcomes. The lessons learned are relevant and are consistent with the operation implementation and experience. However, the ICR could have been improved in the following areas: (i) the ICR could have been clearer that the steps taken towards promoting economic diversification and broad-based growth were necessary intermediate actions expected to lead to the objective, which would take longer to achieve than the short period of the series; (ii) the narrative on attribution of results could have given more details on the inputs from previous DPOs and other donors; and (iii) a better coverage of the M&E could have shed more light on the supervision process.

a. Quality of ICR Rating

Substantial