

GOVERNMENT OF SAO TOME AND PRINCIPE

EVALUATION REPORT OF THE GRADUATION PROCESS OF SÃO TOMÉ AND PRÍNCIPE FROM THE LIST OF LDC

São Tomé and Príncipe in the LDC post-graduation:

Transform the country into an inclusive and resilient tourism destination,
which improves the quality of life of families, promotes rural and
community development, and encourages job creation and youth and
especially female entrepreneurship, and aligns citizens with tourism
governance.

- November 2024 -

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I. Executive Summary

This report fulfils the request of the United Nations Committee on Development Policies by providing an in-depth analysis of Sao Tome and Principe's (STP) progress towards leaving the Middle Development Countries (LDCs) category. It adheres to ECOSOC Resolution E/RES/2023/10 and General Assembly Resolution 67/221, offering a comprehensive overview of macroeconomic factors, graduation criteria, and transition preparedness.

Since meeting the graduation criteria for the first time in 2015, STP has faced challenges in environmental resilience and macroeconomic fundamentals. Despite progress, the country faces a situation of excessive concentration of export products, agricultural instability and high poverty rates. The six-year LDC transition period, established by General Assembly Resolution A/RES/73/133, underlines the importance of collaboration with UN entities and development partners, which has been happening.

The country's Gross Domestic Product in 2023, characterized by a slight growth of 0.4%, which demonstrates a scenario characterized by challenges derived from the impacts of both COVID-19 and global disruptions and external shocks. This growth also demonstrates the lack of substantial progress in productivity, income and economic activity in general. STP's continued structural dependence on imports makes it still vulnerable to price fluctuations in the international market. Persistent budget and current account deficits, coupled with high levels of inflation (17.03%) in 2023, pose a serious challenge to sustained growth and poverty reduction in the country.

Gross National Income (GNI) per capita as well as the Human Assets Index has remained above the thresholds required for graduation since the country met the graduation criteria for the first time, indicating remarkable economic progress and quality in human development. However, in 2023, the Economic and Environmental Vulnerability Index recorded a sharp increase¹ attributed to the severe floods of 2022, highlighting the critical need for spatial planning policies, focused on sustainability and adaptation to climate change.

With support from the United Nations System, STP has been working towards the adoption of measures to ensure a Smooth Transition of the country on the LDC list. The creation of an Interministerial Group on the Smooth Transition Strategy marked a crucial initiative, strengthening collaboration between sectors. Notwithstanding the challenges encountered in convening the Interministerial Body to ensure the graduation process, STP formulated a Baseline Report as part of the preparation of an ETS. This report served as the basis for the preparation of the National Development Plan 2025-2039, which takes into account the different aspects of the Soft Transition, and the country's development efforts.

STP's economic outlook is optimistic, with growth forecast to be 0.9% in 2024 and growth of 3.1% in 2025. As for the tax outlook, the data available until September 2024 indicate a slight improvement compared to the same period last year, mainly due to the adjustments made in customs duties, as a result of the implementation of VAT. However, challenges stemming from global conflicts, climate change and insufficient infrastructure still remain.

STP after graduation from LDCs, must face challenges and seize opportunities. Although economic indicators appear to be progressing, it is necessary to consider the environmental vulnerabilities, fiscal deficits and external shocks to which the country is intrinsically subject. Therefore, the Government will promote the obtaining and use of financing that will have cost-free implications for the public treasury, for the main transition areas, with emphasis on the development of human capital and environmental sustainability, and will promote the mobilization of resources from non-traditional sources, whose identification will be based on practicality, economic viability and ease of implementation. The development and contribution of the private sector is essential for the success of the degree. Therefore, improving the business environment and reforming the state's business sector is crucial to increase private investment, promote economic growth and

¹ Going from 26.4 in 2022 to 37.6 in 2023.

job creation, as well as revitalize the tourism, agriculture and fishing sectors, seen as the main drivers of growth and sustainable development in the country.

I. Introduction

1. This report responds to the wishes of the United Nations Development Policy Committee (CDP), in accordance with ECOSOC Resolution E/RES/2023/10 and General Assembly Resolution 67/221, regarding the monitoring of the implementation of the Soft Transition Strategy (STS) of STP, towards graduation from the category of Medium Development Countries (LDCs).
2. In the context of these resolutions, this document offers a comprehensive and analytical overview of the country's progress towards leaving the LDC list, highlighting crucial phases of the process and providing clues for the challenge ahead after graduation.
3. Actions aimed at boosting sustainable development, with a positive impact on the lives of people in graduate studies, will be taken into account in the transition process according to the National Development Plan 2025-2039 (PND) that incorporates the issues of the Smooth Transition of STP.
4. Regardless of whether it responds to international engagement, this report provides information designed to guide relevant policies and actions that seek to promote sustainable development and the resilience of STP in the face of the challenges it faces.

II. Background

5. STP met the criteria established by the CDP for graduation from the United Nations LDC category, so much so that in 2015 it was eligible for graduation from the UN Medium Development Countries (LDCs) category, once the graduation limits of GNI per capita and the Index of Human Assets (HAI). CDP in the triennial reviews of 2018 and 2021 carried out the reassessment of the country's eligibility for the graduation of the Middle Development Countries category and proposed to the Economic and Social Council (ECOSOC) that together with the UN General Assembly they approved the recommendation and scheduled the effective graduation of the country from the LDC category for 13 December 2024 (GA Resolution A/RES/73/133 of 21 December 2018).
6. In 2021, as reported by CDP², STP recorded a Gross National Income (GNI) per capita of USD 1,850, exceeding the graduation limit established during the 2021 triennial review, set at USD 1,222. The HAI score for the country was notably high, reaching 90.6 in 2021. Although the country still faces vulnerabilities to external shocks, its score on the Economic and Environmental Vulnerability Index (EVI) has improved, standing at 26.3 in 2021, comfortably below the vulnerability threshold for graduation, which was 32. It should be noted that this improvement is due to the revision of the EVI calculation methodology and not to fundamental structural changes in the country. Although the country faces important challenges at various levels, especially economic, social and environmental, STP continues to meet all three pre-established graduation criteria, having even in 2021 significantly exceeded the established thresholds³.
7. Despite STP having met all three LDC category graduation criteria in 2021, the country continues to face macroeconomic and environmental resilience challenges considerably. While both GNI per capita and HAI have steadily improved since 2019, surpassing LDC graduation thresholds for several years, the country's EVI has fluctuated over the years, reflecting changes in the country's environmental sustainability. This index increased considerably in 2024, reaching 40.0 which puts STP well above the LDC graduation threshold, which is 32 or lower.
8. As for the economic outlook, STP still faces several challenges, such as low economic diversification and productivity of productive sectors, concentration of exports,

² UNDP (2021), Monitoring of Countries Graduating from the Least Developed Country Category: São Tomé and Príncipe, 22-26 February 2021 Virtual Meeting

³ UNDP (2021), Monitoring of Countries Graduating from the Least Developed Country Category: São Tomé and Príncipe, 22-26 February 2021 Virtual Meeting

agricultural instability, significant external public debt that requires continuous negotiations with bilateral creditors, macroeconomic weaknesses and a strong dependence on international assistance. These complexities are of great concern to the authorities when it comes to a very high incidence of poverty(66,75).⁴

9. STP faces significant challenges arising from climate change, including land degradation due to deforestation and unsustainable practices, as well as increased ocean acidification, rising sea levels, flooding, landslides, and coastal erosion, which affect communities and disrupt livelihoods.
10. This scenario, associated with the country's structural vulnerabilities (smallness and fragmentation of the internal market and the country's relative isolation from the main markets and potential decision points), imposes the crucial need for appropriate measures that contribute to the diversification of its economic base and exploitation of the existing potential.
11. STP authorities continue to work closely with different entities, including the UN country team (Office of the Resident Coordinator, UNDP), UNDESA, OHRLS and other key development partners towards the completion of the graduation process, as well as the implementation of a strategic approach to the smooth transition of the country.
12. Proof of this is the support for the preparation of the Baseline Report between (December 2021 and May 2022) that covered a variety of perspectives from individuals from the public, private and non-governmental organizations in STP, as well as the organization of a meeting in May 2022 with focal points from the government sector to gather additional information and input for the preparation of the STS ETS, this document contributed to the preparation of the National Development Plan 2025-2039, as well as the monitoring of the country in the process of graduating the list of LDCs.
13. As you can see, STP chose not to formally implement an ETS in isolation, but incorporated the concerns and recommendations for a Smooth transition of the LDC Graduation Process into its NDP (2025-2039) which will be operational soon after the country's Graduation in December 2024, as per the UN General Assembly Resolution⁵.

Key findings:

Sao Tome and Principe, is committed to the graduation process scheduled for December 2024, as expressed by the Government at the 5th United Nations Conference on the Least Developed Countries (LDCs) held in Doha, Qatar in March 2023;

The government, in order to avoid the proliferation of different policy instruments, decided to incorporate the aspects of the smooth transition into its National Development Plan 2025-2039;

The effects of the COVID-19 pandemic, and the war between Russia and Ukraine, have greatly influenced the country's economy, and worsened the country's economic base, which is already fragile and heavily dependent on resources and external assistance, while its production and export base remains limited;

Inflation remains elevated, driven by increases in the prices of food, energy and other consumer goods, associated with low levels of net international reserves, stemming from weak export capacity of goods and services and the high level of imports of goods and services;

III. Macroeconomic context

14. The average growth rate in STP between 2013 and 2022 was 3%, mainly stimulated by the tertiary sector. In 2023, real GDP growth was 0.4%, higher than the slowdown recorded in 2022 (0.2%). Projections indicate an acceleration in growth of 0.9% in 2024 and 3.1% in 2025.

⁴ INE-IOF2017

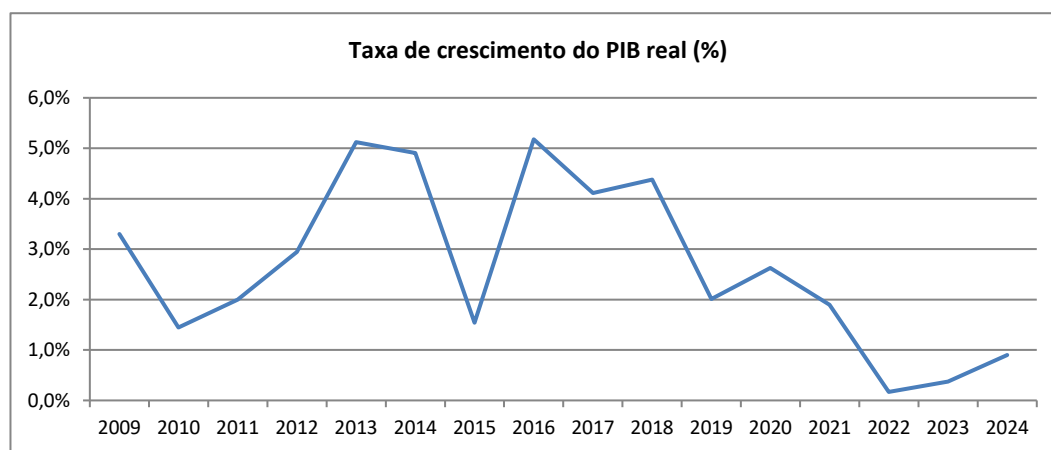
⁵ Resolution A/RES/73/133

Table 1 – Real GDP growth rate (%)

Year	Real GDP growth (%)	Total GDP Value (Thousand STN)	Primary sector	Secondary Sector	Tertiary sector	Taxes and duties on products
2013	5,1	3196072				
2014	4,9	3352878				
2015	1,5	3404502				
2016	5,2	3580747				
2017	4,1	3728022	7,6%	16%	68,6%	7,8%
2018	4,4	3891240	on average*	on average*	on average*	on average*
2019	2	3969622				
2020	2,6	4073819				
2021	1,9	4151193				
2022	0,2	4158196				
2023	0,4	4173675				
2024	0,9	4190370'	-	-	-	-
2025	3,1	4228083	-	-	-	-

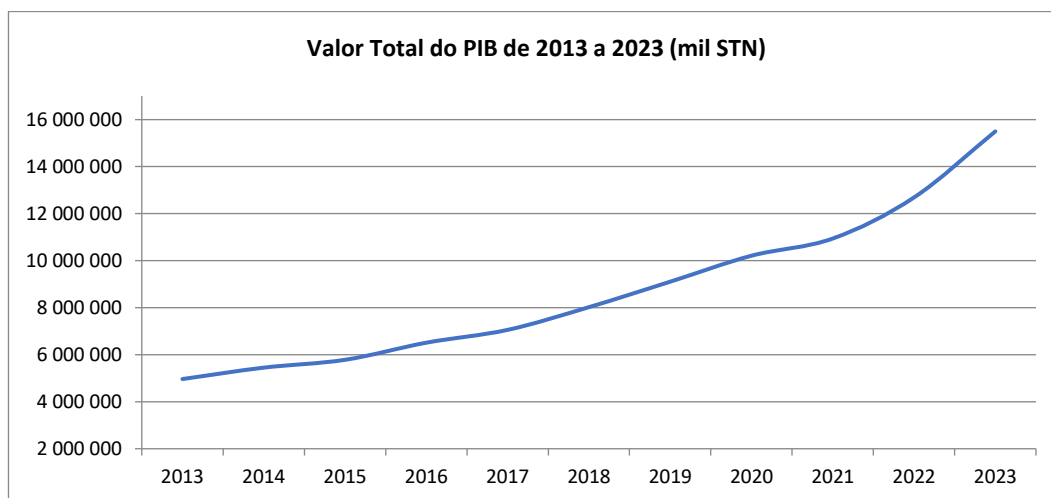
Source: National Institute of Statistics of São Tomé and Príncipe (INE) (2013-2023), UMF*(2024-2025)

Graphic 1 - Real GDP growth rate (%)



Source: INE

Graphic 2 – Evolution of real GDP (value)



Source: INE

15. The increase in global food and oil prices recorded in 2022 had a notable impact on the local market, which aggravated the economic slowdown in STP. However, in 2023 there was a slight acceleration of the economy and it is expected that in 2024 there will be a growth of 0.9%.
16. In 2023, the country recorded accumulated inflation of 17.1%, a decrease in inflationary pressures compared to 2022 (25.2%). Until September 2024 (6.3%) there was a considerable improvement compared to the same period of the previous year (11.53%).

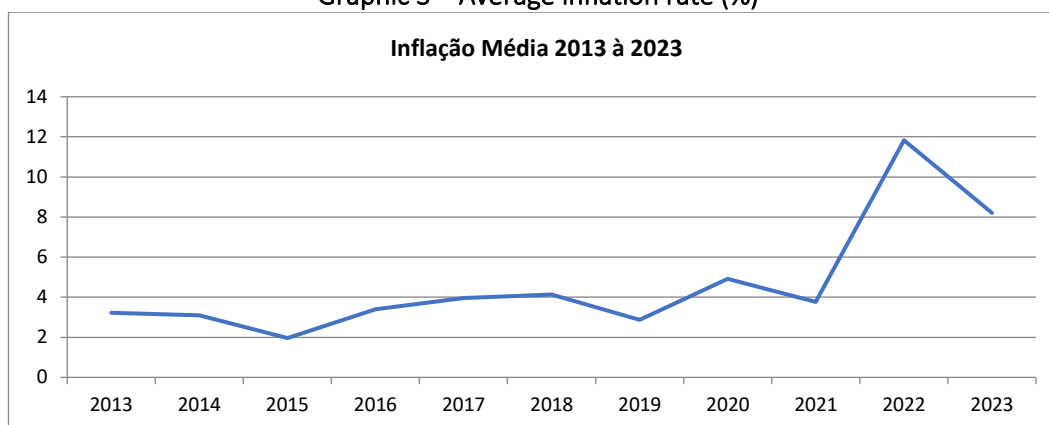
Table 2 – Evolution of the inflation rate

(%)	Jan	Feb	Sea	Apr	Mai	Jun	Jul	Aug	Set	Out	Nov	Ten	Average
2024	0,88	2,42	3,92	4,88	4,70	5,55	5,71	5,91	6,3				
2023	0,89	1,16	2,27	2,99	5,05	8,84	10,30	10,63	11,53	13,01	14,74	17,03	8,20
2022	0,65	2,59	4,31	5,95	6,77	8,72	11,19	14,29	18,08	21,00	23,23	25,21	11,83
2021	-0,23	0,23	1,30	1,46	1,73	2,02	2,73	4,77	6,06	7,27	8,28	9,51	3,76
2020	0,89	1,22	1,53	3,34	4,13	4,83	5,07	5,28	6,33	8,23	8,80	9,36	4,92
2019	-0,26	0,84	1,11	1,53	1,92	2,53	2,67	3,05	3,36	4,20	5,75	7,72	2,87
2018	0,35	0,68	1,05	1,57	1,93	2,99	3,50	5,06	6,97	8,39	8,02	9,04	4,13
2017	0,37	0,70	1,49	2,66	2,26	4,06	5,72	5,16	5,39	5,89	6,12	7,69	3,96
2016	0,75	0,94	1,74	3,42	3,90	3,43	3,69	3,79	4,14	4,51	5,36	5,12	3,40
2015	0,25	0,57	1,05	1,48	1,70	1,87	2,15	2,26	2,36	2,66	3,16	3,96	1,96
2014	0,30	0,76	0,99	1,71	2,64	3,21	3,50	3,69	3,94	4,72	5,20	6,43	3,09
2013	0,39	1,07	0,77	2,53	2,82	3,00	3,21	3,67	4,00	4,58	5,59	7,13	3,23

Source: INE

17. The data presented indicate that from 2022 onwards, there has been a downward trajectory of inflation, due to the deceleration of international prices combined with measures to contain public spending and control monetary liquidity.

Graphic 3 – Average inflation rate (%)



Source: INE

18. In 2022, the primary balance showed a slight increase in the deficit compared to the previous year, from -5.1% of GDP to -5.5%, due to weak domestic revenue collection and low level of external financing. The balance improved in 2023 (-1.9%) and an improvement is also expected in 2024, as a result of measures to increase revenue collection and contain public spending and other restrictive measures aimed at containing inflation.
19. In 2023, the public sector debt stock stood at 88.2% of GDP, representing an amount of US\$603.6 million, which corresponds to an improvement compared to 2022 (105.4% of GDP).
20. STP relies heavily on international trade, with imports of goods and services accounting for 39.7% of GDP and exports accounting for only 16.9% of GDP in 2023. The trade balance has historically been in deficit, with imports significantly outpacing exports. Imports consist mainly of imported consumer goods and fuels, while exports are dominated by palm oil and cocoa. The country's trade balance improved in 2023 (22.8% GDP) compared to 2022 (31.3% GDP)
21. The current account deficit fell to 13.% of GDP in 2023 from 14.5% in 2022, driven by the substantial increase in global oil and food prices. In 2024, the current account deficit is estimated to remain (at around 14.9% GDP) due to higher costs of imported food, fuel and fertilisers.
22. Net international reserves of STP have seen a worrying decline in the last 3 years, falling from an average of USD 14.45 million in 2022 to USD 3.31 million in 2023, due to weak export capacity and external resource mobilization. Until September 2024, net international reserves stood at an average of USD 0.91 million. It should be noted that the year 2024 was the most critical year in terms of the availability of foreign exchange reserves, with emphasis on the months of March to August 2024. This situation exposes the country's vulnerability and underlines the urgent need to increase foreign exchange revenues and improve reserve management. It highlights the country's dependence on external support and stresses the importance of establishing more robust financial strategies for future resilience.
23. With regard to revenues, the government anticipates an increase in national tax collection, mainly driven by the introduction of Value Added Tax (VAT) (at a standard rate of 15% and reduced rate of 7.5% for essential goods) and Excise Tax (IEC) (which covers a list of specific products, especially locally produced alcoholic beverages, at a rate of 10%). An improvement in revenue collection is expected with the start of some public projects in 2024 as well as the implementation of the strategic plan for the recovery of overdue

debts to the tax authorities, namely customs duties on petroleum products, personal and corporate income tax and consumption tax.

24. Table 2 – Main macroeconomic indicators

Year	Indicator	Value
2023	Trade balance (% of GDP)	27% (estimate)
2024	Trade balance (% of GDP)	25.4% (forecast)
2023	Current account deficit (% of GDP)	16.8% (estimate) against 15% in 2022
2024	Current account deficit (% of GDP)	14.9% (forecast)
2024 (until September)	Net International Reserves (million dollars)	\$1.82 million
2023	Net International Reserves (average), million dollars	\$3.31 million (\$15.45 million in 2022)
2023	Inflation rate (%)	17,0%
2023	Fiscal deficit (% of GDP)	1,9%
2024	Fiscal Deficit Estimate (% of GDP)	0,5%
2022 to 2023	Return on assets (%)	1.0% to 1.4%
September 2021 to September 2022	Return on equity (%)	5.7% to 8.4%

Source: Central Bank of São Tomé and Príncipe, 2024 State Budget, 2025 State Budget proposal, Macro Fiscal Unit - June 2024, International Monetary Fund (IMF)

Key findings:

Sao Tome and Principe's economic trajectory has been characterized by resilience and challenges. GDP grew by 0.4% in 2023 when compared to 2022 (0.2%), driven by the tertiary sector. Projections indicate an improvement in growth in 2024 and 2025, despite the challenges to be faced. São Tomé and Príncipe is vulnerable due to its strong dependence on imports, which increases its susceptibility to fluctuations in the international market, namely: external shocks, such as increases in global food and oil prices. To increase reserves while avoiding depletion and to decrease dependence on foreign aid, there is a crucial need for financial strategies to be improved. Inflation has declined, but remains in double digits, which still prompts the implementation of measures to combat inflation, and the adoption of prudent fiscal policies and a commitment to responsible borrowing, to avoid persistent uncertainties. Delays in critical reforms, together with external financing constraints, global supply chain disruptions, and climate-related events, pose potential threats to sustained growth and poverty reduction. As the country faces these challenges, strategic fiscal adjustments, the introduction of Value Added Tax and planned disbursements of external subsidies demonstrate proactive steps towards economic stability. The government's commitment to prudent spending and austerity measures, along with collaboration with international partners, will be key to shaping the country's economic resilience and ensuring a trajectory towards sustainable development in the years ahead.

IV. Indicators for LDC Graduation

25. According to the data presented in the table below, the GNI per capita of STP showed a positive trajectory from 2019 to 2024, indicating a consistent improvement in the country's economic situation. The increase in GNI per capita means an overall improvement in economic well-being during this period, contributing to better living standards, better access to goods and services, and a better overall quality of life for the population.

Table 3 - LDC Graduation Indicators

Year	GNI per capita	EVI	HAI
2019	1.679,5	28,3	89,7
2020	1.754	28,8	88,3
2021	1.849	28,7	89,3
2022	1.989	29,7	90,0
2023	2.125	40,3	90,7
2024	2.271	40,0	91,4

Source: UN Development Policy Committee (CDP)

26. However, STP's EVI has shown fluctuations over the years, reflecting changes in the country's environmental susceptibility. Key considerations include:
27. - The Economic and Environmental Vulnerability Index (EVI) increased considerably in 2024, reaching 40, which places STP above the LDC graduation threshold, which is 32 or lower. This substantial increase in vulnerability signifies a sudden and significant change in STP's environmental circumstances, mainly attributed to the severe floods in December 2021, which affected around 9,000 people. These unpredictable events underline the country's precarious proximity to significant vulnerability, with only one catastrophe between stability and risk.
28. HAI, which reflects overall well-being and human development, has been consistently increasing, starting at 89.7 in 2019 and reaching 91.4 in 2024. This upward trend indicates advances in several facets of human development, including greater access to education, health care, vital services, poverty reduction, and improved living conditions. The increase in the HAI serves as a promising indicator of improving the quality of life of the country's population.
29. While STP has made commendable progress in GNI per capita and HAI, signalling an improvement in the quality of life of its residents, the considerable increase in EVI in 2024 is a cause for concern. As STP is a small island developing state, facing a greater susceptibility to climate-related shocks, immediate action is needed to address environmental challenges, as it is key to sustaining positive trends in human development. Implementing sustainable environmental policies, disaster resilience strategies, and promoting international collaboration are imperative to address increased vulnerability and ensure the country's long-term progress.

Key findings:

The economic, environmental vulnerability and human assets index indicators of São Tomé and Príncipe indicate the country's development picture. Although GNI per capita and HAI indicate improvements in economic well-being and human development, the considerable increase in EVI in 2024 points to a strong vulnerability of the country to climate change. Extreme weather events and marked climate variability are observed, such as the increase in the frequency of flash floods and the occurrence of floods, in contrast to a decrease in the amount of precipitation and, consequently, in the flow of rivers, affecting various productive sectors and populations. In this context, STP maintains its solid commitment to the United Nations Framework Convention on Climate Change (UNFCCC) in combating climate change, implementing adaptation and mitigation actions, even in the face of financial constraints.