

GOVERNMENT OF SÃO TOMÉ AND PRÍNCIPE

PROGRESS REPORT ON THE PROCESS OF SÃO TOMÉ AND PRÍNCIPE’S GRADUATION  
FROM THE LIST OF LDC

São Tomé and Príncipe's Path to LDC Graduation:  
Navigating Challenges, Seizing Opportunities, and Ensuring Sustainable Development

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## I. Executive Summary

This report fulfills the United Nations Committee for Development Policy's request, providing an in-depth analysis of São Tomé and Príncipe's progress towards graduation from the Least Developed 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 readiness for transition.

Since meeting graduation criteria for the first time in 2015, São Tomé and Príncipe faced challenges in environmental resilience and macroeconomic fundamentals. Despite progress, the country grapples with export concentration, agricultural instability, and high poverty rates. The six-year LDC transition period, established by GA Resolution A/RES/73/133, emphasizes the importance of collaboration with UN entities and development partners.

The country's economic trajectory in 2022, characterized by a marginal 0.1% GDP growth, mirrors a landscape besieged by the compounding challenges of COVID-19 impacts, global disruptions, and external shocks. This almost imperceptible growth signifies more than just numbers; it embodies a lack of substantial progress in productivity, income, and overall economic activity, positioning the nation perilously close to a state of stagnation. São Tomé and Príncipe's heavy dependence on imports leaves it vulnerable to price fluctuations. Amidst a steep inflation surge of 25.2% in 2022, persistent fiscal and current account deficits further compound the hurdles, presenting obstacles to sustained growth and the alleviation of poverty.

Since initially meeting graduation criteria, both the Gross National Income (GNI) per capita and the Human Assets Index have consistently surpassed the thresholds required for graduation, indicating commendable progress in economic well-being and human development. However, in 2023, the Environmental Vulnerability Index experienced a sharp increase<sup>1</sup> attributed to the severe floods, highlighting the critical necessity for robust environmental policies and resilience strategies. This emphasizes the urgency of sustaining positive trends in human development while ensuring environmental protection and resilience against such adversities.

In partnership with UN entities, São Tomé and Príncipe took significant steps toward its Smooth Transition Strategy (STS). The establishment of an Interministerial Group for the Smooth Transition Strategy marked a crucial initiative, enhancing collaboration among sectors. Despite encountering challenges in convening the Governing Body, the country successfully formulated a Background Report integral to the STS preparation. This report, aligned with São Tomé and Príncipe's National Resilience and Socio-Economic Mitigation Plan for Covid-19 (PNARME), serves as a foundational document guiding ongoing development efforts.

The economic outlook for São Tomé and Príncipe is mixed, with a projected contraction of -0.3% in 2023 and a modest growth of 2.9% in 2024. In terms of fiscal and external trade perspectives, there's a significant decline in revenues in 2023, particularly those derived from customs duties, due to the implementation of the VAT. Challenges persist from global conflicts, climate change, and inadequate infrastructure. São Tomé and Príncipe now prioritizes climate resilience and sustainable development initiatives, focusing on climate-smart agriculture, and the blue economy. Private sector support is integral to transitioning towards green and clean energy. As the country navigates its path beyond LDC status, the tourism sector, aligned with broader sustainable development goals, will play a crucial role in shaping a prosperous and environmentally conscious future.

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<sup>1</sup> Increasing from 26.4 in 2022 to 37.6 in 2023.

São Tomé and Príncipe's journey towards LDC graduation involves navigating challenges and leveraging opportunities. While economic indicators reflect a nuanced progress, addressing environmental vulnerabilities, fiscal deficits, and external shocks is imperative. The country's commitment to sustainable development, collaboration with international partners, and strategic initiatives position it for a resilient and prosperous post-graduation future.

## II. Introduction

1. This report fulfills the United Nations Committee for Development Policy (CDP) request, as per ECOSOC Resolution E/RES/2023/10 and General Assembly Resolution 67/221, with regard to the monitoring of the implementation of São Tomé and Príncipe's Smooth Transition Strategy (STS) for LDC graduation.
2. In the context of these resolutions, this document provides a comprehensive and analytical overview of the country's progress toward graduation from the LDC list, highlighting crucial stages of the process and providing a critical assessment of the effectiveness of the Smooth Transition Strategy.
3. By fulfilling this request, we offer an in-depth understanding of macroeconomic factors, graduation criteria, and São Tomé and Príncipe's readiness for transition, thereby contributing to informed decision-making and the continuous improvement of the country's development strategies.
4. The structure of this report follows an organized approach, beginning with historical contextualization and the evolution of graduation criteria, moving on to the analysis of the current macroeconomic landscape, assessment of readiness for a smooth transition, and concluding with future post-graduation outlooks.
5. This report not only fulfills an international obligation but also provides valuable insights that can guide future policies and actions, promoting sustainable development and resilience for São Tomé and Príncipe on the global stage.

## III. Background

6. In 2015, São Tomé and Príncipe met the criteria set by the Committee for Development Policy (CDP) for graduation from the United Nations Least Developed Countries (LDCs) category. This milestone was reached as the country exceeded the graduation thresholds for GNI per capita and the Human Assets Index (HAI). Subsequent to this achievement, the CDP conducted reassessments of its graduation eligibility during the 2018 and 2021 triennial reviews of the LDC category.
7. Based on these reviews, the CDP recommended São Tomé and Príncipe's graduation to the Economic and Social Council (ECOSOC). Following due consideration, both ECOSOC and the UN General Assembly endorsed the recommendation, officially scheduling the country's LDC graduation for December 13, 2024 (GA Resolution A/RES/73/133 of 21 December 2018).
8. In 2021, as reported by the CDP<sup>2</sup>, São Tomé and Príncipe recorded a per capita GNI of \$1,850, surpassing the graduation threshold established during the 2021 triennial review, which was set at \$1,222. The HAI score for the country was notably high at 90.6 in 2021, albeit experiencing a slight decrease compared to the previous year. While the country still faces vulnerabilities to external shocks, its EVI score improved, registering at 26.3 in 2021, comfortably below the graduation vulnerability threshold of 32. It is worth noting that this improvement is attributed to a revised methodology for calculating the EVI rather than a fundamental structural change within the country. Nevertheless, overall, São Tomé and Príncipe unequivocally met all three graduation criteria in 2021 with significant margins<sup>3</sup>.
9. Although São Tomé and Príncipe met all three LDC graduation criteria in 2021, the country continued to grapple with environmental resilience and macroeconomic fundamentals challenges. While both GNI per capita and HAI had been steadily increasing since 2019, surpassing LDC graduation

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

<sup>3</sup> Idem

thresholds for several years, the country's EVI took a significant upturn in 2023, reaching 37.6. This placed São Tomé and Príncipe above the LDC graduation threshold of 32 or below.

10. From an economic perspective, São Tomé and Príncipe still confronts several challenges, including export concentration, agricultural instability, significant external public debt requiring ongoing negotiations with bilateral creditors, macroeconomic fragility, and a heavy reliance on international assistance. These complexities are especially worrisome for a country with consistently high poverty rates.
11. Moreover, it is essential to consider the distinctive structural vulnerabilities of the country. These vulnerabilities encompass its insular geography, limited economic and territorial scale, a small and fragmented domestic market, and its relative economic isolation from the African continent.
12. With this in mind, GA Resolution A/RES/73/133 established a six-year transition period for São Tomé and Príncipe. During this time, the country would focus on developing its STS in alignment with its national development plan. The United Nations system, in collaboration with bilateral, regional, and multilateral development and trade partners, would offer assistance throughout this process.
13. The authorities in São Tomé and Príncipe have collaborated closely with various entities, including the UN country team (Resident Coordinator Office, UNDP), UNDESA, OHRLLS, and other key development partners. Together, they have actively engaged in the preparations for the country's graduation.
14. Through collaborative efforts, and with a focus on deriving practical recommendations for a successful LDC graduation process, a Background Report for the preparation of São Tomé and Príncipe's STS was drafted, with technical support provided by UNDESA, Resident Coordinator Office and UNDP. This report was informed by a series of stakeholder interviews and consultations conducted between December 2021 and May 2022, encompassing a diverse array of perspectives from individuals in the public, private, and non-governmental sectors in São Tomé and Príncipe. Furthermore, a meeting was organized in May 2022 with government sector focal points to gather further insights and input.
15. The country has opted not to formally implement a STS but is instead incorporating the recommendations from the Background Report for São Tomé and Príncipe's STS into its ongoing efforts to develop a new National Development Plan.

#### **Key Take-Aways:**

*São Tomé and Príncipe's journey toward graduation from the LDCs category has been marked by significant achievements and ongoing challenges. Despite surpassing income, human assets, and vulnerability thresholds in 2021, São Tomé and Príncipe grapples with environmental and economic complexities. The considerable upturn in EVI in 2023 and enduring economic challenges necessitate careful consideration during the transition period. Structural vulnerabilities, including insular geography and limited economic scale, underscore the unique context of São Tomé and Príncipe. During the six-year transition period, the country, with collaborative efforts from various stakeholders and UN entities, is actively preparing for graduation. The Background Report for the preparation of São Tomé and Príncipe's Sustainable Transition Strategy (STS), aligned with the National Resilience and Socio-Economic Mitigation Plan for Covid-19 (PNARME), serves as a strategic framework guiding future development efforts. While São Tomé and Príncipe has chosen not to formally implement an STS, it plans to incorporate the recommendations from the Background Report into its ongoing initiatives to formulate a new National Development Plan. This approach aims to enhance coordination, resource allocation efficiency, and overall success in navigating the challenges and opportunities that lie ahead during the post-graduation phase.*

#### IV. Macroeconomic Context

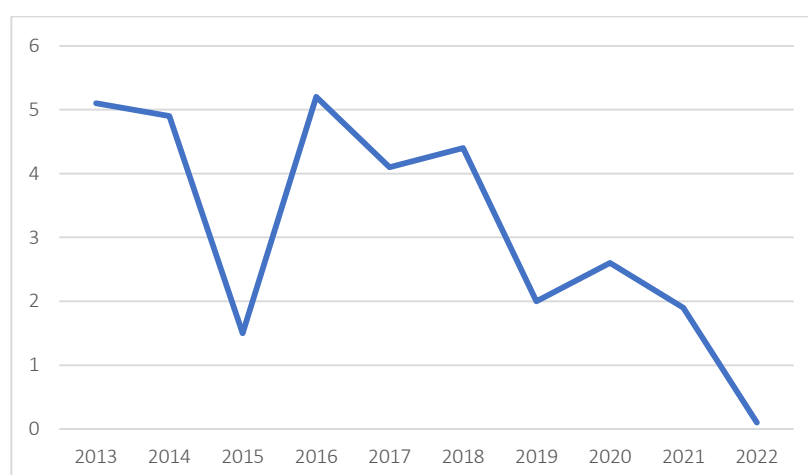
16. São Tomé and Príncipe's GDP had an average growth rate of 3% between 2013 and 2023, primarily driven by the tertiary sector<sup>4</sup>. In 2022, the economy faced challenges and the country registered a noticeable slowdown in real GDP growth, declining from 1.9% in 2021 to 0.1% in 2022. This decrease was primarily a result of the persistent impact of the COVID-19 pandemic on the tourism sector, compounded by the global disruption caused by Russia's invasion of Ukraine, which had a significant impact on global trade<sup>5</sup>. The projections indicate a contraction of -0.3% in 2023 and a growth of 2.9% in 2024<sup>6</sup>.

Table 1. Real GDP Performance

Year	Real GDP Growth (%)	Real GDP (Thousand STN)	Primary Sector	Secondary Sector	Tertiary Sector	Taxes & Duties on Products
2013	5,1	4,6	13% on average	8% on average	70% on average	9% on average
2014	4,9	5,2				
2015	1,5	5,4				
2016	5,2	6,2				
2017	4,1	7,0				
2018	4,4	7,9				
2019	2,0	8,2				
2020	2,6	8,6				
2021	1,9	10,4				
2022	0,1	10,9				
2023	0,3	-	-	-	-	-
2024	2,9	-	-	-	-	-

Source: National Institute of Statistics of São Tomé and Príncipe (INE)

Figure 1. Real GDP Growth (%): from 2013 to 2022



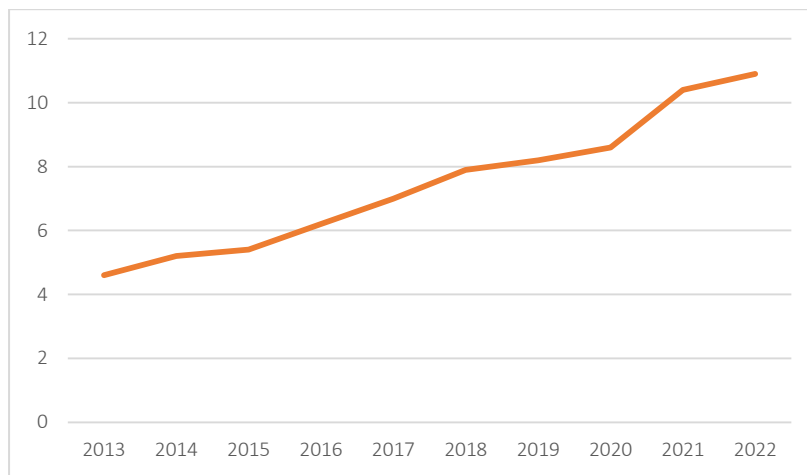
<sup>4</sup> UN STP, Report on the macroeconomic situation of São Tomé and Príncipe: 2022 to the first semester of 2023

<sup>5</sup> AfDB African Economic Outlook 2023

<sup>6</sup> National Institute of Statistics of São Tomé and Príncipe (INE)

Source: National Institute of Statistics of São Tomé and Príncipe (INE)

Figure 2. Real GDP (Thousand STN) from 2013 to 2022



Source: National Institute of Statistics of São Tomé and Príncipe (INE)

17. The economic deceleration in São Tomé and Príncipe was further exacerbated by the rise in global food and oil prices, which had a notable impact on the local market. Given that São Tomé and Príncipe imports 100% of its oil and approximately 50% of its food<sup>7</sup>, the country is particularly vulnerable to price fluctuations in international markets.
18. The analysis of inflation data over the past decade in São Tomé and Príncipe highlights an upward trajectory, with rates reaching significant levels, especially in 2022. This upward trend raises concerns about inflationary pressures within the country's economy. The monthly variations indicate volatility, hinting at the potential influence of seasonal factors or specific events. Notably, in 2022, the inflation rate surged to 25.2%<sup>8</sup>, reflecting the early impacts of the Ukraine war<sup>9</sup>.

Table 2. Monthly Inflation (%) from 2013 to 2023

( % )	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Average
<b>2023</b>	0,89	1,16	2,27	2,99	5,05	8,84	10,30	10,63	-	-	-	-	-
<b>2022</b>	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
<b>2021</b>	-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
<b>2020</b>	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
<b>2019</b>	-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
<b>2018</b>	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
<b>2017</b>	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
<b>2016</b>	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

<sup>7</sup> AfDB African Economic Outlook 2023

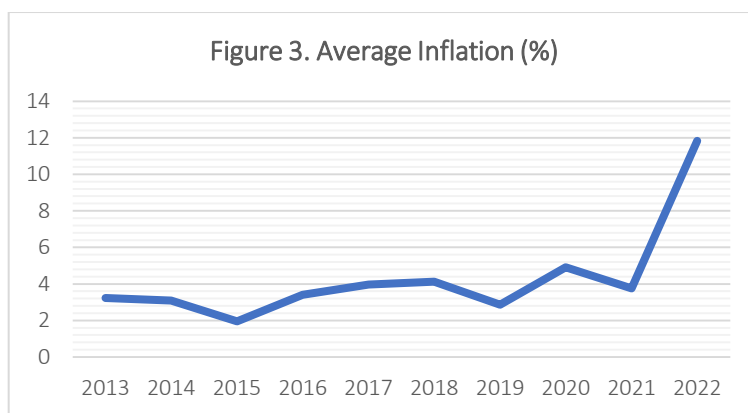
<sup>8</sup> Central Bank of São Tomé and Príncipe

<sup>9</sup> UN STP, Report on the macroeconomic situation of São Tomé and Príncipe: 2022 to the first semester of 2023

<b>2015</b>	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
<b>2014</b>	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
<b>2013</b>	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: Central Bank of São Tomé and Príncipe

19. The consistent increase in the yearly average inflation, since 2013, underscores the significance of comprehending its root causes and evaluating potential impacts on economic conditions and the well-being of the population.



Source: Central Bank of São Tomé and Príncipe

20. In 2022, the primary balance showed a slight deficit increase due to higher domestic expenditure. The fiscal balance improved in 2022 but is projected to increase in 2023. Despite high public debt at 106% of GDP in 2022, the IMF considers it sustainable, due to the government's commitment to fiscal consolidation and responsible borrowing<sup>10</sup>.
21. The fiscal deficit reached approximately 7.2% of the GDP in 2022, an increase from 5.9% in 2021<sup>11</sup>. Projections suggest it will decrease to 1.9% of the GDP in 2023, as a result of prudent measures in public spending and austerity measures aimed at containing inflation<sup>12</sup>.
22. However, it is worth noting that delays in the implementation of urgent reforms could undermine the government's fiscal position and foreign exchange reserves. The reduced availability of external financing, continued disruption of global supply chains, and climate-related events could potentially weaken São Tomé and Príncipe's growth prospects and further exacerbate poverty<sup>13</sup>.
23. São Tomé and Príncipe heavily relies on international trade, with imports accounting for 35.4% of GDP and exports only representing 3.6% of GDP in 2022<sup>14</sup>. The trade balance has historically been in deficit, with imports significantly outweighing exports. Imports mainly consist of consumer goods and imported fuel, while exports are dominated by palm oil and cocoa beans. The country's trade balance increased to 30.7% of GDP in 2022, compared to 27.3% in 2021<sup>15</sup>.

<sup>10</sup> UN STP, Report on the macroeconomic situation of São Tomé and Príncipe: 2022 to the first semester of 2023

<sup>11</sup> AfDB African Economic Outlook 2023

<sup>12</sup> Budget Directorate - MPFEA

<sup>13</sup> World Bank STP webpage

<sup>14</sup> UN STP, Report on the macroeconomic situation of São Tomé and Príncipe: 2022 to the first semester of 2023

<sup>15</sup> Idem



24. The current account deficit increased to 13.3% of GDP in 2022, up from 12.1% in 2021<sup>16</sup>, driven by the substantial rise in global prices of oil and food products. This deficit is mainly financed through fuel credit and multilateral loans. In 2023, the current account deficit is expected to remain strained (around 14.9%) due to higher costs of imported food, fuel, and fertilizers, outweighing agricultural and tourism revenues<sup>17</sup>.
25. The net international reserves of São Tomé and Príncipe experienced a significant decline, dropping from USD 29.9 million in December 2021 to USD 14.3 million in December 2022<sup>18</sup>, primarily attributed to increased import costs of oil and food products. Since October 2022, the country has faced consecutive months of significant challenges regarding its international reserves (below the capacity of one month's imports) due to slow recovery in tourism and prolonged availability of Official Development Assistance (ODA). This difficult situation led to complete reserve depletion in November 2022, April 2023, August 2023, and September 2023<sup>19</sup>. Portugal intervened in December 2022, providing urgent support of 15 million euros<sup>20</sup>. Subsequently, international reserves were replenished through a credit line of USD 30 million with Afreximbank<sup>21</sup>. Out of the USD 30 million credit line, only USD 11 million were used for fuel imports.
26. While these concerted efforts aimed to stabilize the situation and ease the acute strain on the country's reserves, ultimately aiming for a more sustainable financial outlook, this situation exposes the country's vulnerability and emphasizes the urgent need to increase foreign exchange earnings and improve reserves management. It underscores the country's reliance on external support and accentuates the importance of establishing more robust financial strategies for future resilience.
27. There have, however, been some improvements in financial indicators, with the return on assets increasing from 1.0% in September 2021 to 1.4% in September 2022, and the return on equity following a similar trend, rising to 8.4% in September 2022 from 5.7% in September 2021<sup>22</sup>.
28. With regard to revenues, the government foresees an increase in national tax collection, mainly driven by the introduction of the Value-Added Tax (VAT) in June 2023 (at a standard rate of 15% and reduced rate of 7.5% for essential goods) and the Special Consumption Tax (SCT) (which covers a list of specific products, especially locally produced alcoholic beverages, at a rate of 10%). Additionally, the anticipated resumption of external grant disbursements will also bolster total revenues for 2023<sup>23</sup>.
29. On the expenditure side, the government's spending will be closely managed as part of a front-loaded fiscal adjustment program under the upcoming IMF initiative. Consequently, the government expects a reduction in the non-oil domestic primary deficit for the year 2023<sup>24</sup>.

**Tabela 3. Economic Indicators**

Year	Indicator	Value
2022	Trade Balance (% of GDP)	30.7% (up from 27.3% in 2021)
2022	Current Account Deficit (% of GDP)	13.3% (up from 12.1% in 2021)
2022	Net International Reserves (USD million)	\$14.3 million (down from \$29.9 million in 2021)

<sup>16</sup> <https://www.imf.org/en/Countries/STP#countrydata>

<sup>17</sup> The World Bank's website for São Tomé and Príncipe

<sup>18</sup> Central Bank of São Tomé and Príncipe

<sup>19</sup> Idem

<sup>20</sup> UN STP, Report on the macroeconomic situation of São Tomé and Príncipe: 2022 to the first semester of 2023

<sup>21</sup> The World Bank website for São Tomé and Príncipe

<sup>22</sup> AfDB African Economic Outlook 2023

<sup>23</sup> The World Bank website for São Tomé and Príncipe

<sup>24</sup> Budget Directorate-MPFEA

		2021)
2022	Inflation Rate (%)	25.2%
2022	Fiscal Deficit (% of GDP)	7.2% (up from 5.9% in 2021)
2021 to 2022	Return on Assets (%)	1.0% to 1.4%
Sept 2021 to Sept 2022	Return on Equity (%)	5.7% to 8.4%
2023	Fiscal Deficit Projection (% of GDP)	5.5%
2024	Fiscal Deficit Projection (% of GDP)	4.5%
2023	Anticipated Net International Reserves	\$20.3 million
2024	Anticipated Net International Reserves	\$25.2 million

Source: Central Bank of São Tomé and Príncipe, ONU STP, Report on the macroeconomic situation of São Tomé and Príncipe: 2022 to the first semester of 2023, AfDB African Economic Outlook 2023 <https://www.afdb.org/en/documents/african-economic-outlook-2023>, IMF (<https://www.imf.org/en/Countries/STP#countrydata>)

### **Key Take-Aways:**

São Tomé and Príncipe's economic trajectory has been characterized by resilience and challenges. The notable slowdown in GDP growth in 2022, attributed to the lasting impact of the COVID-19 pandemic on the tourism sector and global disruptions, signals the need for strategic economic management. Despite projections indicating a -0.3% growth in 2023 and 2.9% in 2024, challenges persist, notably high inflation rates, increased fiscal deficits, and vulnerabilities in trade balance and current account. Facing external shocks such as surges in global food and oil prices, São Tomé and Príncipe demonstrates vulnerability due to its heavy reliance on imports, which amplifies its susceptibility to international market fluctuations. The depletion of international reserves in recent months signifies a crucial need for enhanced financial strategies to boost reserves and decrease dependency on external aid. Despite the implementation of measures to address inflation, adoption of prudent fiscal policies and a commitment to responsible borrowing, uncertainties linger. Delays in critical reforms, coupled with external financing constraints, global supply chain disruptions, and climate-related events, pose potential threats to sustained growth and poverty alleviation.

As the country navigates these challenges, strategic fiscal adjustments, the introduction of the Value Added Tax, and anticipated external grant disbursements showcase proactive steps toward economic stability. The government's commitment to prudent spending and austerity measures, coupled with collaboration with international partners, will be instrumental in shaping the nation's economic resilience and ensuring a trajectory toward sustainable development in the years ahead.

## **V. Evolution of Graduation Criteria**

30. In accordance with the data presented in the table, São Tomé and Príncipe's Gross National Income (GNI) per capita has displayed a positive trajectory from 2019 to 2023, indicating a consistent improvement in the country's economic standing. The rise in GNI per capita signifies an overall enhancement in economic well-being during this period, contributing to elevated standards of living, improved access to goods and services, and an overall better quality of life for the population.

**Table 4. Criteria for Graduation from the LDC Category (2019 to 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: UN CDP

31. However, the Environmental Vulnerability Index (EVI) for São Tomé and Príncipe has shown fluctuations over the years, reflecting changes in the nation's environmental susceptibility. Key considerations include:
  - In 2020, the EVI decreased to 27.3, indicating an improvement in environmental resilience. This reduction may be attributed to efforts in sustainable resource management or disaster preparedness.
  - Conversely, the most significant shift occurred in 2023 when the EVI spiked to 37.6. This substantial increase in vulnerability signifies a sudden and significant change in São Tomé and Príncipe's environmental circumstances, primarily linked to severe floods in late December 2021, affecting around 9,000 individuals. Such unforeseeable events underscore the country's precarious proximity to significant vulnerability, with just one disaster standing between stability and risk.
32. The Human Achievement Index (HAI), reflecting overall well-being and human development, has consistently increased, starting at 89.7 in 2019 and reaching 91.0 in 2023. This upward trend indicates advancements in diverse facets of human development, including increased access to education, healthcare, vital services, reduced poverty, and improved living conditions. The rising HAI serves as a promising indicator of an enhanced quality of life for the country's population.
33. While São Tomé and Príncipe has made commendable progress in GNI per capita and HAI, signaling an improved quality of life for its residents, the noteworthy surge in the EVI in 2023 is a cause for concern. São Tomé and Príncipe, being a small island developing state, facing increased susceptibility to climate-related shocks, immediate action is required to address environmental challenges, as it is pivotal to sustaining positive trends in human development. Implementing sustainable environmental policies, disaster resilience strategies, and fostering international collaboration are imperative to address heightened vulnerability and secure long-term advancement for the nation.

#### **Key Take-Aways:**

*The analysis of São Tomé and Príncipe's economic indicators, environmental vulnerability, and human assets index enables a deeper and multifaceted understanding of the country's development landscape. While the positive trajectory in GNI per capita and HAI reflects commendable advancements in economic well-being and human development, the notable spike in EVI in 2023 serves as a stark reminder of the country's susceptibility to unforeseen environmental challenges. Addressing this heightened vulnerability requires immediate and concerted efforts, necessitating the implementation of robust environmental policies, disaster resilience strategies, and fostering international collaboration. These measures are crucial not only for mitigating the impact of sudden environmental shifts, as exemplified by the severe floods in 2021, but also for ensuring the sustained positive trends in human development.*

*As São Tomé and Príncipe navigates its graduation process from the LDC list, a holistic approach that balances economic progress with environmental sustainability is paramount for securing a resilient and prosperous future for its citizens.*

## VI. Assessment of Readiness for Smooth Transition

34. The Government of São Tomé and Príncipe recognizes the significance of graduating from the LDC category.
35. With the scheduled graduation date set for December 13, 2024, the GoSTP has been collaborating with various partners, including the United Nations Resident Coordinator's Office (RCO), UNDP, UNDESA, OHRLLS, and other development stakeholders, to prepare for graduation, including the formulation of the Smooth Transition Strategy (STS).
36. In 2018, the CDP conducted an Ex-ante Impact Assessment and developed a Vulnerability Profile, laying the foundation for subsequent steps. In September 2019, a joint United Nations workshop was organized in São Tomé, co-hosted by the UN Inter-Agency Task Force on LDC Graduation, the GoSTP, and the United Nations Resident Coordinator's Office, with sponsorship from Portugal. This event aimed to evaluate the challenges and opportunities associated with LDC graduation and to gather expert insights on the process.
37. In 2020, the government established an Interministerial Group for the Smooth Transition Strategy. This group comprises relevant stakeholders, with the secretariat shared among the Prime Minister's Office, the Ministry of Finance, and the Ministry of Foreign Affairs. Furthermore, focal points were designated within the Ministry of Foreign Affairs and the Ministry of Finance to facilitate consultations with national stakeholders. Nevertheless, as of now, it has not been possible to convene the afore-mentioned Inter-Ministerial Group.
38. UNDP, RCO, and DESA have provided technical assistance, leading to the creation of a Background Report designed to guide the development of the STS. This Report, developed between December 2021 and May 2022, is based on insights derived from a participatory and inclusive approach. It involved engaging a wide range of stakeholders through interviews and consultations with representatives from the public, private, and non-profit sectors. Additionally, a collective meeting involving focal points from several government sectors was held in May 2022 to gather further inputs. The document has also benefited from technical support from the CDP and is fundamentally aimed at maximizing the benefits of transitioning from LDC status while mitigating potential adverse impacts. Importantly, it aligns with São Tomé and Príncipe's National Resilience and Socio-Economic Mitigation Plan in response to COVID-19. This alignment is anticipated to enhance synergies in implementation and optimize resource allocation.
39. The GoSTP has opted not to formally implement a STS but is instead incorporating the recommendations from the Background Report for São Tomé and Príncipe's STS into its ongoing efforts to develop a new National Development Plan.

### **Key Take-Aways:**

*São Tomé and Príncipe is actively preparing for its scheduled graduation from the LDC category on December 13, 2024. The government, working collaboratively with various partners and stakeholders, has taken significant strides, including establishing an Interministerial Group for the Smooth Transition Strategy and formulating a comprehensive STS. While facing challenges in convening the Inter-Ministerial Governing Body, the collaboration with entities such as UNDP, RCO, and DESA has yielded a well-informed Background Report. Aligned with the National Resilience and Socio-Economic Mitigation Plan, this Background Report serves as a guiding framework for ongoing development efforts. Despite opting not to formally implement a STS, São Tomé and Príncipe plans to strategically incorporate its recommendations into the ongoing development of a National Development Plan. This approach aims to optimize the benefits of the transition while proactively addressing its potential challenges, reflecting the country's commitment to a successful and impactful graduation.*

## VII. Outlook

40. In the coming years, São Tomé and Príncipe's economic outlook appears uncertain. Despite obstacles like frequent electricity supply constraints, high prices of raw materials, and moderate domestic demand, the expectation is for modest growth in 2024. This is attributed to factors such as expected increases in tourist arrivals, improvements in the agricultural sector's performance, and ongoing infrastructure development projects.
41. Specifically considering the real GDP, estimates indicate a negative growth rate of -0.3% in 2023 and a slight increase to 2.9% in 2024<sup>25</sup>. This slower recovery is linked to the persistent effects of the post-COVID-19 global trade slowdown.
42. The fiscal perspective appears optimistic, with the anticipation of a decrease in the fiscal deficit to 1.9% of GDP in 2023<sup>26</sup>. This positive trend is attributed to prudent public spending and austerity measures aimed at containing inflation.
43. In terms of external trade, exports and tourism earnings are expected to rebound, contributing to a reduction in the current account deficit to 18% of GDP in 2023 and 13.1% in 2024<sup>27</sup>. Concurrently, international reserves are projected to rise to \$20.3 million in 2023 and \$25.2 million in 2024, largely fueled by multilateral and bilateral loans and grants.
44. Furthermore, São Tomé and Príncipe anticipates benefiting from a new International Monetary Fund program, projected to stimulate economic activity, enhance macroeconomic stability, reduce debt vulnerability, alleviate balance of payments pressures, and lay the foundations for stronger growth.
45. However, amidst these positive expectations, potential challenges loom, including the escalating conflict in Ukraine, climate change-related events, insufficient infrastructure, and sluggish global trade. These factors may pose obstacles to the envisioned economic growth, as highlighted in the AfDB report.
46. In terms of climate resilience and sustainable development initiatives, the country has developed its Nationally Determined Contribution (NDC) with the objective of elevating the share of renewable energy in the national grid, reducing power grid losses, enhancing energy efficiency, and significantly lowering the transport sector's carbon footprint. This initiative, aimed at decreasing emissions by 27% by 2030, entails a projected cost of \$150 million from 2020 to 2030<sup>28</sup>. These measures are expected to enhance the country's resilience to climate change, encourage private investments in power, agriculture, tourism, and transport, and facilitate the adoption of climate-smart agricultural practices and technologies by the private sector.
47. Additionally, the blue economy is recognized as a potential source of growth, focusing on marine and biodiversity preservation.
48. The country's current energy mix, which relies on fossil fuels for 95% of power generation, is expected to evolve with support from the private sector. The government is poised to implement new legislation to facilitate private investments in the transition to green and clean energy<sup>29</sup>.
49. As São Tomé and Príncipe approaches graduation from the LDC category, the tourism sector holds promise as a catalyst for continued economic growth. However, opportunities for the sector lie in the country's commitment to sustainable development. São Tomé and Príncipe has the potential to position itself as a model for eco-tourism, attracting conscientious travelers interested in preserving

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<sup>25</sup> Central Bank of São Tomé and Príncipe/Budget Directorate/UMF

<sup>26</sup> Budget Directorate-MPFEA

<sup>27</sup> Idem

<sup>28</sup> AfDB African Economic Outlook 2023

<sup>29</sup> Idem

the environment and supporting local communities. Strategic investments in infrastructure, capacity building, and sustainable practices will be vital to maximizing the sector's positive impact.

50. Hence, the country's commitment to climate resilience and sustainable development should extend to the tourism sector, where efforts to mitigate environmental impact and promote responsible tourism align with international best practices.
51. The government has acknowledged the importance of the tourism sector in its development strategies, and initiatives are underway to improve infrastructure, promote responsible tourism practices, and enhance the overall perception of visitors about the country.

#### **Key Take-Aways:**

*After analyzing São Tomé and Príncipe's economic prospects, it is clear that the path to economic growth is a mix of challenges and opportunities. A decline in the economy is expected for 2023, but a modest recovery in 2024 is foreseen, relying on improvements in tourism, agriculture, and ongoing infrastructure projects. However, uncertainties arise due to electricity issues, high prices of raw materials, and weak domestic demand. Public finances appear optimistic, with a lower deficit projected for 2023 due to austerity measures and cautious spending, although revenues have declined with the introduction of VAT. There are signs of recovery in exports and tourism, which could help balance external accounts and increase international reserves.*

*Yet, challenges such as conflicts, climate change, and insufficient infrastructure might complicate this scenario. Initiatives in climate action and sustainable development seem promising, but tourism, seen as an economic asset, requires specific investment to become an example of eco-friendly tourism, aligned with the country's sustainable policies. In this regard, the government has been making efforts to enhance the country's image and promote a more environmentally conscious tourism. The focus on a strategy that aligns the commitment to environmental sustainability with tourism appears to be the vision for sustainable and responsible long-term growth.*