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INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

Debt Relief at the Heavily Indebted Poor Countries (HIPC) Initiative Completion Point and Under the Multilateral Debt Relief Initiative (MDRI)

Prepared by the Staffs of the International Monetary Fund and
International Development Association

Approved by Hartwig Schafer and Danny Leipziger (IDA)
Jean A.P. Clément and Scott Brown (IMF)

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EXECUTIVE SUMMARY

- **In December 2000 the Executive Directors of the International Development Association (IDA) and the International Monetary Fund (IMF) agreed that São Tomé and Príncipe had met the requirements for reaching the decision point under the enhanced HIPC Initiative**. The amount of debt relief committed at the decision point was US$97 million in year-end 1999 net present value (NPV) terms, equivalent to a reduction of 83 percent of São Tomé and Príncipe's total NPV of debt outstanding at the end of 1999 after full delivery of traditional debt relief mechanisms.

- **The staffs of IDA and the IMF consider that São Tomé and Príncipe has met the triggers for reaching the completion point under the enhanced HIPC Initiative**. The country promulgated a first PRSP in January 2003, updated it in January 2005, and presented it to the Executive Boards of IDA in April and the IMF in August of 2005. National authorities have since then implemented it satisfactorily, as acknowledged by the Joint IDA-IMF staff advisory note on its first annual progress report (October 2006). Furthermore, all triggers related to public expenditure management, governance, and the social sectors were met as of December 31, 2006, and the country has maintained macroeconomic stability for most of the interim period. Implementation of macroeconomic policies improved in 2005–06 under the Poverty Reduction and Growth Facility (PRGF)-supported program approved in August 2005. Following policy slippages during the period leading to the elections in the first half of 2006, the authorities implemented remedial fiscal and monetary policy measures that have since brought the PRGF-supported program broadly back on track.

- **The debt reconciliation exercise undertaken ahead of the completion point leads to an upward revision of the 1999 NPV of debt from US$117.5 million, estimated at the decision point, to US$119.7 million**. This revision would imply an increase in HIPC assistance in NPV terms, from the decision point estimate of US$97.0 million to US$99.2 million. The implied common reduction factor at the decision point would increase from 82.6 percent to 82.9 percent.

- **Creditors accounting for 85 percent of total HIPC assistance in NPV terms have given satisfactory assurances of their participation in the enhanced HIPC Initiative**. All multilateral and Paris Club creditors have confirmed their participation, and the authorities are working toward agreements with all remaining creditors.

- **The staffs observed a substantial worsening of debt indicators at end-2005 compared with the projections made at the decision point**. The updated analysis based on end-2005 data indicates that the NPV of debt-to-exports ratio at the end of 2005 after full delivery of HIPC assistance stood at 299 percent, compared with 140 percent projected at the decision point.

- **The staffs are of the view that the deterioration in São Tomé and Príncipe's NPV of debt-to-exports ratios constitutes a fundamental change in the country's economic circumstances due to exogenous factors, and topping up is therefore justified.** Lower-than-projected export receipts largely owing to drought conditions and lower than expected tourism receipts, changes in cross-currency exchange rates, and variations in discount rates were all unambiguously exogenous and outside the control of the authorities. Staffs therefore recommend that additional assistance of US$25 million in NPV terms be granted under the enhanced HIPC Initiative to bring São Tomé and Príncipe's NPV of debt-to-exports ratio to the 150 percent HIPC threshold after application of bilateral debt relief beyond HIPC assistance.

- **Upon reaching the completion point under the enhanced HIPC Initiative, São Tomé and Príncipe will also qualify for additional debt relief under the Multilateral Debt Relief Initiative (MDRI).** The amount of relief under MDRI depends on the Executive Directors' approval of topping-up, given that debt relief under the MDRI would cover all remaining debt service obligations on eligible credit balances to IDA, the IMF, and the African Development Fund (AfDF) after any debt service relief available under the HIPC Initiative. MDRI debt relief (net of HIPC assistance) would imply debt service savings on debt owed to IDA, the IMF, and the AfDF of US$77.1 million without topping-up and US$50.3 million if topping-up is approved.

- **After HIPC debt relief, topping-up of HIPC assistance, and MDRI debt relief, São Tomé and Príncipe's external debt burden indicators will fall significantly.** In the long run, assuming prudent fiscal policies and the start of oil production around 2012, São Tomé and Príncipe's external public debt burden indicators are expected to remain below the HIPC threshold. Nevertheless, the accompanying sensitivity analysis shows that if there are large adverse shocks (for instance, lower or no oil production), São Tomé and Príncipe's external public debt indicators would worsen substantially and, under the most pessimistic scenario, exceed the HIPC thresholds. This underlines the need for continued fiscal prudence, policies to support broad-based growth and export diversification, continued donor support, and prudent debt management (see also Appendix II).

- **The staffs recommend that the Executive Directors of IDA and the IMF approve the completion point and topping-up for São Tomé and Príncipe under the enhanced HIPC Initiative.**

I. INTRODUCTION

1. **This paper discusses progress made by São Tomé and Príncipe under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and seeks the approval of the Executive Boards of the International Development Association (IDA) and the International Monetary Fund (IMF) for the completion point and topping-up assistance.** In the opinion of the staffs, São Tomé and Príncipe has made satisfactory progress in putting in place the completion point triggers, notably implementing its Poverty Reduction Strategy Paper (PRSP), setting up mechanisms to ensure efficient and transparent use of HIPC debt relief, increasing transparency and accountability in the management of public resources, and implementing measures in the health and education sectors, while performing broadly well under the current PRGF-supported program.

2. **In December 2000 the Boards of the International Development Association (IDA) and the International Monetary Fund (IMF) agreed that São Tomé and Príncipe had met the requirements for reaching the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.**[1] The amount of debt relief committed then was US$97 million at the end of 1999 net present value (NPV) terms. Interim assistance under the enhanced HIPC Initiative was granted by several creditors: IDA, the African Development Bank Fund (AfDF), the European Union (EU), the Organization of Petroleum Exporting Countries (OPEC), the International Arab Bank for Economic Development in Africa (BADEA), and the Paris Club creditors (through flow rescheduling on Cologne terms).[2] At that time, a set of triggers was established for São Tomé and Príncipe to reach the floating completion point (see the HIPC Decision Point Document, Box 3, p. 29).[3]

3. **This paper is organized as follows: Section II assesses São Tomé and Príncipe's performance in meeting the triggers for reaching the floating completion point.** Section III reviews creditor participation, discusses delivery of debt relief to São Tomé and Príncipe under the enhanced HIPC and MDRI initiatives, examines possible topping-up of assistance under the enhanced HIPC Initiative, and updates the debt sustainability analysis (DSA). Section IV presents conclusions and section V presents issues for discussion.

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[1] See http://www.imf.org/external/NP/hipc/2000/stp/stpdp.pdf and http://siteresources.worldbank.org/INTDEBTDEPT/DecisionPointDocuments/20250620/SaoTomePrincipe-E-DP.pdf, *São Tomé and Príncipe—Enhanced Heavily Indebted Poor Countries Initiative—Decision Point Document.*

[2] The IMF did not commit assistance under the enhanced HIPC Initiative because there was no debt outstanding to the IMF at the decision point.

[3] IDA: IDA/R2000-235, December 6, 2000; IMF: EBS/00/254, December 5, 2000.

II. Requirements for Reaching the Completion Point

4. **São Tomé and Príncipe has made satisfactory progress in meeting the triggers for reaching the completion point** (Box 1). As of December 31, 2006, all triggers related to public expenditure management, governance, and the social sectors were met while macroeconomic stability has been broadly maintained since 2001. Completion point triggers covering the following areas were set out in the decision point document:

(i) preparation of a full poverty reduction strategy paper and satisfactory implementation, as evidenced by a Joint Staff Advisory Note (JSAN) on the country's first annual progress report;

(ii) maintenance of macroeconomic stability;

(iii) strengthening of public expenditure management and use of the HIPC Initiative assistance;

(iv) satisfactory implementation of governance measures, including a capacity-building program to manage prospective oil resources, adoption of the oil revenue management law (ORML), and establishment of the Auditor General's Office; and

(v) satisfactory implementation of social sector measures, including construction of new classrooms and health centers or posts, hiring and training of teachers, increase in the immunization rate for children, and a sharp reduction in the child malaria morbidity rate.

This section assesses performance relative to these triggers.

Box 1: Status of Floating Completion Point Triggers

Trigger Measure	Implementation Status
Poverty Reduction Strategy Paper (PRSP)	
PRSP has been prepared through a participatory process and satisfactorily implemented, as evidenced by a JSAN of the country's first annual progress report.	**Implemented.** The full PRSP was submitted in February 2005. The JSAN was issued in March 2005 and presented to the Bank Board in April 2005 and to the IMF Board in August 2005.
	Implemented. Government submitted its first PRSP progress report in June 2006 and the JSAN was presented to Boards in October 2006.
Macroeconomic measures	
There has been continued maintenance of macroeconomic stability, as evidenced by the satisfactory implementation of the medium-term program supported by the IMF under the PRGF.	**Implemented.** The IMF completed the second review of the PRGF-supported program in early August 2006 and the third review on January 17, 2007.
Governance/public expenditure management Substantial progress has been made in strengthening public expenditure management and the use of HIPC Initiative assistance:	
The sectoral strategies for health and education have	**Implemented.** Health and education strategies were costed in

been costed in the context of the development of a medium-term expenditure framework (MTEF).	2001 and in 2004, respectively.
The control and monitoring mechanism to ensure an efficient and transparent use of HIPC Initiative interim assistance has been satisfactorily implemented.	**Implemented.** A special Treasury account was set up at the central bank in 2001. HIPC proceeds were incorporated into the national budget as part of the public investment program in health, education, and other poverty-related expenditures. The original monitoring by committee was replaced by monitoring by the Minister of Planning and Finance. The Directorate of Treasury and Patrimony is preparing quarterly financial and technical reports. Annual reports for all years have been done and the 2003 audit (for 2001–02) and the 2006 audit (for 2003–05) were posted on the government web site.
The programming and execution of foreign-financed capital expenditure have been placed under the control of the Ministry of Planning and Finance (MoPF).	**Implemented**. All project loans and grants are in the budget and accounted for in the Public Investment Program, and since 2000 all loan and grant agreements are signed by the Minister of Planning and Finance. On all foreign-financed projects, execution reports (including operational and financial results) are presented regularly to the MoPF. Many of the donors have transferred execution of their projects to the MoPF. In the other cases, foreign-financed projects are executed independently by donors with physical control and reporting by sectoral ministries to the MoPF. The government is attempting to improve on this control framework by asking that all development partners progressively bring their projects into normal budget execution procedures.
A capacity-building program to manage oil resources has been adopted and implemented, and a petroleum revenue oversight and control committee has been established.	**Implemented.** The Oil Revenue Management Law (ORML) was approved in December 2004. The IDA is providing continuing technical support on institution building.
	Implemented. The National Committee on Petroleum (NCP) was established in the first half of 2004 to supervise strategy and development for the sector. The Oil Revenue Management Law (ORML), approved in late 2004, established a new oversight committee to audit and supervise petroleum receipts and expenditures. Regulations related to the ORML were approved by the National Assembly in November 2006.
The Auditor General's Office (*Tribunal de Contas*) and the Tribunal for Arbitration in business and contract matters have been made operational.	**Implemented.** The Auditor General Office (*Tribunal de Contas*) has been staffed and functional since mid-2003.
	Implemented. The law that set up the Tribunal for Arbitration was published on November 2, 2006. The tribunal was inaugurated on December 15, 2006.
Social sectors	
At least 40 new classrooms in primary schools and 15 classrooms in secondary schools have been built and equipped, and 120 primary school teachers have been recruited, trained, or retrained (compared with the 1999 base), in accordance with the interim PRSP and the national education program.	**Implemented.** As of November 2006, the government had built 87 classrooms, of which 63 are primary and 24 secondary. Between 2000/01 and 2005/06, 171 teachers were recruited, and 75 teachers have been given on-the-job training, which started in 2004.
At least eight primary health care centers have been built and equipped, and the immunization rate for children has increased (for measles, DPT3—diphtheria, tetanus, pertussis—and polio) to	**Implemented**. 12 health care centers or posts were built and equipped, and seven others were rehabilitated between 1999 and at the end of 2006. Vaccination of children for major childhood diseases (DPT3,

85 percent (from 69 percent in 1999), in accordance with the interim PRSP and the national health strategy.	polio, BCG, and measles) has systematically surpassed the 85 percent trigger since 2003.
The child (under 5) morbidity rate caused by malaria (WHO definition and measurement) has been reduced to 60 per 10,000 (from 86 per 10,000 in 1999), in the context of the program to roll back malaria.	**Implemented. The** antimalaria campaign launched in 2003 in Príncipe (education, fumigation, bed nets) and extended in 2004 to the island of São Tomé has reduced malaria child morbidity from 86 per 10,000 in 1999 to 60 in 2004.

A. Implementation of the Poverty Reduction Strategy

5. **São Tomé and Príncipe has implemented its full PRSP for at least one year.** The full PRSP, adopted by the government in December 2002, was the result of extensive consultations with domestic and foreign stakeholders that were managed by a steering committee chaired by the Prime Minister and consisting of representatives of government and civil society. Numerous workshops were organized for civil society, political parties, and other domestic stakeholders in the six district capitals on the islands of São Tomé and Príncipe.

6. **The full PRSP of São Tomé and Príncipe is based on five pillars, with an action plan for its implementation and budget targets for each pillar for the period 2003-05.** The five pillars are: (i) reform of public institutions, capacity building, and promotion of a policy of good governance; (ii) accelerated and redistributive growth; (iii) creation of opportunities to increase and diversify income for the poor; (iv) human resource development and access to basic social services; and (v) adoption of mechanisms to monitor, assess, and update the strategy.

7. **The full PRSP was incorporated in the 2003-05 budgets but frequent political changes slowed implementation.** Macroeconomic slippages in 2003 and 2004, weak implementation capacity, and lack of resources also delayed the completion point, which was originally scheduled for 2003. In 2004 a Poverty Monitoring Unit (*Observatorio da Pobreza*) was set up in the Ministry of Planning and Finance to facilitate progress on the PRSP. The authorities also committed to protecting propoor expenditures in the 2005–07 PRGF-supported program. HIPC funds were largely used for priority sectors: between 2001 and the end of September 2006: infrastructure (34 percent), health (15 percent), and education (38 percent).

8. **The 2003–05 budget allocations for health and education sectors exceeded the targets set in the full PRSP despite implementation difficulties**: US$19.0 million for education (target: US$7.9 million) and US$16.9 million for health (target: US$10.5 million). In 2006, the envisaged further increase in education and health spending did not take place because of financial constraints related to preparations for the elections; spending was roughly constant in real terms. The projected 2007 propoor expenditures constitute 26.0 percent of GDP. To improve the quality of spending, a review of public expenditure on health is underway.

9. **The authorities formally submitted the full PRSP to IDA and the IMF in February 2005**. The delay in the PRSP submission was related to the government's effort to strengthen the macroeconomic framework. The full PRSP was enriched by an extensive implementation annex for 2003-05. A JSAN was issued in March 2005. The PRSP was well received by the Boards of IDA, in April 2005, and the IMF, in August 2005. The JSAN noted that São Tomé and Príncipe's PRSP was the result of an extensive consultative process and set a credible though ambitious policy agenda. The main strengths of the PRSP are in: (i) providing a poverty diagnostic and a comprehensive private sector-led development strategy; (ii) paying attention to cross-cutting issues, especially governance; and (iii) identifying detailed indicators to monitor progress. To ensure that the strategy becomes fully operational and effective, the JSAN suggested undertaking further poverty diagnostics, analyzing the potential of a future petroleum economy, costing and prioritizing sectoral strategies, attempting to attract higher private investment and donor support, and enhancing institutional capacity to ensure full implementation and monitoring of the PRSP. Furthermore, it noted that PRSP implementation would require progress in structural reforms in a context of price stability.

10. **In June 2006 the new government provided a copy of its first annual progress report (APR) to IDA and the IMF**. The APR and an accompanying JSAN were distributed to both Boards in October 2006.[4] The JSAN noted that the APR was selective and well-documented and candidly assessed PRSP implementation in 2005. It concluded that, given the fact that major resources from oil production are not expected before 2012, the authorities needed to pursue higher, better targeted and effectively used donor support; remain vigilant over macroeconomic stability and debt management; and push ahead with governance and transparency efforts. Improved monitoring and evaluation will be key to capturing the impact of PRSP implementation.

11. **On the basis of the 2006 APR, the staffs consider that the poverty reduction strategy has been implemented according to the PRSP through 2005**.

B. Macroeconomic Performance in 2001–06

12. **São Tomé and Príncipe has maintained overall macroeconomic stability during most of 2001–06**. Since 2001, the country has experienced robust growth and authorities have generally pursued prudent macroeconomic policies, while carrying out economic reforms to support private sector activity. However, policy implementation, particularly of fiscal policies, has been uneven, in part because of expenditure pressures arising from the domestic political cycle. Consequently, São Tomé and Príncipe was not able to reach the completion point in December 2003 as envisaged in the PRGF-supported program approved in 2000. Under the PRGF arrangement approved in August 2005, implementation of macroeconomic policies and structural reforms was broadly satisfactory. Following policy slippages during the period leading to elections and an upsurge in inflation between mid-2005

[4] EBD/06/118, October 17, 2006 and IDA report No 37319-STP, October 10, 2006.

and mid-2006, the authorities implemented remedial measures that have since brought the PRGF-supported program broadly back on track (Box 2).

13. **Inflation was brought down to an average of 10 percent in 2001-2003 compared with 35 percent in the 1990s.** However, from 2004 to mid-2006 inflation increased because monetary and exchange rate management was complicated by the rapid expansion of the banking system and large inflows of foreign currency resulting from the payment of oil signature bonuses and private capital. The increased liquidity together with supply shocks (mainly affecting oil and food prices) led to higher inflation. Since June 2006, fiscal tightening combined with more active use of the central bank's monetary and foreign exchange policy instruments is bringing down the growth of monetary aggregates.[5]

São Tomé and Príncipe: Macroeconomic Indicators, 1994–2006

	1994–2000 Average	2001	2002	2003	2004	2005	2006 Est.	
Real GDP (annual percentage change)	2.1	4.0	4.1	4.0	3.8	6.0	8.0	
Consumer prices (annual percentage change; end of period)	34.6	9.4	8.9	10.2	15.2	17.2	24.6	1/
Consumer prices (annual percentage change; average)	34.8	9.5	9.2	9.6	12.8	16.3	23.1	1/
Domestic primary fiscal balance (percent of GDP)	-1.9	-12.9	-4.3	-11.7	-20.6	-15.9	-15.3	
External current account balance (percent of GDP)								
Including official transfers	-25.5	-27.5	-24.1	-22.7	-23.1	-30.7	-58.6	
Excluding official transfers	-66.4	-65.3	-51.0	-56.7	-58.8	-62.3	-91.0	
Gross international reserves 2/	2.7	3.9	3.9	4.8	3.4	4.1	4.4	

Sources: São Tome and Principe authorities and IMF staff estimates.

1/ Actual data for 2006.

2/ In months of following year's non-oil imports of goods and nonfactor services.

14. **Structural reforms helped growth performance during 2001–06.** Average real GDP growth increased to 5 percent in 2001–2006 compared with 2 percent in 1994–2000. Rapid growth in the public and services sectors more than offset low growth in agriculture, where cocoa production stagnated and limited progress was made in introducing new crops. The lifting of domestic price controls, liberalization of external trade and the exchange rate system, and privatization of state enterprises in 2000–03 improved the business climate. More recently, the prospects of potential oil resources have boosted private investment and the banking and services sector. Foreign aid supported public investment based on the PRSP.

15. **The external current account deficit (including official transfers) averaged 30 percent of GDP in 2001–06.** The strong increase in the trade deficit was due to lower cocoa

[5] The 12-month growth rate of base money decelerated substantially to 21 percent in January 2007 from the peak of 116 percent in July; 12-month inflation declined to 23 percent in January 2007 from its peak of 26.1 percent in August 2006; while monthly inflation has shown a more marked declining trend from its peak of 4.9 percent in March 2006 to 1.7 percent in January 2007.

export earnings, rising fuel imports, and a sharp increase in oil- and other investment-related imports (particularly in 2006). The higher trade deficit was partly offset by an improvement in the balance of nonfactor services as tourism picked up. The external current account deficit was largely financed by concessional lending, direct foreign investment, and debt service relief, and more recently by oil signature bonuses.[6] International reserves (excluding the National Oil Account) averaged 4 months of imports of goods and nonfactor services in 2001-06, compared to 2.7 in 1994–2000.[7]

[6] The country received an oil signature bonus amounting to US$49.2 million in 2005 (Block 1), and is expected to receive US$28.6 million in 2007 (Blocks 2-4).

[7] The 2004 Oil Revenue Management Law set up the National Oil Account to assure transparency and accountability in the use of oil resources.

Box 2. Performance Under IMF-Supported Programs, 2000–06

First PRGF-supported program. The IMF Board in April 2000 approved a three-year PRGF arrangement. Its satisfactory implementation in the first 10 months of 2000 led to the approval of the HIPC decision point document in December 2000. All quantitative performance criteria (PCs) and benchmarks for end-June 2000 were observed except for the performance criterion on the domestic primary balance and the benchmark on government revenue. Most quantitative benchmarks for end-September 2000 were met.[1] In the final quarter of 2000 and the first three quarters of 2001, fiscal slippages and continued delays in structural reforms slowed program implementation and pushed the program off track.

Staff-monitored program (SMP). In January 2002 the authorities requested an SMP to establish a track record for a new PRGF-supported program.[2] Despite disappointing implementation in the first half of the year, prompt corrective policy measures resulted in satisfactory performance for 2002.[3] Five of nine quantitative benchmarks were met, including the key benchmark on the domestic primary balance.[4] Though the SMP was relatively successful, political instability and expenditure pressures in 2003–04 delayed agreement on a second PRGF arrangement.

Second PRGF-supported program. In August 2005 the IMF Board approved a three-year PRGF arrangement aiming at correcting macroeconomic imbalances and setting the conditions for sustained growth.[5] Performance under the program was satisfactory through December 2005.[6, 7] All PCs for end-September and end-December 2005 were met, and the first and second reviews were completed. Structural reforms advanced, although there were delays in meeting some structural benchmarks. In the first half of 2006, program performance was mixed and inflation flared up, mainly because of expenditure overruns in the period leading to the elections. Five fiscal and monetary PCs for end-June were missed (the two fiscal-related PCs with small margins, and the three monetary-related PCs with large margins, mainly because of delays in oil bonuses). [8] Since mid-2006, corrective fiscal and monetary policy measures have addressed the fiscal slippage and the increase of inflation, and the third review was completed.

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[1] First Review of the Three-Year Arrangement Under the PRGF and Request for Waiver of Performance Criteria (EBS/00/253, December 2000).

[2] 2001 Article IV and Staff-Monitored Program (EBS/02/3, January 2002).

[3] Review of Performance Under a Staff-Monitored Program (EBS/02/186, November 2002).

[4] 2003 Article IV Consultation (EBS/04/69, March 2004).

[5] Request for Three-Year Arrangement Under the PRGF (EBS/05/109, July 2005).

[6] 2005 Article IV Consultation and First Review Under the Three-Year Arrangement Under the PRGF (EBS/06/23, February 2006).

[7] Second Review of the Three-Year Arrangement Under the PRGF (EBS/06/101, July 2006).

[8] Third Review of the Three-Year Arrangement Under the PRGF (EBS/06/175, December 2006).

C. Public Expenditure

16. **The authorities costed the health strategy in 2001 and the education strategy in 2004.** The health strategy for 2001–05 mainly focused on primary health and the strengthening of human resources and institutional capacity with an estimated budget of US$24.2 million for the period. The education strategy for the period 2003–13 focused on primary education, universal enrolment at the basic education level, and quality improvement. The PRSP and the background document prepared for the December 2005 Round Table updated the costing of the updated action plans. It was estimated that the health strategy would require US$27.6 million for 2003–10 and the education strategy US$22.8 million for the same period. The costing was done with a medium to long-term vision, but not yet based on a medium-term expenditure framework (MTEF). Following IDA and IMF advice in 2003, the government decided to reform the budget preparation, execution, and audit process.

17. **The authorities have taken several measures to better supervise HIPC-funded expenditures**:

- A special account was opened at the central bank for HIPC resources and related expenditures. These expenditures are budgeted as part of the Public Investment Program (PIP) and focus on health, education, infrastructure, and other poverty-related expenditures.

- The Ministry of Planning and Finance supervises project implementation.[8] HIPC projects are selected, based on PRSP priorities, at the time the budget is prepared. Execution is supervised by a committee of representatives from the Directorate of Treasury, the Directorate of Planning, the Ministry of Public Works, and the relevant sectors. The Ministry of Public Works also monitors HIPC projects as part of its supervision of all projects in the budget.

- The Directorate of Treasury prepares quarterly financial and technical reports. An annual HIPC execution report is prepared as part of the budget execution report which accompanies the budget proposal presented to the National Assembly.

[8] Originally, a committee of representatives from the central bank, civil society, the Ministry of Planning and Finance, and other sectors was created to choose and supervise HIPC projects but in mid-2002 cost concerns led to termination of this arrangement.

Allocation of Interim HIPC Debt Relief
(Percent of total)

	2001	2002	2003	2004	2005	2006 Proj.	2001-06
Health	18	44	28	40	36	33	34
Education	15	16	21	14	18	7	15
Infrastructure	62	34	42	29	31	42	38
Other	5	5	10	18	16	17	13

Source: São Toméan authorities.

- The execution of HIPC expenditures experienced delays owing to budgetary difficulties and limited national capacity.

- In early 2003, an internal audit of the use of HIPC funds for 2001–02 recommended an external audit, which was undertaken later in 2003. The external audit for 2003–05 was done in the first half of 2006. Both audits were placed on the government's web site.[9] In 2005, an EU-sponsored external audit of government financial operations (including HIPC expenditures) during 1998–2002 noted the reorientation of public expenditures toward health and education. The audits and the HIPC Poverty-related Expenditure Tracking Assessments and Action Plans (HIPC-AAPs) noted weaknesses in budget execution and financial control, including use of old nomenclature, use of *ad hoc* practices due to lack of an integrated system and associated manual of procedures, outdated procurement procedures, lack of an accounting plan and an accounting directorate, lack of *a priori* internal control and audits.

18. **Since 2005 the authorities have launched a comprehensive public finance management reform to modernize the budget process and enhance its transparency**. An important component of this reform responds to the findings of the audits and HIPC–AAP findings. The reform process is progressing, with complete ownership by the authorities, support by an IDA credit, and participation by other donors. The authorities have already: (i) adopted a new public finance organic law, following international standards, to legalize the new organic structure of public finance management; (ii) adopted a new modern budgetary nomenclature; (iii) created an Accounting Directorate within the MoPF (through the new organic law); and (iv) developed an integrated computerized system for budget management within the MoPF, applying it to the 2007 budget processes to reduce *ad hoc* practices. This integrated computerized system is to be adopted for the entire budgetary process (that includes other sectors) during 2007, and is expected to be functional by January 2008. Furthermore, during 2007, the reforms are to create an accounting plan and accompanying procedural manual that did not exist before. They also include an update of the procurement law to international standards.

[9] www.orp.st

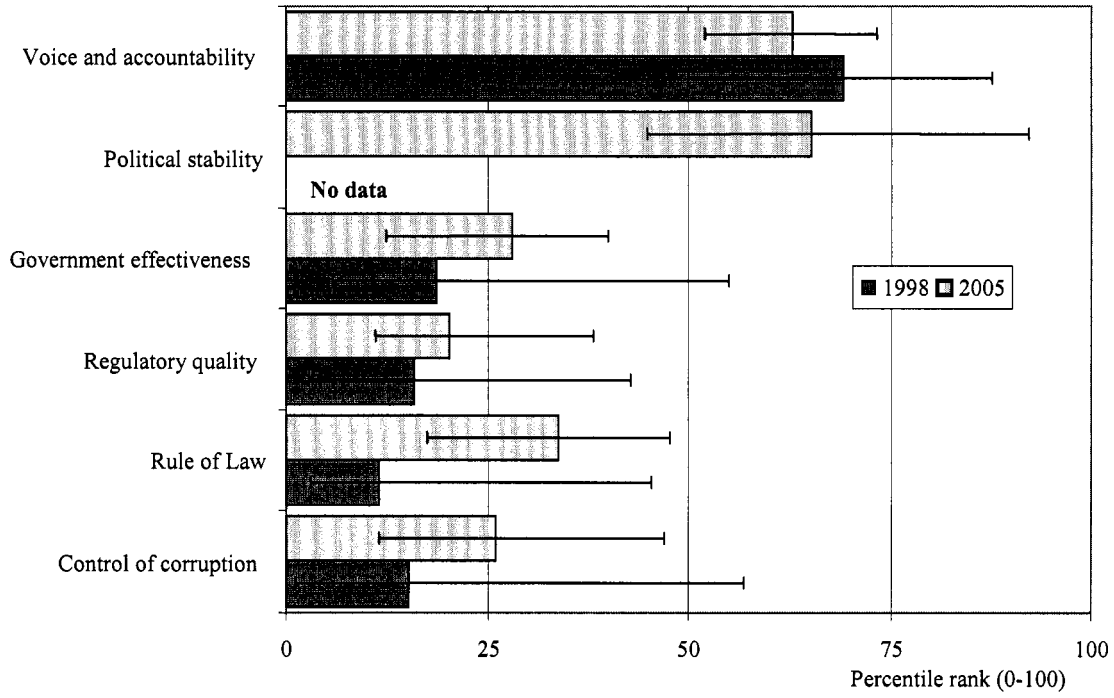
19. **Finally, the Inspectorate General of Finance (*Inspecção Geral das Finanças, IGF*) has been active in undertaking internal audits of government entities.** This directorate reviews both state-owned enterprises and directorates within the Ministry of Planning and Finance, such as the Directorates of Taxation and of Customs, providing audit reports and recommendations to be adopted. News media report on the results of these audits. Audited entities are to take action to ensure compliance with recommendations. Furthermore, IGF can impose fines, propose a disciplinary process and require punitive measures for infractions.

20. **The authorities have complied with the trigger that programming and execution of foreign-financed capital expenditure be under the control of the Ministry of Planning and Finance.** The authorities have put in place a control framework that is satisfactory to the staffs of IDA and IMF. The framework ensures that: (i) all project loans and grants are in the budget and accounted for in the PIP, which is managed by the MoPF; (ii) all loan and grant agreements are signed by the Minister of Planning and Finance; and (iii) on all foreign-financed projects, execution reports (including operational and financial results) are presented regularly to the MoPF. Many of the donors have transferred execution of their projects to the MoPF. In the other cases foreign-financed projects are executed independently by donors with physical control and reporting by sectoral ministries to the MoPF. The government is attempting to improve on this control framework by asking that all development partners progressively bring their projects into normal budget execution procedures.

D. Governance

21. **Overall São Tomé and Príncipe has made significant progress on the governance front**. Governance indicators for the country improved between 1998 and 2005. This far-reaching improvement covers not only the budget management areas as discussed above, but also control of corruption, regulatory quality, and rule of law. The figure below shows progress in these areas between 1998 and 2005.

São Tomé and Príncipe: Governance Indicators, for 2005 and 1998 1/



Source: IDA website on governance indicators
(http://info.worldbank.org/governance/kkz2005/sc_country.asp).
1/ While other indicators improved, voice and acountability indicator declined slightly between 1998 and 2005. The four democratic and peaceful elections in 2006 will have a positive impact on both the voice and accountability and political stability.

22. **The authorities have complied with the trigger to establish a capacity-building program to manage oil resources**. In this regard, the National Petroleum Agency (NPA) was created in the first half of 2004 by decree law no. 5/2004 as a regulatory body with technical expertise to supervise economic activities related to the petroleum industry and to raise public awareness. As of end-2006, 13 professionals had been hired, with more hiring planned. A program of training and capacity building has been put into place since early 2005 under the supervision of the NPA president and an international expert. A first group has undergone this program of training and capacity building, which is continuing in sector-specific expertise (legal, economic and geological). The NPA has already become the expert agency to which the authorities turn for analysis of and advice on petroleum issues. It is also slated to become the repository for legal and technical information related to the sector. An on-going IDA Technical Assistance Credit has supported the creation of the NPA and provided capacity building to the agency. [10]

[10] Based on requests by authorities, IDA in coordination with the authorities and UNDP, sponsored two two-day capacity-building seminars for policy makers, civil society, and the media on the petroleum industry, revenue

(continued...)

23. **With respect to the petroleum revenue oversight committee, the government has done the following to comply with the HIPC trigger**. First, the National Committee on Petroleum (NCP) was established by decree no. 3 dated June 18, 2004 to supervise the strategy and development of the sector, with the following responsibilities: (i) promote the rational use and valorization of the potential oil resources (including revenues); (ii) protect the environment; (iii) promote investment opportunities for the country; and (iv) and supervise the NPA. Second, the Oil Revenue Management Law (ORML) promulgated in the *Diario da República* Number 13, dated December 30, 2004, also established a petroleum revenue oversight committee (article 23 of the law) and a Public Registration Office (article 18 of the law). As required by country's legislation, in November 2006 the National Assembly adopted the organic law regulating the organization and functioning of the petroleum revenue oversight committee. Promulgation of this bill is expected shortly. Furthermore, the National Assembly is reviewing the draft bill of the law to regulate the organization and functioning of the Public Registration Office. Approval and promulgation of this bill is expected in the first months of 2007. The newly created petroleum oversight committee that replaces the NCP, with the assistance of the newly created Public Registration Office, will help the authorities monitor potential oil receipts and expenditures and better disseminate information related to the oil sector.

24. **While prospects for petroleum discovery and production are still uncertain and the country does not expect to receive any oil production revenues before 2012 at the earliest (Box 3), the authorities have gone beyond the two petroleum governance measures agreed to in the HIPC decision point document (discussed above)**. They moved early and decisively to adopt the Oil Revenue Management Law (ORML) in December 2004 to provide clear rules and oversight for the use of petroleum funds ahead of receiving these funds. This law has guided the use and management of the only signature bonus the country has received so far. The bonus was deposited in the Federal Reserve Bank of New York (following article 3 of the law) and has been used per the rules of the law and in open discussion with IDA and the IMF. The law permits the withdrawal of a defined amount of the signature bonus per year (per article 8 of the law). This amount has to be approved by the National Assembly as part of the budget approval process. To ensure proper and transparent use of funds, the retrieval of funds from the oil account requires the signatures of representatives from four different authorities: the President of the Republic, the Prime Minister, the Ministry of Planning and Finance, and the Central Bank. Finally, use of the signature bonus has been consistent with annual budget laws.

25. **In addition to the ORML, the National Assembly created a specialized internal commission (consisting of representatives from different political parties) to increase oversight of legal, economic, and revenue management decisions made in the petroleum sector**.

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management practices, and supervision and transparency issues. The UNDP, USAID, Norway, Columbia University, and the nongovernmental organization International Alert have sponsored similar seminars and training to help build national capacity.

26. **Furthermore, in 2004, the President of São Tomé and Príncipe joined the President of Nigeria in declaring the commitment of their countries to the principles of the Extractive Industries Transparency Initiative (EITI).** In October 2006, the Nigerian and São Toméan authorities agreed to start developing and implementing the transparency guidelines embodied in the EITI and the Abuja Declaration for the Joint Development Zone (JDZ). To move this process forward, the São Tomé and Príncipe authorities have announced their intention to set up a representative national committee to work with Nigeria.

Box 3. Prospects for Oil Sector Development

In February 2001, Nigeria and São Tomé and Príncipe signed a treaty for the joint development of petroleum and other resources in the maritime areas contained in their overlapping exclusive economic zones (EEZ), thereby constituting the Joint Development Zone (JDZ). The treaty granted Nigeria 60 percent and São Tomé and Príncipe 40 percent of the benefits and obligations arising from development activities in the JDZ. The annual cost of the Joint Development Authority (JDA) was almost US$4 million for São Tomé and Príncipe in 2004-06.

Prospects for oil discovery remain subject to uncertainty. Results announced in May 2006 on exploratory drilling in Block 1 of the JDZ, considered the most promising block, confirmed the existence of oil resources in ultra-deep sea. Currently, these resources are considered commercially not viable and no new exploratory drilling is expected until 2008. Further drilling in 2008 could improve prospects of commercial exploitation. If commercially viable petroleum is found, production will start in 2012 at the earliest. The timeline for prospecting ranges from 2008 to 2014. Depending on the size of discovery and rate of extraction, a well may produce for 15 to 25 years.

São Tomé and Príncipe has so far benefited from two signature bonuses, while sharing in the costs of the JDZ. In 2004, a first round of bidding held for nine jointly held blocks led to the signing of a production sharing contract (PSC) for the first and most promising block only, and São Tomé and Príncipe received US$49 million in signature bonuses. In 2005, a second round of bidding for blocks 2–6 led to the signing of PSCs for blocks 2–4, but São Tomé and Príncipe's share of the signature bonuses (approximately US$28.6 million), already deposited in the JDA in early 2006, has been put on hold pending agreement between São Tomé and Príncipe and Nigeria on the repayment of US$15 million in short-term loans.

The contracting on blocks 5-6 is uncertain due to lengthy legal issues with one company (EHRC). The related signature bonuses (US$26.1 million) for these blocks may come only in 2008. Until PSCs for these blocks are signed or there are further bidding rounds, budgetary oil resources are projected to last only until the end of 2008.

Prospects for the Exclusive Economic Zone (EEZ) are generally thought to be less promising than those of the JDZ. Nonetheless, in 2007 the government intends to study their economic viability and develop the legal framework for eventual bidding.

27. **With the issuance of decree 15-27 dated June 27, 2003, São Tomé and Príncipe authorities regulated the organization and functioning of the Auditor General's Office (*Tribunal das Contas*), making it operational.** The decree gives the Office the following responsibilities: (i) auditing government and public entities and implementation of some

large government contracts; (ii) reviewing and clearing all government contracts for goods and services; (iii) reviewing audits undertaken by the Inspectorate General of Finance (IGF) of the Ministry of Planning and Finance; and (iv) auditing the general accounts of the State.

28. **The Office has hired expert technical and administrative staff and is actively discharging its responsibilities**. It has: (i) audited government entities such as the Directorate of Taxation and the implementation of some large government contracts such as the works undertaken at the new public market and Monte Café hospital; (ii) approved or given opinions on public contracts; and (iii) reviewed reports of audits undertaken by the IGF, such as audits of the central hospital and the Services for Civil and Criminal Identification. However, the Office has not been able to audit the General Accounts of the State (GAS) as the government has not been able to produce these accounts. This is due to the fact that: (i) the GAS are technically and technologically complex to prepare; and (ii) the Ministry of Planning and Finance did not have an accounting department and its sub-department of patrimony lacked the human and technical capacity to properly account for the physical assets of the State. The government's ongoing public finance management reform, supported by an IDA technical assistance credit, has an action plan that includes production of GAS accounts.[11] Notwithstanding the delay in auditing the GAS, the staffs of IDA and IMF consider the trigger pertaining to the Auditor General's Office duly complied with by the São Tomé and Príncipe authorities.

29. **The trigger on making the tribunals for arbitration in business and contract matters operational was met**. The Law on Voluntary Arbitration was promulgated in *Diario da República* Number 38, dated November 2, 2006 (law no. 9/2006). Pursuant to article 36 of said law and internal regulations, an Arbitration Center was created within the Chamber of Commerce and its director and its registrar were appointed accordingly. Due to its recent creation, the Arbitration Center has yet to resolve any cases, but it is expected to be busy soon.

30. **The authorities have taken further steps to improve overall governance and combat corruption**. In 2002, they initiated, with help from the international community, a major modernization of the legislative system to improve governance and the rule of law. The reforms include personal, commercial, and penal laws, and the training of legal professionals. In January 2007, the National Assembly approved the latest batch of laws and decrees to be implemented, including: the Statute for the Public Ministry; the Statute for the Judicial Magistry; the laws for the Criminal Investigation Police; the law on money laundering; and the Organic Law for the National Assembly. Also, a constitutional tribunal was created to help guide the role of different authorities and resolve potential conflicts between the executive, legislative and judicial powers. Finally, the regulatory body to

[11] This action plan also creates the accounting department within the Ministry of Planning and Finance, strengthens the departments of treasury and patrimony, and creates an integrated computerized budgetary system (SAFE). One of the programs of SAFE is dedicated to production of the GAS.

supervise telecommunications and utilities was created in 2005. It is staffed and functional and it has received technical assistance from IDA and the Portuguese government.

31. **There is notable press freedom, and in May 2006 the authorities ratified the United Nations Convention Against Corruption under which São Tomé and Príncipe undertakes to adopt the legislative and administrative measures required to prevent, investigate, and repress corruption.**[12] The authorities have referred recent allegations of corruption to the judicial authorities for investigation.[13] Also, in November 2006 a draft anti-money laundering law was submitted to the National Assembly. Finally, the country undertook four national elections (legislative, presidential, local and regional) in 2006 in a peaceful and democratic atmosphere. The elections were considered valid and fair.

E. Social Sector Policies

32. **In the education sector, the authorities have exceeded the HIPC trigger by building and equipping 63 rather than 40 primary classrooms and 24 rather than 15 secondary classrooms** (Appendix III, Table 1).[14]

33. **The authorities have also exceeded the HIPC trigger to recruit, train, or retrain 120 primary school teachers (compared to the 1999 base).** Over the last five years 171 primary school teachers were recruited, and since 2004, 75 teachers have received on-the-job training.

Number of Primary School Teachers Hired, 2000/01–2005/06

Year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	Total
Teachers hired	50	39	21	26	8	27	171

Source: São Tomé and Príncipe authorities.

[12] The Convention has the following objectives: (i) to foster and strengthen measures to prevent and fight corruption more effectively; (ii) to promote, facilitate, and support international cooperation and technical assistance in the prevention of and fight against corruption, including asset recovery; and (iii) to foster integrity, accountability and the proper management of public affairs and property.

[13] Most recently, a new audit report on the activities of the Cabinet for the Management of External Aid was submitted to the legal authorities and resulted in the restructuring of the Cabinet.

[14] To furnish the new classrooms and replace old materials in 2001–05, 3,509 single and double desks were acquired.

34. **In the health sector, the authorities exceeded the HIPC trigger on building and equipping at least eight primary health care centers or posts** (Appendix III, Table 2). Since 1999 they have built and equipped 12 centers or posts and rehabilitated another seven. In 2006, a maternity ward was added to the Lobata province health center, and the hospital in Monte Café was renovated.

35. **The authorities exceeded the HIPC trigger on increasing the immunization rate for children to 85 percent.**

Immunization Rates: Agreed HIPC Goals and Outcomes
(Percent)

Type of Immunization	1999 Base Year	HIPC goals	Results 2002	Results 2003	Results 2004	Results 2005
DPT3	73.8	85.0	90.9	93.7	95.2	96.8
Polio	70.0	85.0	92.2	94.2	94.9	96.8
BCG	78.8	85.0	103.8	99.6	. . .	98.4
Measles	70.0	85.0	84.9	86.7	86.4	88.3

Source: São Tomé and Príncipe authorities, the World Health Organization, and IDA.

36. **The authorities have also complied with the HIPC trigger of bringing down the malaria mortality rate of children under 5 from 86 per 10,000 in 1999 to 60 per 10,000.** The malaria program – which started in late 2003 and included fumigating homes on both islands, education, and distribution of bed-nets – markedly reduced malaria-related infections, hospitalizations, and deaths.

Mortality in Children Under 5 Caused by Malaria: Progress Since 1999

	1999	HIPC goal	2000	2001	2002	2004	2005
Mortality in children under 5 caused by malaria (out of 10,000)	86	60	88	78	107	60	NA

Source: São Tomé and Príncipe authorities and the World Health Organization.

F. Staff Assessment

37. **In the opinion of the IDA and IMF staffs, São Tomé and Príncipe has met the requirements for reaching the completion point under the enhanced HIPC Initiative.** As

noted in the 2006 APR JSAN, the country is implementing its PRSP despite the need for more donor support. All triggers related to public expenditure management, governance, and the social sectors were met as of 2006. Overall macroeconomic stability was maintained during most of the interim period of 2001–06. The causes of the increase in inflation from mid-2005 to mid-2006 are being addressed by fiscal adjustment and the central bank's more active monetary and foreign exchange policies.

III. Debt Relief and Debt Sustainability Analysis Update

A. Updated Data

38. **The staffs, in coordination with the authorities, have reviewed the stock of debt as of end-1999 presented in the decision point document** (Table 3). As a result of this exercise, the NPV of the debt owed to some creditors was revised. The revisions arose from data discrepancies discovered during consultations with creditors after the decision point document was published. The main revisions are as follows:

- **Multilateral debt.** The NPV of debt to the Arab Bank for Economic Development in Africa (BADEA) was revised upward from US$5.6 million to US$8.2 million. The previous estimates had incorrectly presented the debt owed to BADEA after application of a rescheduling agreement that provides for part of the creditor's share of HIPC assistance.

- **Bilateral debt.** The NPV of debt owed to Angola was revised from US$7.4 million to US$7.0 million.[15]

- **Commercial debt.** A loan from the former Yugoslavia was reclassified as commercial debt (US$1.6 million in NPV terms, US$4.8 million in nominal terms). At the decision point, this loan was reported under official bilateral debt to Yugoslavia but was later bought by a private company, Annandale Associated. The original debt was guaranteed by the National Bank of Angola, and Annandale Associated is seeking payment from this bank. The São Tomé and Príncipe authorities acknowledge that when the Central Bank of Angola pays Annandale, the debt will then be owed to Angola. Currently the National Bank of Angola and Annandale are negotiating the amount to be paid outside the courts.

39. **After full implementation of traditional relief mechanisms, the revised NPV of debt at end-1999 amounts to US$119.7 million, compared to the decision point estimate of US$117.5 million**. A recalculation of HIPC assistance based on the revised data would result

[15] The authorities have received Paris Club creditors' statements as of 2005 and a debt summary from Angola, not a Paris Club creditor. The mission verified bilateral agreements and got information on contentious debts. Special attention was given to checking consistency with the decision point data.

in an increase of US$2.2 million in NPV terms to US$99.2 million. The implied common reduction factor would increase marginally from 82.6 percent to 82.9 percent (Table 4).

B. Status of Creditor Participation in the Enhanced HIPC Initiative

40. **Creditors accounting for 85 percent of the total NPV of enhanced HIPC assistance have given assurances of their participation in the enhanced HIPC Initiative.** All multilateral and Paris Club creditors have confirmed their participation, and the authorities are working toward reaching an agreement with all remaining creditors (Table 6).

Multilateral creditors

41. **The amount of HIPC assistance from multilateral creditors totals US$70 million in NPV terms, equivalent to 71 percent of total HIPC assistance.** IDA, AfDF, BADEA, the EU, and the OPEC Fund have provided interim assistance in the amount of US$23 million in nominal terms to the end of 2006.[16] The International Fund for Agriculture and Development (IFAD) has committed to provide its share of assistance once São Tomé and Príncipe reaches the completion point.

- **IDA** assistance amounts to US$24 million in NPV terms. Given the financial constraints that the country faced at the decision point and the size of the common reduction factor, which was one of the highest under the HIPC Initiative, it was proposed that during the interim period (assumed to run from 2000-2003) 100 percent of São Tomé and Príncipe's debt service obligations to IDA be covered.[17,18] Since 2004 IDA has been providing interim assistance through a reduction of 90 percent of debt service falling due to IDA. Total debt service savings will amount to US$46 million in nominal terms, of which US$8 million was delivered by end-2006 (Table 14).

- **AfDF** assistance amounts to US$34 million in NPV terms. This relief is being provided through an 80 percent reduction of debt service falling to AfDF. Total debt service savings will amount to US$79 million in nominal terms, of which US$9 million was delivered by end-2006.

- **IFAD** has agreed to deliver its share of relief, amounting to US$3 million in NPV terms, at the completion point by forgiving 100 percent of debt service

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[16] Since there was no debt outstanding to the IMF when the decision point DSA was prepared, the IMF did not commit assistance under the enhanced HIPC Initiative.

[17]During this period, 90 percent of debt service due was covered by IDA and the remaining 10 percent was covered by bilateral donor resources to the HIPC Trust Fund.

[18] On credits disbursed and outstanding as of end-1999.

until the target NPV of debt relief is achieved. This could imply total debt service relief of approximately US$8 million in nominal terms.

- **EU, OPEC, and BADEA** assistance would amount to US$9 million in NPV terms. Modalities of delivery for these creditors are presented in Table 6.

Bilateral and commercial creditors

42. **Paris Club creditors have agreed in principle to provide their share of assistance under the enhanced HIPC Initiative (US$14.5 million in NPV terms).** On September 13, 2005, they agreed to grant São Tomé and Príncipe a flow rescheduling under Cologne terms on maturities covering the period from May 1, 2001, to December 31, 2007.[19,20] Following the agreement with the Paris Club, bilateral agreements were signed with Germany, France, Russia and Spain.[21] Some creditors provided additional assistance beyond the HIPC Initiative during that period.

43. **Non-Paris Club bilateral creditors are expected to provide treatment comparable to that of the Paris Club, with assistance under the enhanced HIPC Initiative amounting to US$13.4 million in NPV terms, after relief comparable with traditional terms.** The authorities are in discussions with Algeria, Angola, and Portugal and are in contact with China.[22] There is only one commercial credit, which will eventually become official bilateral credit from Angola (see paragraph 38).[23]

C. Updated Debt Sustainability Analysis after HIPC Assistance

Debt burden indicators at end-2005.

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[19] Nonofficial development assistance maturities falling due are cancelled for up to 90 percent. Creditors implement the 90 percent debt reduction using the "debt reduction option": 90 percent of the claims treated are cancelled and the rest rescheduled at the appropriate market rate over 23 years, with a 6-year grace period. Official development assistance (ODA) credits are rescheduled, at an interest rate at least as favorable as the original concessional interest rate on these loans, over 40 years with a 16-year grace period.

[20] In 2000 São Tomé and Príncipe received a flow rescheduling under Naples terms covering April 2000 to April 2003.

[21] A short-term loan owed to Italy of US$18 million is in arrears. Italy did not participate in the Paris Club rescheduling agreement of September 2005 because ownership of the debt is in dispute between a private exporter and the Italian credit agency. However, if the judgment favors the exporter, Italy will grant the same treatment as other Paris Club creditors at the completion point.

[22] At the decision point, Portugal was considered a Paris Club creditor.

[23] This credit is expected to receive assistance under the enhanced HIPC Initiative amounting to US$1.3 million in NPV terms (table 6).

44. **The DSA included in the decision point document was updated jointly by the authorities and the IDA and IMF staffs, on the basis of end-2005 loan-by-loan debt data from the authorities and updated exchange and interest rates** (Table 7). Based on 95 percent reconciliation of the debt data, [24] São Tomé and Príncipe's nominal stock of external debt reached US$324.6 million at the end of 2005, compared with US$292.9 million at the end of 1999 (Tables 3 and 5). Of the total nominal debt at end-2005, 62 percent was owed to multilateral creditors. IDA and AfDF accounted for 53 percent of this total debt. Bilateral creditors accounted for 38 percent of the total debt and the Paris Club for 14 percent.

External debt outlook after HIPC relief

45. **The NPV of São Tomé and Príncipe's external debt at end-2005, after full delivery of assistance committed under the HIPC Initiative, is estimated at US$61.7 million, equivalent to 299 percent of exports of goods and services** (Table 8). Taking into account bilateral debt relief beyond the HIPC Initiative, the NPV of debt would be further reduced to US$56.1 million, equivalent to 271 percent of exports of goods and services. According to the macroeconomic framework underpinning the baseline scenario of the DSA (Box 4 and Appendix II), the NPV of debt-to-export ratio is projected to remain significantly above the 150 percent threshold defined in the enhanced HIPC framework until the start of projected oil exports in 2012 and decline below 150 percent only afterward.

D. Considerations for Topping-up HIPC Assistance

46. **The enhanced HIPC Initiative framework allows for additional debt relief (topping up) at the completion point if exogenous factors led to a fundamental change in the country's economic circumstances**. Additional debt relief at the completion point would be provided by all creditors proportionally to bring the NPV of debt-to-export ratio down to the HIPC threshold. So far, five countries have received topping-up assistance: Burkina Faso, Ethiopia, Niger, Rwanda, and Malawi.

47. **The NPV of debt-to-exports ratio at end-2005, after full delivery of committed HIPC assistance, increased to 299 percent compared with the decision point estimate of 140 percent, mainly due to exogenous factors**. This section discusses the factors, mostly exogenous, that contributed to the increase in the debt ratio, and assesses whether they contributed to a fundamental change in São Tomé and Príncipe's economic circumstances.

[24] This corresponds to full reconciliation of multilateral debt and 85 percent of bilateral debt at the end of 2005.

São Tomé and Príncipe: Breakdown of the Increase of NPV of Debt-to-Export Ratio as of end-2005 1/

	Percentage Points	Percent of Total Increase
NPV of debt-to-export ratio (as projected at decision point)	**139.7**	
NPV of debt-to-export ratio (actual) 2/	**298.7**	
Total increase	**159.0**	**100.0**
1. Due to changes in the parameters	**55.4**	**34.8**
Of which: due to changes in the discount rates	45.1	28.4
Of which: due to changes in the exchange rates	10.3	6.5
2. Due to unanticipated new borrowing	**7.2**	**4.5**
Of which: due to higher than expected disbursements	-11.2	-7.0
Of which: due to lower concessionality of the loans	10.9	6.9
Of which: due to other factors 3/	7.6	4.8
3. Due to changes in export	**74.3**	**46.7**
Of which: due to prices	40.6	25.5
Of which: due to volumes	33.7	21.2
5. Other factors 4/	**22.1**	**13.9**

Sources: World Bank and IMF staff estimates.

1/ NPV of debt-to-export ratio after enhanced HIPC assistance.

2/ After full delivery as of end-2005.

3/ Refers to incorrect use, at the decision point, of U.S. dollar discount rates and terms of new borrowing.

4/ Due to revisions in the end-1999 database and changes in the timing and mechanisms of delivery of assistance compared to the assumptions in the decision point projections (mainly due to delays in reaching the completion point).

48. **Lower-than-projected export receipts accounted for about 47 percent of the increase in the NPV of debt-to-exports ratio.** Export performance has not been as strong as expected because both export prices and volumes turned out much lower than projected at the decision point. The volume shortfall is explained by overestimating tourism and cocoa volumes. Tourism receipts, which accounted for 80 percent of total export receipts during 2000-05, have not increased as projected because the number of tourist arrivals was constrained by a shortage of hotel room capacity and air transportation. At the same time, export volumes of cocoa, the main crop, were negatively affected by droughts.

49. **The fall in world interest rates played a substantial role in the deterioration of São Tomé and Príncipe's debt burden indicators, contributing to almost 30 percent of the total change in the NPV of debt-to-exports ratio.**

50. **All else remaining equal, a decline in discount rates would be associated with a fundamental deterioration in São Tomé and Príncipe's economic circumstances by reducing its future export earnings.** To the extent that a lower interest rate on industrialized countries' benchmark bonds (used as the discount rate for HIPC calculations) reflects market expectations of a lower rate of inflation, the associated lower commodity prices would lower the future export earnings of São Tomé and Príncipe, thus implying a heavier debt burden.

51. **Unanticipated changes in exchange rates, led to a deterioration of 10 percentage points in São Tomé and Príncipe's NPV of debt-to-exports ratio**. This development was driven by the depreciation of the U.S. dollar against the euro and the fact that more than half of São Tomé and Príncipe's nominal debt at end-2005 was denominated in euros and SDRs.[25] Nonetheless, the impact of this deterioration was not as important as the other external factors; most of São Tomé and Príncipe's export receipts are denominated in euros, thus reducing the impact of the higher debt stock and debt service costs in U.S. dollar terms.

52. **Although new borrowing was lower than expected, its concessionality was also lower than estimated at the time of the decision point**. At the assumed level of concessionality, the lower amounts of projected new loans would have reduced the NPV of debt-to-export ratio by 11 percentage points, but the lower than projected concessionality has increased this ratio by 11 percentage points. For 2000–05 the actual grant element of all new loans averaged 51 percent compared to a projected 67 percent at the decision point.[26]

53. **The staffs are of the view that the increase in the São Tomé and Príncipe NPV of debt-to-exports ratio between decision and completion points was mainly attributable to exogenous factors**. Lower exports and changes in discount and exchange rates (as well as incorrect assumptions about discount rates in the new borrowing terms at the decision point) were all outside the control of the authorities.

54. **The staffs are of the view that São Tomé and Príncipe meets the requirements for topping up under the relevant decisions adopted by the IDA and IMF Boards**.[27] The staffs therefore recommend that São Tomé and Príncipe be granted additional assistance of US$25 million under the enhanced HIPC Initiative to bring its NPV of debt-to-export ratio from 271.5 percent after additional voluntary bilateral debt relief, down to the HIPC threshold of 150 percent (Table 9). IDA and IMF will grant the additional assistance once other creditors have provided sufficient financing assurances of their participation. [28]

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[25] Currencies that appreciated substantially against the U.S. dollar (Table 7).

[26] The decision point projections incorrectly used the U.S. dollar-denominated CIRR to discount all loans regardless of the currency of denomination, instead of using the currency-specific CIRR for each currency, this accounted for an additional 8 percentage points of the increase in the ratio.

[27]"The Enhanced HIPC Initiative-Completion Point Considerations," (IDASecM200 l-0539/1, August 21, 2001, and EBS/01/141, August 20, 2001). Public Information Notice (PIN) No. 01/100.
September 27, 2001 on IMF Board discussion on :" The Enhanced HIPC Initiative Completion Point Considerations", http://www.imf.org/external/np/sec/pn/2001/pn01100.htm.

[28] In this case, more than 90 percent of the debt remaining after enhanced HIPC assistance and additional bilateral assistance from Paris Club creditors will be multilateral debt. Of this debt, 75 percent will be held by IDA, IMF and AfDF.

E. Debt Relief Under the Multilateral Debt Relief Initiative

55. **Subject to Executive Directors approval of the completion point under the enhanced HIPC Initiative, São Tomé and Príncipe will qualify for additional MDRI debt relief from IDA, IMF, and AfDF.** MDRI debt relief would cover all remaining debt service obligations on eligible credit balances after HIPC debt service relief. Thus, the amount of MDRI relief will depend on whether or not topping-up assistance will be approved. If Executive Directors approve topping up, MDRI relief (net of HIPC assistance) to São Tomé and Príncipe would be equivalent to total debt service savings on debt owed to these creditors of US$50.3 million in nominal terms.[29] Without topping-up assistance, MDRI relief (net of HIPC assistance) would be equivalent to US$77.8 million.

Assuming there is no topping- up

- **Debt relief from IDA.** IDA would provide MDRI debt relief by cancelling São Tomé and Príncipe's payment obligations on debt disbursed before the end of 2003 and still outstanding on March 30, 2007, after application of the enhanced HIPC Initiative.[30] MDRI relief would provide total debt service savings (net of HIPC assistance) of approximately SDR 27.8 million (equivalent to US$36.4 million), implying average debt service savings of US$1.1 million a year for the next 20 years (Table 14).[31] Including HIPC assistance, total debt service savings from IDA would amount to approximately US$77.4 million over the next 34 years.

- **Debt relief from the IMF.** The IMF would provide MDRI debt relief amounting to SDR 1.4 million (or US$2.0 million),[32] covering all debt owed to the IMF at the end of 2004 that is still outstanding at the completion point.[33] The relief would be financed from the MDRI-I Trust (Table 15a). It would imply average debt service savings of SDR 0.36 million (US$0.51 million) a year for the next four years.

- **Debt relief from AfDF.** After HIPC relief at the completion point, the AfDF would cancel São Tomé and Príncipe's debt that was disbursed before the end

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[29] The cutoff date for eligible debt outstanding to IMF and AfDF was end-2004, and for eligible debt to IDA was end-2003.

[30] See, International Development Association, "The Multilateral Debt Relief Initiative: Implementation Modalities for IDA," November, 18, 2005, http://siteresources.worldbank.org/IDA/Resources/MDRI.pdf.

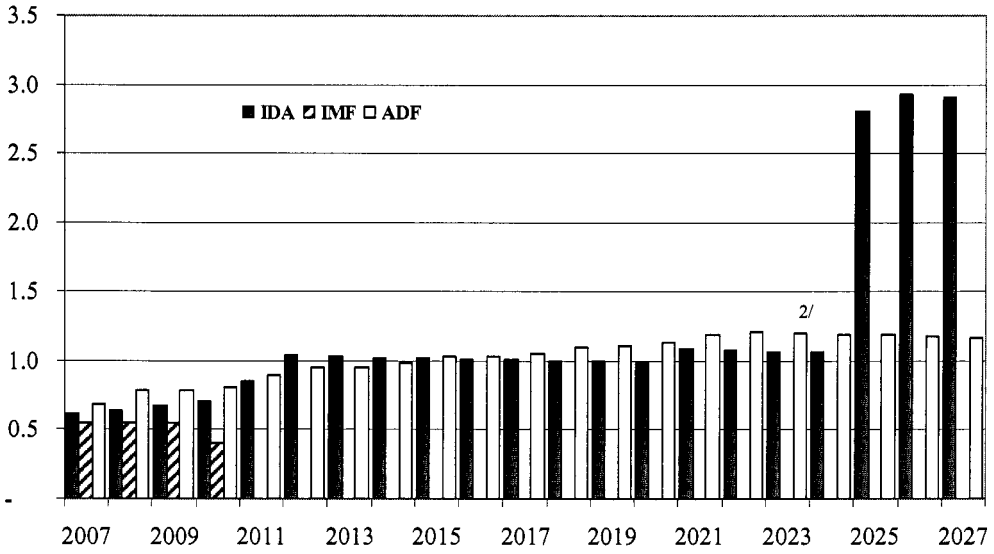
[31] Using the Completion Point SDR/US$ exchange rate (end-2005, 6-month average SDR CIRR).

[32] Using the Completion Point SDR/US$ exchange rate (end-2005, 6-month average SDR CIRR).

[33] As defined in the MDRI-I Trust Instrument.

of 2004.[34] Total MDRI debt service savings (net of HIPC assistance) would amount to approximately US$39.4 million, implying annual average savings of US$1.02 million a year for the next 20 years. MDRI relief, together with HIPC assistance, would imply a total debt service reduction of approximately US$110 million.

Figure 1. Implied Debt Service Savings from MDRI, 2007–27 1/
(Millions of U.S.dollars)



Sources: IDA and IMF staff estimates.
1/ MDRI relief without topping up of HIPC assistance.
2/ Last year of HIPC relief from IDA.

Assuming approval of topping-up

- **Debt relief from IDA.** IDA's assistance under MDRI would provide total debt service savings (net of HIPC assistance) of approximately SDR 20.1 million in nominal terms (equivalent to US$28.8 million),[35] implying average debt service savings of US$0.6 million a year for the next 20 years.[36]

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[34] See African Development Fund, "The Multilateral Debt Relief Initiative: ADF Implementation Modalities Paper," November 28, 2005.

[35] Using the completion point SDR/US$ exchange rate (end-2005, 6-month average SDR CIRR).

[36] IDA allocations to countries receiving MDRI debt relief will be reduced by the amount of relief to be provided in that year. (See IDA "The Multilateral Debt Relief Initiative: Implementation Modalities for IDA," November 18, 2005.) Since topping-up would reduce the amount of MDRI debt relief in each year, the IDA allocation to São Tomé and Príncipe would be higher if topping-up were approved.

- **Debt relief from the IMF**. IMF debt relief under MDRI would amount to SDR 1.43 million (US$2.0 million) in nominal terms, of which SDR 0.99 million (US$1.4 million) would be financed from the MDRI-I Trust and the remainder from the HIPC umbrella account using topping-up HIPC assistance (Table 15b). Average debt service savings (net of HIPC assistance) would amount to SDR 0.2 million (US$0.3 million) a year for the next four years.

- **Debt relief from AfDF**. AfDF debt relief under MDRI (net of HIPC assistance) would amount to total debt service savings of US$20.1 million, implying average debt service savings of US$0.62 million a year for the next 20 years.

F. Debt Sustainability Outlook After MDRI, 2007-26

56. **The macroeconomic framework underlying the long-term sustainability outlook has been revised to take into account developments since the decision point** (Tables 1 and 2). The framework is in line with the government's medium-term program, which is supported by the PRGF arrangement (Box 4). Development of the oil sector would sustain economic growth at about 9 percent a year for 2007-15, well above the 4 percent average growth in 2000-05. Based on the projected drilling schedule (see Box 3) São Tomé and Príncipe could start exporting oil in 2012 at the earliest. Development of the non-oil economy is expected mainly in the service sector, principally banking and tourism, and secondly in fishery and agriculture.

57. **Inflation is expected to decline gradually to 6 percent by 2010 and over the long term level off at 3 percent, reflecting a balanced budget and the central bank's commitment to control inflation**. On fiscal policy, oil revenues are assumed to accrue in the National Oil Account (NOA) and be used to finance the government budget according to a permanent income rule established by the Oil Management Revenue Law. The permanent income generated by the NOA would cover all São Tomé and Príncipe's public budget needs in the long term.

58. **The external current account deficit is projected to remain in deficit until 2012, as a result of large imports related to the development of the oil sector and public investment, and revert to a surplus in 2013-22 as a result of oil exports**. In the long term, the external current account is projected to have a small deficit, which is to be financed by the permanent income generated by the NOA.

Box 4. Baseline Macroeconomic Assumptions, 2007-26

Real non-oil GDP growth is expected to accelerate to 8 percent by 2017 with investments in the service sector and infrastructure in anticipation of the oil era and development of the tourism and fishery sectors. After oil production starts to decline by 2016, non-oil GDP growth should slow gradually to a sustainable 5 percent in the long term.

Oil production of one well is assumed to start in 2012. The country's share in the oil output of the Joint Development Zone (JDZ), 35,000 barrels a day, at an average price of US$70 per barrel on average would yield US$900 million in annual exports (equivalent to 1,300 percent of 2006 GDP) for 20 years and would require total investment by São Tomé and Príncipe of US$1.2 billion. Preliminary staff estimates indicate that, on the assumption that only one of the six blocks auctioned in the JDZ with Nigeria is found to be commercially exploitable, oil production would still have a sizeable effect on São Tomé and Príncipe's economic prospects.

Inflation is projected to fall gradually to 6 percent in 2010 and over the long term hold steady at 3 percent, reflecting a balanced budget and the central bank's commitment to control inflation.

Fiscal policy will be supportive of economic growth and poverty reduction. The domestic primary balance is expected to continue recording deficits of some 10 percent of GDP through 2012, reflecting large social and infrastructure expenditures. After oil production starts in 2012, a balanced budget rule applies, in which the non-oil deficit equals financing from the National Oil Account (NOA) based on the permanent income hypothesis, with no external or domestic financing. On the assumption that only one oil block is producing, annual budget financing from the NOA is projected at around US$190 million on average for 2013–26 (equivalent to 15 percent of GDP on average).

The current account deficit (including grants) is expected to average 88 percent of GDP for 2007–12 because of large investment-related imports. Between 2013 and 2022 the current account is projected to turn into a surplus as a result of oil exports. After 2023 it is expected to return to a deficit, which would be financed by the permanent income from the NOA.

External borrowing on concessional terms is assumed to be about US$4 million a year for 2007–11, mainly from the African Development Bank and bilateral official creditors. It is assumed that IDA will provide only grants. After 2013 there would be no new borrowing because the income from oil exploration allows for a substantial increase in government consumption and investment.

Excluding topping-up assistance

59. **Full delivery of HIPC and MDRI debt relief at the completion point would reduce São Tomé and Príncipe's external public debt substantially, from US$196 million at end-2005 to US$23 million in NPV terms at end-2007** (Table 10). After MDRI relief nominal debt service relief in 2007 would amount to US$8.3 million, of which US$1.7 million would be from the MDRI (Table 11).

60. **São Tomé and Príncipe's external public debt is expected to remain below the enhanced HIPC Initiative threshold throughout the projection period after MDRI debt relief** (Table 12). After full delivery of enhanced HIPC assistance and additional bilateral debt relief, the NPV of debt-to-export ratio is projected to remain above the HIPC threshold through 2011. Once MDRI relief is considered, this ratio would fall to about 100 percent through the same period and the NPV of debt-to-GDP ratio and the NPV of debt-to-revenue ratio would fall to 22 percent and 58 percent respectively by 2011. After oil production starts in 2012, all ratios are projected to fall dramatically, to well below the HIPC thresholds, e.g., the NPV of debt-to-exports ratio is projected to fall to 5 percent by 2013 and continue to decline thereafter.

61. **Debt service is projected to be relatively constant through 2011 but fall sharply after oil production starts in 2013** (Table 11 and 12). After enhanced HIPC assistance and additional bilateral debt relief, annual debt service would average US$4.5 million through 2015, equivalent to 9 percent of exports of goods and services, which is significantly above the average of 7.3 percent of all 28 HIPCs that had reached the decision point at the end of 2005. After MDRI debt relief, debt service would average only 6 percent of exports of goods and services through 2015.

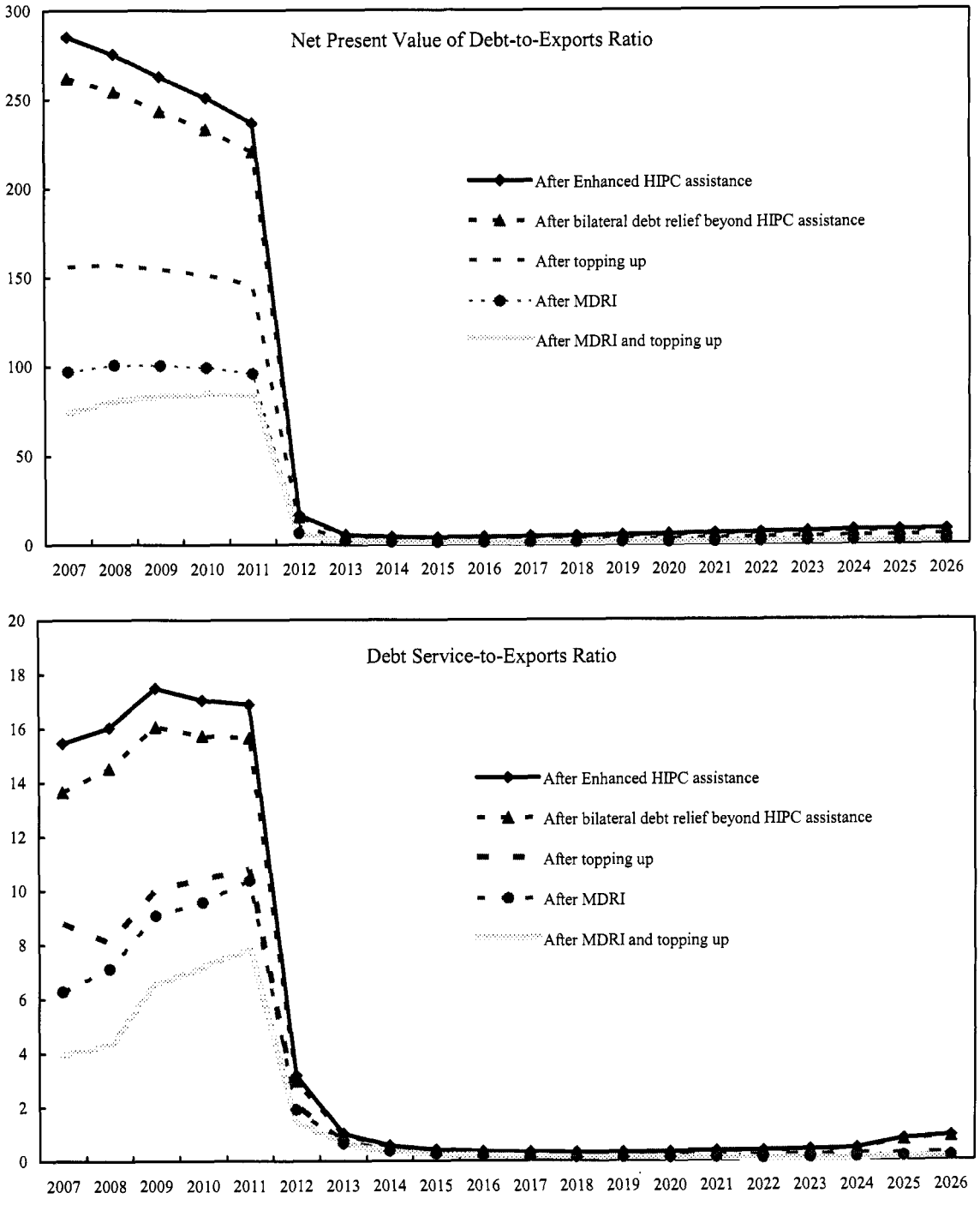
Including topping-up assistance

62. **Topping-up HIPC assistance and MDRI debt relief would further reduce São Tomé and Príncipe's external debt.** Total debt would be reduced from US$196 million at end-2005 to US$17.5 million in NPV terms at end-2007 (Table 10). Nominal debt service relief in 2007 is estimated at US$8.8 million, of which US$1.1 million would be attributable to the MDRI (Table 11).

63. **External public debt would remain well below the HIPC thresholds throughout the projection period** (Table 12). After the topping-up of HIPC assistance and MDRI relief, the NPV of debt-to-exports ratio is projected to drop to 78 percent at the end of 2007, slightly increasing to 90 percent by 2011 but declining sharply to 15 percent by 2012 and averaging only 1 percent of exports thereafter. The NPV of debt-to-GDP ratio and the NPV of debt-to-revenue ratio are projected to follow a similar trend.

64. **Debt service is projected to remain low.** Assuming HIPC topping-up assistance and MDRI relief, total annual debt service would decrease to US$2.4 million on average during 2007-15, equivalent to an average of 4 percent of exports of goods and services. This ratio is projected to fall steadily thereafter.

Figure 2. São Tomé and Príncipe: External Public Debt Indicators, 2007–26 1/
(Percent)



Sources: São Tomé and Príncipe authorities; and World Bank and IMF staff estimates and projections.
1/ Assumes full delivery of HIPC assistance and bilateral debt relief beyond HIPC assistance; includes MDRI debt relief.

G. Sensitivity Analysis and Long-term Debt Sustainability

65. **São Tomé and Príncipe's debt situation could worsen substantially if oil production does not materialize as projected and fiscal policy does not respond accordingly**. The principal risk to São Tomé and Príncipe's debt outlook is substantially lower oil production or no oil production at all. In such a scenario, maintaining long-term debt sustainability will require continued prudent fiscal and debt management policies and structural reforms to support broad-based growth. The macroeconomic assumptions for the alternative scenarios are summarized in the text table below. The results of the alternative scenarios are shown in Table 13 and Figure 3.

Scenario I: Lower oil exports and revenues

66. **This scenario assumes 50 percent lower exports and oil revenue compared with the baseline scenario**. Real non-oil GDP growth is assumed to fall on average to 5 percent a year compared to 7 percent in the baseline. The scenario assumes that to finance the budget the government borrows each year 10 percent of non-oil GDP (compared to a balanced budget in the baseline scenario), on commercial terms. Given the low initial indebtedness and still relatively large exports and revenues from oil, it will take 20 years for the impact of this new debt to show up in the debt indicators. The NPV of debt-to-exports ratio is projected to remain well below the HIPC threshold of 150 percent through 2026, while the debt service-to-exports ratio is projected to increase gradually to over 10 percent and the debt service-to-revenue ratio to 20 percent. The large permanent income receipts from oil exploration, compared to current fiscal revenues would make it possible to finance the budget for a long time even if there is a large shock to oil production. The additional borrowing requirements would not markedly increase debt stock indicators, although borrowing on nonconcessional terms would significantly worsen debt service indicators.

Scenario II: No oil production and current fiscal stance

67. **This scenario assumes much lower GDP growth of 3 percent a year compared with the baseline**. In the absence of petroleum revenues, financing needs will increase so that the government can maintain current investment and consumption. The continuing expenditures result in a fast build-up of new debt. The NPV of debt-to-exports ratio races upward, reaching 400 percent by 2026, and the debt service-to-exports ratio rises to over 50 percent. This scenario illustrates that if oil production does not materialize, the current fiscal stance cannot be sustained even with concessional financing.

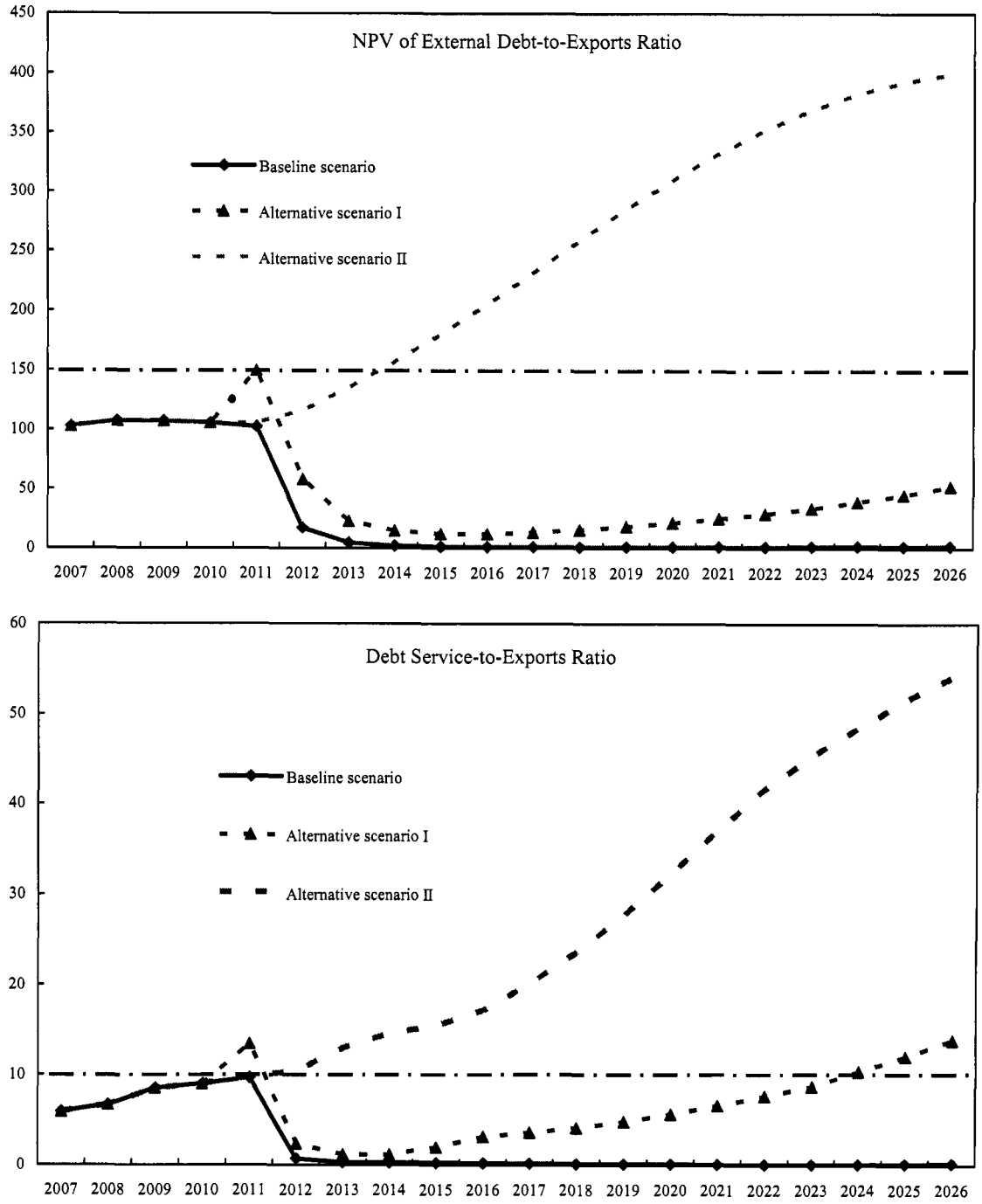
68. **The sensitivity analysis underscores the need for continued prudent fiscal and debt management policies and for structural and governance reforms to support broad-based growth**. If oil production does not materialize or is substantially lower than expected, debt burden indicators could quickly increase, if there are no corrective adjustment policies. If the government resorts to nonconcessional borrowing, it could lose fiscal space for investments in infrastructure and poverty-reducing expenditure in the medium and long term.

Alternative Scenarios: Macroeconomic Assumptions

	Baseline	**Scenario I** **50 percent lower oil exports**	**Scenario II** **No oil production**
Fiscal policy	Permanent income rule 1/	Annual borrowing of 10 percent of non-oil GDP	current fiscal stance; domestic primary deficit averaging 4.5 percent of GDP in 2007-26
GDP growth 2/	7 percent	5 percent	3 percent
Exports 2/	US$900 million a year	50 percent lower oil exports and revenues	No oil exports
Borrowing terms	Concessional No borrowing after 2013	Less concessional after 2013	Concessional
External grants	No grants after 2013	No grants after 2013	Maintains the current level of grants

Source: IDA and IMF staff estimates.
1/ The non-oil deficit equals financing from National Oil Account (NOA) based on the permanent income hypothesis.
2/ Averages for 2012–26.

Figure 3. São Tomé and Príncipe: Sensitivity Analysis, 2007–26 1/
(Percent)



Sources: São Tomé and Príncipe authorities; and World Bank and IMF staff estimates and projections.
1 / Assumes full delivery of HIPC assistance and bilateral debt relief beyond HIPC assistance; includes MDRI debt relief.

IV. Conclusions

69. **In the opinion of IDA and IMF staffs, São Tomé and Príncipe has met the requirements established in December 2000 for reaching the completion point under the enhanced HIPC Initiative.** All triggers related to public expenditure management, governance, and the social sectors were met as of end-2006. The poverty reduction strategy is based on wide-ranging reforms, and the government has recently prepared its first annual PRSP progress report. São Tomé and Príncipe has made satisfactory progress in establishing mechanisms to ensure efficient and transparent use of HIPC debt relief, increasing transparency and accountability in the management of public resources, and implementing measures to improve health and education. Overall macroeconomic stability was maintained during most of the interim period of 2001–06, as evidenced by robust growth and broad control of inflation. Implementation of macroeconomic policies was broadly satisfactory under the PRGF-supported program approved in August 2005. Since mid-2006 fiscal policy adjustment and the central bank's more active use of policy instruments are addressing the recent increase in inflation.

70. **São Tomé and Príncipe's debt situation will improve significantly after it receives enhanced HIPC assistance and MDRI debt relief.** Assurances of participation in the enhanced HIPC Initiative have been obtained from creditors representing 85 percent of the total NPV of debt. If oil production materializes, São Tomé and Príncipe should be able to weather large adverse shocks over the medium term. However, if oil production does not materialize or is substantially lower than expected, debt could quickly become unsustainable if there are no corrective adjustment policies. This possibility underscores the need for continued prudent fiscal and debt management policies and for structural reforms to support broad-based growth.

71. **The staffs of IDA and IMF therefore recommend that the Executive Directors determine that São Tomé and Príncipe has reached the completion point under the enhanced HIPC Initiative and that additional assistance (topping up) beyond that already committed at the decision point in the amount of US$25 million in NPV terms be granted to lower São Tomé and Príncipe's NPV of debt-to-exports ratio at end-2005 to 150 percent.** The additional assistance from IDA and IMF would be disbursed when other creditors provide satisfactory assurances of their participation in this exceptional effort.

V. Issues for Discussion

72. Executive Directors may wish to consider this report in terms of the following questions:

- **Completion point**: Do Directors agree that São Tomé and Príncipe met all floating triggers for reaching the completion point under the enhanced HIPC Initiative, as established at the decision point?

- **Data revision**: Do Directors agree with staffs' recommendation that the proposed revision in the stock of debt in NPV terms warrants a revision in the amount of HIPC assistance?

- **Topping up of HIPC Initiative assistance**: Do Directors agree that the deterioration in São Tomé and Príncipe's debt sustainability is primarily attributable to a fundamental change in its economic circumstances due to exogenous factors? If so:

  (i) Do Directors agree that exceptional additional HIPC Initiative assistance be granted to lower São Tomé and Príncipe's NPV of debt-to-exports ratio to 150 percent?

  (ii) Do Directors agree that this additional assistance be granted when the Boards decide that other creditors have provided sufficient assurances to participate in this exceptional effort?

- **MDRI**: Do IMF Directors agree that São Tomé and Príncipe qualifies for an amount of debt relief by the IMF equal to SDR1.43 million? If topping up is approved, do IMF directors agree that the debt relief will be financed by SDR0.99 million from the MDRI-I Trust and SDR0.44 million from HIPC topping-up assistance disbursed to São Tomé and Príncipe's HIPC umbrella subaccount when satisfactory financing assurances are in place? Do Directors agree that the authorities have adequate monitoring mechanisms to ensure that debt relief is used according to its intended purposes?

- **Creditor participation**: Do Directors agree that São Tomé and Príncipe's creditors have given sufficient assurances to irrevocably commit HIPC Initiative assistance to São Tomé and Príncipe?

- **Debt sustainability**: Do Directors agree with the staff assessment that São Tomé and Príncipe's debt sustainability is likely to be maintained over the medium and longterm only if oil discovery and production materializes? Do they share the staff assessment of the risks that may emerge if the authorities do not actively pursue policies to encourage prudent fiscal and debt management policies?

- **Comparable treatment**: Do the Directors agree that São Tomé and Príncipe should continue to seek debt relief from its non-Paris Club creditors within the framework of the HIPC Initiative and that the staffs should continue to monitor the delivery of the debt relief from all creditors?

Table 1. São Tomé and Príncipe: Selected Economic Data, 2004–26

			Est.	Projections								Averages	
	2004	2005	2006	2007	2008	2009	2010	2012	2019	2020	2026	2007–19	2020–26
				(Percent change; unless otherwise indicated)									
Economic growth and prices													
GDP at constant prices	3.8	6.0	8.0	7.0	7.0	7.5	8.0	8.0	6.0	6.0	5.0	7.8	5.8
GDP deflator (percentage change)	9.7	14.7	19.0	19.8	10.9	8.8	6.7	4.5	3.8	3.8	4.0	8.9	4.0
Consumer prices (percentage change; end of period) 1/	15.2	17.2	24.6	13.5	9.5	7.0	6.0	3.0	3.0	3.0	3.0	7.6	3.0
Consumer prices (percentage change; average) 1/	12.8	16.3	23.1	18.6	11.4	8.2	6.5	3.0	3.0	3.0	3.0	8.3	3.0
External trade													
Exports, f.o.b.	-45.5	-6.4	-4.6	3.3	5.0	4.0	0.7	9,873.5	-10.4	-10.4	-10.3	775.5	-10.4
Of which: Oil	...	...	...	...	...	...	...	...	-10.5	-10.5	-10.5	26.8	-10.5
Imports, c.i.f.	7.1	15.7	51.9	9.6	8.5	8.2	8.7	11.0	2.2	3.4	5.2	19.6	4.3
Terms of trade (excluding oil)	-26.5	-12.0	-5.1	3.5	0.9	0.7	0.2	0.0	0.0	0.0	0.0	0.4	0.0
				(Percent of GDP; unless otherwise indicated)									
National accounts													
Consumption	122.0	126.2	125.6	122.2	123.3	122.5	121.0	40.3	37.8	42.8	75.9	64.1	59.3
Gross investment	35.2	34.1	63.9	64.0	65.1	64.7	65.4	56.1	12.6	14.1	22.4	49.8	18.5
Public investment	20.1	13.4	14.4	13.7	14.0	13.7	13.4	3.1	7.9	8.7	11.3	8.3	10.3
Private investment	15.1	20.7	49.4	50.3	51.1	51.0	52.0	53.0	4.7	5.5	11.1	41.5	8.2
Gross domestic savings	-22.0	-26.2	-25.6	-22.2	-23.3	-22.5	-21.0	59.7	62.2	57.2	24.1	35.9	40.7
Of which: Public savings	-13.3	-4.2	-6.3	-4.0	-3.1	-1.1	0.2	16.9	34.4	31.3	4.0	24.3	17.6
Government finance													
Total revenue, grants and oil signature bonus 2/ 3/	60.6	127.2	54.6	262.4	76.5	49.2	48.5	26.5	49.2	48.0	31.0	67.2	39.8
Of which: tax revenue	23.4	23.5	26.1	25.1	25.1	25.1	25.3	7.3	6.5	7.5	14.6	12.6	11.0
grants 2/ 3/	32.2	26.7	22.6	201.4	19.0	18.6	18.1	4.2	0.0	0.0	0.0	21.6	0.0
oil proceeds 4/	0.0	73.4	0.8	30.8	27.5	0.7	0.6	13.9	41.6	39.3	14.1	30.8	27.1
Total expenditure and net lending	87.2	69.1	75.0	65.4	63.4	60.9	58.3	15.4	24.3	27.3	43.9	33.6	35.8
Of which: noninterest current expenditure	41.7	36.7	39.8	34.1	32.1	30.5	28.7	8.3	7.4	8.6	16.6	15.1	12.5
capital and HIPC expenditures	42.1	28.0	30.2	28.5	29.1	28.5	27.9	6.7	16.8	18.6	27.2	17.6	23.2
Domestic primary balance (commitment basis; incl. HIPC Initiative spending)	-20.6	-15.9	-15.3	-12.9	-11.9	-10.2	-8.3	-0.3	-0.5	-0.5	-0.6	-3.6	-0.5
(excluding oil proceeds)	...	-89.3	-16.1	-43.8	-39.4	-10.9	-8.9	-14.2	-42.1	-39.8	-14.6	-34.4	-27.6
Overall balance (commitment basis; including grants)	-26.6	58.1	-20.4	197.0	13.1	-11.7	-9.8	11.1	24.8	20.8	-12.9	33.6	3.9
Balance of payments													
Current account balance (including official transfers)	-23.1	-30.7	-58.6	-61.6	-63.4	-63.1	-63.4	-49.5	17.8	13.3	-25.8	-29.1	-5.9
Current account balance (excluding official transfers)	-58.8	-62.3	-91.0	-86.5	-87.7	-86.6	-85.9	-53.7	17.8	13.3	-25.8	-38.3	-5.9
Export of goods and services (in millions of U.S. dollars)	20.2	21.0	22.5	23.9	25.5	27.3	29.0	426.2	1,009.5	913.2	527.9	741.0	702.8
Of which: Oil exports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	392.8	955.7	855.5	440.1	704.1	630.9
Import of goods and services (millions of U.S. dollars)	-57.0	-64.3	-93.2	-101.8	-112.5	-122.0	-132.8	-407.6	-393.8	-404.3	-508.7	-335.9	-451.4
Gross foreign reserves (months of imports) 5/ 6/	3.4	4.1	4.4	4.4	4.3	4.4	4 6	2.5	12.0	12.0	11.9	8.3	12.0
Memorandum Item													
Nominal GDP (in billions of dobras) 7/	629	765	983	1,261	1,496	1,750	2,016	8,968	22,200	21,125	18,505	9,907	21,215

Sources: São Tomé and Príncipe authorities; and IMF staff estimates and projections.

1/ Actual data for 2006.

2/ Government revenue includes HIPC and MDRI debt relief.

3/ Assumes that the completion point under the enhanced HIPC Initiative is in the first quarter of 2007.

4/ Oil Signature Bonuses for Blocks 5 and 6, totaling US$26.1 million, originally assumed for 2006, are now projected for 2007.

5/ Gross reserves exclude the National Oil Account and guarantee deposits placed at the central bank by financial institutions pending operating licenses.

6/ Imports of goods and services of following year, excluding oil sector-related imports of capital goods and services.

data, which is likely to result in a substantial upward revision of GDP series.

Table 2. São Tomé and Príncipe: Balance of Payments, 2003–10

	2003	2004	2005	2006 Est.	2007	2008 Proj.	2009	2010
	(Millions of U.S. dollars, unless otherwise specified)							
Current account balance (excluding official transfers) 1/	**-33.5**	**-37.8**	**-44.7**	**-71.8**	**-78.2**	**-86.4**	**-94.1**	**-103.3**
Of which : non-oil current account balance 1/	-33.5	-37.8	-44.9	-57.8	-56.6	-60.4	-64.8	-70.0
Trade balance 1/	-27.0	-32.4	-38.2	-60.0	-65.9	-71.6	-77.6	-84.7
Of which : non-oil trade balance 1/			-38.2	-49.6	-51.1	-54.8	-58.8	-63.5
Exports, f.o.b.	6.6	3.6	3.4	3.2	3.3	3.5	3.6	3.7
Of which : cocoa	6.1	3.2	3.0	3.0	2.9	2.9	3.0	3.0
Imports, f.o.b. 1/	-33.6	-36.0	-41.6	-63.2	-69.3	-75.1	-81.2	-88.3
Services and income (net)	-8.4	-7.5	-8.0	-13.4	-13.9	-16.5	-18.3	-20.5
Exports of nonfactor services	14.1	16.6	17.7	19.3	20.5	22.0	23.6	25.3
Of which : travel and tourism	10.6	12.8	13.6	14.9	15.9	17.1	18.4	19.8
Imports of nonfactor services	-19.7	-21.0	-22.7	-30.0	-32.6	-37.4	-40.7	-44.5
Factor services (net)	-2.8	-3.1	-3.0	-2.7	-1.9	-1.1	-1.2	-1.4
Interest due	-2.8	-3.1	-3.2	-3.5	-2.3	-2.1	-2.0	-2.0
Permanent oil fund interest earnings	0.0	0.0	0.2	0.8	0.4	1.0	0.8	0.7
Private transfers (net)	1.8	2.1	1.5	1.6	1.7	1.7	1.8	1.9
Official transfers (net)	20.1	23.0	22.7	25.6	22.5	24.0	25.5	27.0
Current account balance, including official transfers	**-13.4**	**-14.9**	**-22.1**	**-46.2**	**-55.7**	**-62.4**	**-68.6**	**-76.3**
Of which : non-oil current account balance 1/	-13.4	-14.9	-22.3	-32.2	-34.1	-36.4	-39.3	-43.0
Capital and financial account balance	**2.3**	**1.9**	**53.1**	**30.4**	**62.2**	**79.6**	**61.9**	**71.0**
Capital transfer 2/	0.0	0.0	0.0	0.0	162.7	0.0	0.0	0.0
Financial account	2.3	1.9	53.1	30.4	-100.5	79.6	61.9	71.0
Public sector (net)	-0.6	2.5	29.7	-5.6	-149.9	24.7	-1.0	-1.2
Project loans	1.9	3.9	1.3	4.4	1.9	1.9	1.9	1.9
Program loans	0.0	0.0	0.0	0.0	1.5	2.0	2.0	2.0
Oil signature bonuses 3/	0.0	0.0	49.2	0.0	28.6	26.1	0.0	0.0
Amortization 4/	-7.6	-7.5	-8.9	-5.5	-163.5	-0.9	-0.9	-0.9
Other investment	5.0	6.0	-11.9	-4.5	-18.4	-4.4	-4.0	-4.2
Private sector (net)	2.9	-0.6	23.3	36.0	49.3	54.8	62.8	72.1
Direct foreign investment	3.4	3.5	5.2	29.4	28.4	30.4	32.4	34.8
Of which : petroleum-related investment	0.0	0.0	0.0	14.8	14.8	16.8	18.8	21.2
Commercial banks	-2.0	-1.3	-8.5	4.2	0.0	0.0	-2.5	-1.0
Short-term private capital	1.5	-2.8	26.5	2.4	20.9	24.4	32.9	38.3
Errors and omissions	**13.1**	**2.0**	**1.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**1.9**	**-11.0**	**32.5**	**-15.8**	**6.4**	**17.2**	**-6.7**	**-5.3**
Financing	-1.9	11.0	-32.5	15.8	-6.4	-17.2	6.7	5.3
Change in net international reserves, excl. NOA (increase -)	-5.9	6.0	-8.7	-1.6	-1.9	-2.0	-3.0	-3.5
Use of Fund resources (net) 5/	0.0	0.0	0.5	0.7	-0.2	0.6	0.0	0.0
National Oil Account (increase -)	0.0	0.0	-23.3	14.8	-6.0	-24.2	6.9	5.7
Change in medium- and long-term arrears (net; decrease -) 6/	4.0	5.0	-14.6	1.9	-10.2	0.0	0.0	0.0
Debt relief (HIPC bilateral) 2/	0.0	0.0	0.2	0.0	1.7	1.6	1.6	1.6
Rescheduling arrears	0.0	0.0	13.3	0.0	10.2	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	6.7	1.2	1.5
Memorandum items:								
Scheduled external debt service before HIPC and MDRI debt relief 7/	50.3	52.3	57.2	40.1	38.3	38.5	38.2	37.3
External debt service after HIPC and MDRI debt relief 7/ 8/	15.4	11.8	48.1	19.0	5.9	5.3	4.9	4.5
Current account balance, incl. official transfers (percent of GDP)	-22.7	-23.1	-30.7	-58.6	-61.6	-63.4	-63.1	-63.4
Current account balance, excl. official transfers (percent of GDP)	-56.7	-58.8	-62.3	-91.0	-86.5	-87.7	-86.6	-85.9
Trade balance (percent of GDP)	-45.6	-50.3	-53.3	-76.0	-72.9	-72.8	-71.4	-70.4
Gross reserves (months of following year's imports of goods and nonfactor services) 9/	4.8	3.4	4.1	4.4	4.4	4.3	4.4	4.6

Sources: São Tomé and Príncipe authorities, and IMF staff estimates and projections.

1/ From 2006, current account deficit increases reflecting higher investment-related imports of goods and services for Block 1 and foreign investment in the tourism sector.

2/ Assumes HIPC Initiative completion point and MDRI debt relief in 2007.

3/ Oil Signature Bonuses for Blocks 5 and 6 in JDZ, totaling US$26.1 million, originally assumed for 2006, are now projected for 2007.

4/ For 2007, assumes HIPC Initiative completion point and delivery of MDRI debt relief by IDA and AfDF as stock of debt reduction.

5/ For 2007, assumes MDRI assistance from the IMF as a stock of debt reduction totaling SDR 1.6 million.

6/ In 2005 includes the new Paris Club rescheduling agreement. For 2007, assumes rescheduling agreement with non-Paris Club bilateral creditors for current maturities and stock of arrears.

7/ In percent of current year exports of goods and nonfactor services; includes obligations to the IMF.

8/ Includes settlement of arrears.

9/ Gross reserves exclude the National Oil Account and guarantee deposits placed at the central bank by financial institutions pending operating licenses; imports exclude oil sector-related imports of capital goods and services.

Table 3. São Tomé and Príncipe: Nominal and Net Present Value of External Debt Outstanding at End-December 1999 1/
(Millions of U.S. dollars)

	Nominal debt		NPV of debt after rescheduling 2/	
	From decision point	Revised	From decision point	Revised
Total	**294.0**	**292.9**	**117.53**	**119.7**
Multilateral institutions	168.1	168.1	81.9	84.5
IDA	60.9	60.9	28.7	28.7
ADF	88.9	88.8	41.4	41.4
IMF	-	-	-	-
EU	1.2	1.2	1.0	1.0
IFAD	6.7	6.7	3.4	3.4
BADEA	8.19	8.2	5.6	8.2 3/
OPEC Fund	2.2	2.2	1.8	1.8
Bilateral and commercial	125.9	124.8	35.6	35.2 4/
Paris Club	51.8	51.8	17.4	17.4
Belgium	1.0	1.0	0.6	0.6
France	6.8	6.8	3.3	3.3
Germany	13.3	13.3	4.4	4.4
Italy	16.6	16.6	5.5	5.5
Russia	10.9	10.9	0.9	0.9
Spain	3.3	3.3	2.7	2.7
Non-Paris Club official bilateral	69.3	68.2	16.6	16.2
Algeria	1.3	1.3	0.4	0.4
Angola	22.3	21.4	7.4	7.0
Cape Verde	0.2	0.2	0.2	0.2
China	16.7	16.6	2.3	2.3
Portugal 5/	28.7	28.7	6.3	6.3
Yugoslavia, former 6/	-	-	-	-
Commercial creditors	4.8	4.8	1.6	1.6
Annandale Associated 6/	4.8	4.8	1.6	1.6

Sources: São Tomé and Príncipe authorities, World Bank and IMF staff estimates.

1/ Public and publicly guaranteed debt only.

2/ Assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) and at least comparable action by other official bilateral and commercial creditors.

3/ Reflects the NPV of debt owed to BADEA before the implementation of the debt rescheduling agreement.

4/ Data were revised because beter data became available.

5/ At the decision point, Portugal was classified as a Paris-Club creditor and is now reclassified as a non Paris-Club creditor.

6/ This commercial debt was originally a debt to Yugoslavia, which was bought by Annandale Associated.

Table 4. São Tomé and Príncipe: Estimated Assistance at Decision Point (Amended) 1/
(Millions of U.S. dollars in NPV terms at the end of 1999, unless otherwise indicated)

	NPV of Debt-to-Exports-Target	Total Assistance Under the NPV of Debt-to-Exports Criterion 2/			Common Reduction Factor at the Decision Point 3/
		Total	Bilateral	Multilateral	
	(Percent)	(Millions of U.S. dollars)			(Percent)
Assistance at decision point	150	97.0	29.4	67.6	82.6
Assistance revised at decision point	150	99.2	29.2	70.0	82.9
Memorandum items:					
NPV of debt 4/	**...**	**118**	**36**	**82**	
NPV of debt (revised)	**...**	**120**	**35**	**84**	
Three-year average of exports	...	14			
Current-year exports	...	16	...	...	
NPV of debt-to-exports 5/	...	861	...	...	

Sources: São Tomé and Príncipe authorities, and World Bank and IMF staff estimates and projections.

1/ The proportional burden-sharing approach is described in "HIPC Initiative–Estimated Costs and Burden Sharing Approaches" (EBS/97/127, 7/7/97 and IDA/SEC M 97-306, 7/7/97).
2/ Applies a hypothetical stock-of-debt operation on Naples terms and comparable treatment by other official bilateral creditors at the end of December 1999.
3/ Each creditor's NPV reduction at the decision point in percent of its exposure at the decision point.
4/ Based on latest data available at the decision point after full application of traditional debt relief mechanisms.
5/ Uses a three-year average of exports of goods and nonfactor services centered on previous year.

Table 5. São Tomé and Príncipe: External Public Debt Outstanding at end-December 2005 1/

(Millions of U.S. dollars)

	Legal Situation 2/		NPV of Debt 3/	
	Nominal Debt	NPV of Debt	After Enhanced HIPC	After Aditionnal Bilateral Assistance
Total	**324.6**	**240.8**	**61.7**	**56.1**
Multilateral	200.2	127.9	51.1	51.1
IDA	72.1	44.4	18.8	18.8
ADF	99.8	61.2	20.3	20.3
IMF	3.2	2.8	2.8	2.8
EU	5.2	4.5	4.5 4/	4.5
IFAD	8.6	5.3	1.0	1.0
OPEC Fund	7.4	6.4	3.0	3.0
BADEA	3.9	3.3	0.7	0.7
Bilateral and commercial	124.4	112.9	10.6	5.0
Paris Club	45.4	42.3	5.6 5/	0.0 5/
Belgium	1.1	0.6	...	...
France	7.1	5.8	...	...
Germany	5.1	5.5	...	...
Italy	24.6	24.6	...	...
Russia	3.4	2.0	...	...
Spain	4.2	3.9	...	...
Non-Paris Club official creditors	74.3	65.7	4.5	4.5
Algeria	1.3	1.3	0.1	0.1
Angola	22.3	22.3	2.5	2.5
Cape Verde	0.0	0.0	0.0	0.0
China	16.7	14.0	0.5	0.5
Portugal	34.0	28.2	1.5	1.5
Yugoslavia, former	...	...	...	...
Commercial	4.8	4.8	0.5	0.5
Annandale Associated	4.8	4.8	0.5	0.5

Sources: São Tomé and Príncipe authorities, and World Bank and IMF staff estimates.

1/ Figures are based on data as of the end of 2005.

2/ Reflects the external debt situation as of the end of 2005, and includes the 2005 Cologne flow.

3/ Assumes full delivery of HIPC assistance as of the end of 2005.

4/ Based on information provided by the creditor and confirmed with the authorities, the EU provided a total of US$1.0 million of interim relief in end-1999 NPV terms, covering its full share of HIPC assistance.

5/ Paris Club creditors deliver their share of assistance as a group. Actual delivery modalities are defined case by case.

Table 6. São Tomé and Príncipe: Status of Creditor Participation Under Enhanced HIPC Initiative

	HIPC Assistance as of the Decision Point Document				HIPC Assistance as of the Completion Point	
	Debt Relief in NPV Terms (Millions U.S. dollars)	Percentage of Total Assistance	Satisfactory Reply	Modalities to Deliver Debt Relief	Debt Relief in NPV Terms (US$ Millions)	Percentage of Total Assistance
IDA/IBRD	23.7	24.4	Yes	Interim assistance is equivalent to a 90 percent reduction on São Tomé and Príncipe's debt service to IDA. After completion point, IDA will provide a cumulative nominal assistance of US$45.6 million, as approved at the decision point.	23.8	24.0
AfDF	34.2	35.3	Yes	Interim assistance was equal to 80.0% debt service reduction amounting to US$ 6.7 million. Remaining assistance, as approved in the decision point document, will be delivered at completion point equal to an 80% debt service reduction until 2038.	34.3	34.6
IMF	-	-	n/a	The IMF did not have exposure to São Tomé as Debt at the time of the Decision Point.	-	-
IFAD	2.8	2.9	Yes	Assistance will be delivered at the completion point, through a reduction of debt service payments on eligible debt by up to 100 percent until the target in NPV terms is reached. Preliminary estimates show that IFAD's relief could be delivered over 7 years.	2.8	2.8
OPEC Fund	1.5	1.5	Yes	Interim asistance has been provided through a concessional loans which resources are being used to repay debt service on OPEC Fund loans until the resources are exhausted.	1.5	1.5
EU	0.8	0.9	Yes	The EU has provided debt-service relief on selected loans during the interim period. Total interim assistance amount to US$1.4 million in nominal terms.	0.8	0.8
BADEA	4.6	4.8	Yes	A total of US$2.8 million (in npv terms) in interim assistance has been provided by BADEA through a rescheduling agreement signed in 1999. After completion point, the rest of the assistance could be provided through a cancelation of payments outstanding and/ or additional grants.	6.8	6.8
Total multilateral	**67.6**	**69.7**			**70.0**	**70.6**
Paris Club Creditors	14.4	14.8	Yes	Interim assistance is provided through Cologne term flow relief and several of the creditors have cancelled 100 percent of flow during the interim period. The Paris Club creditors will deliver the rest of the relief at the completion point.	14.5	14.6
Non-Paris Club Creditors	13.7	14.1			13.4	13.5
Algeria	0.3	0.4	No		0.3	0.3
Angola	6.1	6.3	No		5.8	5.8
Cape Verde	0.2	0.2	No		0.2	0.2
China	1.9	2.0	No		1.9	1.9
Portugal	5.2	5.3	No		5.2	5.2
Yugoslavia, former	-	-	No		-	-
Commercial creditors	1.3	1.3			1.3	1.3
Annandale Associated	1.3	1.3	No		1.3	0.1
Total bilateral and commercial	**29.4**	**30.3**			**29.2**	**29.4**
TOTAL	**97.0**	**100.0**			**99.2**	**100.0**

Sources: São Tomé and Príncipe authorities; and World Bank and IMF staff estimates.

Table 7. Comparison of Discount Rate and Exchange Rate Assumptions

	Discount Rates 1/ 2/ (Percent per annum)		Exchange Rates (U.S. dollar per currency)	
	At Decision Point end-1999	At Completion Point end-2005	At Decision Point end-1999	At Completion Point end-2005
Currency				
United States dollar	7.04	5.08	1.00	1.00
Special drawing right	5.59	4.30	1.37	1.43
Euro	5.47	3.95	1.00	1.18
Canadian dollar	6.67	4.69	0.69	0.86
Swiss franc	4.27	2.76	0.63	0.76
Chinese yuan	5.59	4.30	0.27	0.12
Japanese yen	1.98	1.91	0.01	0.01
Swedish kroner	5.80	4.30	0.12	0.13
Memorandum item:				
Paris Club cut off date: April 1, 1999				

Sources: OECD; and IMF, *International Financial Statistics*.

1/ The discount rates used are the average commercial interest reference rates (CIRRs) for the respective currencies over the six-month period ending in December 2005 for the completion point and in December 1999 for the decision point.

2/ For all euro area currencies, the euro CIRR is used. For the Kuwaiti dinar, the U.S. dollar CIRR is used for completion point calculations (compared to the decision point calculations, when the SDR CIRR was used), in accordance to the explicit peg of the dinar to the U.S. dollar in the beginning of 2003. For all currencies for which the CIRRs are not available, the SDR discount rate is used as a proxy.

Table 8. São Tomé and Príncipe: Comparison of Net Present Value of External Public Debt Between Decision and Completion Points
(Millions of U.S. dollars, unless otherwise indicated)

	Stock at end-2005			
	(Projection) 1/	Decision Point DSA / Completion Point DSA 2/		
	After enhanced debt relief	After traditional debt relief	After enhanced debt relief 3/	After additional bilateral relief 4/
NPV of debt using end-December 1999 parameters	38.4	146.3	51.0	46.8
Multilateral	30.2	107.5	42.0	42.0
Official bilateral and commercial	8.2	38.8	9.0	4.8
NPV of debt using end-December 2005 parameters	...	173.5	61.7	56.1
Multilateral	...	127.9	51.1	51.1
Official bilateral and commercial	...	45.5	10.6	5.0
NPV of debt-to-export ratio 5/				
Using end-December 1999 parameters	139.7	...	...	...
Using end-December 2005 parameters	...	840.0	298.7	271.5
Export (3-year average) 5/				
Decision point	27.5	...	...	...
Completion point	...	20.6	20.6	20.6

Sources: São Tomé and Príncipe authorities; and World Bank and IMF staff estimates.

1/ Debt sustainability analysis (DSA) based on stock of debt reconciled as of end-1999.

2/ Based on stock of debt reconciled as of end-2005.

3/ Assuming full (hypothetical) delivery of enhanced HIPC assistance at end-2005.

4/ Assuming full (hypothetical) delivery of enhanced HIPC assistance at end-2005, and includes additional debt relief provided on a voluntary basis by the Paris Club beyond the requirements of the enhanced HIPC framework.

5/ Based on a three-year average of exports ending in the current year (e.g., export average over 2003-2005 for NPV of debt-to-exports ratio in 2005).

Table 9. São Tomé and Príncipe: Enhanced HIPC Initiative Assistance Levels and Possible Topping-Up at Completion Point
(Millions of U.S. dollars; unless otherwise indicated)

	NPV of debt	3-year exports moving average 1/	NPV of assistance	NPV of debt after assistance	NPV of debt-to-exports ratio (percent)	Common Reduction Factor (percent)
	end-1999					
Assistance at the Decision Point (revised) 2/	119.7 3/	13.7	99.2	20.5 4/	150.0	82.9
	end-2005					
Topping up at Completion Point						
Completion Point Estimates						
NPV after enhanced HIPC assistance	61.7 5/	20.6			298.7	
NPV after bilateral debt relief beyond HIPC	56.1 5/6/	20.6			271.5	
Calculation of possible topping up assistance						
Total NPV after bilateral debt relief beyond HIPC	56.1 5/6/	20.6	25.1	31.0	150.0	44.7
Multilateral	51.1		22.8	28.2		
Bilateral and commercial	5.0		2.2	2.8		

Sources: São Tomé and Príncipe authorities; and World Bank and IMF staff estimates and projections.

1/ Exports of goods and non-factor services.
2/ HIPC assistance as amended at the completion point. NPV figures calculated using end-1999 parameters.
3/ NPV of debt after assuming a stock-of-debt operation on Naples terms at the end-1999 and at least comparable treatment by non-Paris Club and commercial creditors.
4/ Assuming unconditional delivery at end-1999 and applied to the stock of debt outstanding as of end-1999.
5/ Assuming unconditional delivery at end-2005 and applied to the stock of debt outstanding as of end-2005.
6/ Includes debt relief beyond HIPC initiative assistance provided by most of the Paris Club creditors on a voluntary basis.

Table 10. São Tomé and Príncipe: Net Present Value of External Debt, 2005–2026 1/

(Millions of U.S. dollars, unless otherwise indicated)

	Actuals	Projections									Averages	
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2020	2026	2006–15	2016–26
I. After traditional debt-relief mechanisms 2/													
1. NPV of total debt (2+6)	173.5	176.2	178.0	178.5	177.9	177.0	176.1	171.3	165.7	125.1	82.8	171.4	117.3
2. NPV of outstanding debt (3+4)	173.5	171.9	169.7	166.8	163.9	160.9	158.0	154.2	150.3	119.3	77.2	158.4	110.9
3. Official bilateral and commercial	45.5	45.7	45.8	45.9	46.1	46.2	46.2	46.2	46.1	40.4	24.4	45.9	36.8
Paris Club	32.7	32.7	32.6	32.6	32.5	32.4	32.2	32.0	31.7	25.6	13.0	32.1	22.9
Other official bilateral and commercial	12.8	13.0	13.2	13.4	13.6	13.8	14.0	14.2	14.4	14.8	11.4	13.9	14.0
4. Multilateral	127.9	126.2	123.9	120.9	117.8	114.7	111.7	108.0	104.2	78.8	52.8	112.5	74.1
IDA	44.4	44.5	44.5	44.3	44.0	43.6	42.8	41.6	40.3	29.7	17.5	42.2	27.4
IMF	2.8	2.3	1.9	1.4	0.9	0.5	0.4	0.3	0.2	0.0	0.0	0.8	0.0
ADF	61.2	61.3	61.1	60.6	60.1	59.6	58.6	57.5	56.2	45.1	32.7	58.3	42.8
Others	19.6	18.1	16.4	14.6	12.8	11.0	9.9	8.7	7.5	4.0	2.7	11.1	3.9
II. After enhanced HIPC assistance													
1. NPV of total debt (2+6)	238.8	243.3	68.0	70.3	71.6	72.8	73.7	71.6	68.8	54.0	43.7	86.8	52.7
NPV of total debt after full delivery 3/	61.7	64.7	68.0	70.3	71.6	72.8	73.7	71.6	68.8	54.0	43.7	69.0	52.7
Multilateral	51.1	49.6	49.0	48.2	47.4	46.6	45.9	45.0	44.2	40.2	32.0	46.1	38.8
Bilateral	10.6	10.9	10.7	10.5	10.2	10.0	9.7	9.5	9.2	7.8	6.2	9.9	7.5
2. NPV of outstanding debt (3+4)	238.8	239.0	59.7	58.7	57.6	56.6	55.6	54.5	53.4	48.1	38.2	73.8	46.3
3. Official bilateral and commercial	115.6	117.8	10.7	10.5	10.2	10.0	9.7	9.5	9.2	7.8	6.2	20.5	7.5
Paris Club	42.5	43.1	5.5	5.4	5.3	5.1	5.0	4.9	4.8	4.1	3.8	8.8	4.0
Other official bilateral and commercial	73.1	74.7	5.2	5.1	5.0	4.9	4.7	4.6	4.5	3.8	2.4	11.7	3.5
4. Multilateral	123.2	121.2	49.0	48.2	47.4	46.6	45.9	45.0	44.2	40.2	32.0	53.3	38.8
IDA	43.1	43.1	20.5	20.5	20.5	20.4	20.3	20.1	19.9	17.4	13.9	22.4	16.7
IMF	2.8	2.3	1.9	1.4	0.9	0.5	0.4	0.3	0.2	0.0	0.0	0.8	0.0
ADF	58.3	58.0	19.5	19.9	20.3	20.7	20.9	21.0	21.1	21.8	17.5	24.4	21.1
Others	19.1	17.8	7.1	6.4	5.7	5.0	4.2	3.6	2.9	1.0	0.6	5.6	1.0
III. After bilateral debt relief beyond HIPC assistance 4/													
1. NPV of total debt (2+6)	196.3	200.3	62.5	64.9	66.3	67.6	68.7	66.7	64.1	49.9	39.9	78.0	48.6
NPV of total debt after full delivery 3/	56.1	59.1	62.5	64.9	66.3	67.6	68.7	66.7	64.1	49.9	39.9	63.9	48.6
Multilateral	51.1	49.6	49.0	48.2	47.4	46.6	45.9	45.0	44.2	40.2	32.0	46.1	38.8
Bilateral	5.0	5.2	5.2	5.1	5.0	4.9	4.7	4.6	4.5	3.8	2.4	4.8	3.5
2. NPV of outstanding debt (3+4)	196.3	196.0	54.2	53.3	52.3	51.5	50.6	49.6	48.6	44.0	34.4	65.0	42.3
3. Official bilateral and commercial	73.1	74.7	5.2	5.1	5.0	4.9	4.7	4.6	4.5	3.8	2.4	11.7	3.5
Paris Club	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other official bilateral and commercial	73.1	74.7	5.2	5.1	5.0	4.9	4.7	4.6	4.5	3.8	2.4	11.7	3.5
4. Multilateral	123.2	121.2	49.0	48.2	47.4	46.6	45.9	45.0	44.2	40.2	32.0	53.3	38.8
IV. After possible topping-up assistance 4/													
1. NPV of total debt (2+6)	191.6	195.5	37.2	40.1	42.1	43.9	45.4	43.9	41.9	30.6	29.2	56.6	30.9
NPV of total debt after full delivery 3/	31.0	33.7	37.2	40.1	42.1	43.9	45.4	43.9	41.9	30.6	29.2	40.4	30.9
Multilateral	28.2	26.6	26.1	25.8	25.4	25.1	24.7	24.4	24.0	22.7	22.2	24.9	22.6
Bilateral	2.8	2.9	2.8	2.8	2.7	2.6	2.6	2.5	2.4	2.1	1.4	2.6	1.9
2. NPV of outstanding debt (3+4)	191.6	191.2	28.9	28.5	28.1	27.7	27.3	26.9	26.4	24.7	23.7	43.6	24.5
3. Official bilateral and commercial	68.4	70.0	2.8	2.8	2.7	2.6	2.6	2.5	2.4	2.1	1.4	9.3	1.9
4. Multilateral	123.2	121.2	26.1	25.8	25.4	25.1	24.7	24.4	24.0	22.7	22.2	34.3	22.6
IDA	43.1	43.1	10.8	11.0	11.3	11.5	11.7	11.9	12.1	13.8	15.6	14.8	14.1
IMF	2.8	2.3	0.7	0.6	0.4	0.3	0.3	0.3	0.2	0.0	0.0	0.5	0.0
ADF	58.3	58.0	11.2	11.1	11.0	10.9	10.7	10.5	10.3	8.3	6.0	15.4	7.8
Others	19.1	17.8	3.4	3.1	2.7	2.3	2.0	1.7	1.3	0.6	0.6	3.6	0.7
V. After MDRI assistance and bilateral debt relief beyond HIPC 4/													
1. NPV of total debt (2+6)	196.3	200.3	23.1	25.8	27.4	28.8	29.8	28.0	25.5	13.6	11.5	43.1	13.7
NPV of total debt after full delivery 3/	18.1	19.6	23.1	25.8	27.4	28.8	29.8	28.0	25.5	13.6	11.5	25.1	13.7
Multilateral	13.2	10.1	9.6	9.0	8.4	7.8	7.0	6.3	5.6	3.9	3.5	7.3	3.9
Bilateral	5.0	5.2	5.2	5.1	5.0	4.9	4.7	4.6	4.5	3.8	2.4	4.8	3.5
2. NPV of outstanding debt (3+4)	196.3	196.0	14.8	14.1	13.4	12.7	11.7	11.0	10.1	7.7	6.0	30.2	7.4
3. Official bilateral and commercial	73.1	74.7	5.2	5.1	5.0	4.9	4.7	4.6	4.5	3.8	2.4	11.7	3.5
4. Multilateral	123.2	121.2	9.6	9.0	8.4	7.8	7.0	6.3	5.6	3.9	3.5	18.4	3.9
IDA	43.1	43.1	1.8	1.9	2.0	2.0	2.1	2.1	2.2	2.6	2.6	6.2	2.6
IMF	2.8	2.3	0.5	0.5	0.5	0.5	0.4	0.3	0.2	0.0	0.0	0.6	0.0
ADF	58.3	58.0	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	6.0	0.3
Others	19.1	17.8	7.1	6.4	5.7	5.0	4.2	3.6	2.9	1.0	0.6	5.6	1.0
VI. After MDRI assistance and possible topping-up 4/													
1. NPV of total debt (2+6)	191.6	195.5	17.5	20.6	22.7	24.6	26.2	24.9	22.6	11.2	11.3	39.2	11.8
NPV of total debt after full delivery 3/	12.5	13.8	17.5	20.6	22.7	24.6	26.2	24.9	22.6	11.2	10.3	21.1	11.7
Multilateral	9.8	6.6	6.4	6.2	6.0	5.8	5.6	5.4	4.8	3.3	3.3	5.5	3.4
Bilateral	2.8	2.9	2.8	2.8	2.7	2.6	2.6	2.5	2.4	2.1	1.4	2.6	1.9
2. NPV of outstanding debt (3+4)	191.6	191.2	9.3	9.0	8.7	8.4	8.1	7.9	7.2	5.4	5.7	26.3	5.4
3. Official bilateral and commercial	68.4	70.0	2.8	2.8	2.7	2.6	2.6	2.5	2.4	2.1	2.4	9.3	2.0
Paris Club	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.1
Other official bilateral and commercial	68.4	70.0	2.8	2.8	2.7	2.6	2.6	2.5	2.4	2.1	1.4	9.3	1.9
4. Multilateral	123.2	121.2	6.4	6.2	6.0	5.8	5.6	5.4	4.8	3.3	3.3	16.9	3.4
Memorandum items:													
6. NPV of new borrowing	...	4.3	8.3	11.6	14.0	16.1	18.1	17.1	15.4	5.9	5.6	13.0	6.4
Official bilateral	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral	...	4.3	8.3	11.6	14.0	16.1	18.1	17.1	15.4	5.9	5.6	13.0	6.4

Sources: São Tomé and Príncipe authorities; and World Bank and IMF staff estimates and projections.

1/ Refers to public and publicly guaranteed external debt only and is discounted on the basis of the average commercial interest reference rate for the respective currency, derived over the six-month period prior to the latest date for which actual data are available (December 2005).

2/ Assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) as of end-2005, and at least comparable action by other official bilateral and commercial creditors.

3/ NPV of total debt assuming the entire HIPC Initiative assistance is fully delivered as of end-2005.

4/ Includes additional debt relief provided on a voluntary basis by the Paris Club and some commercial creditors beyond the requirements of the enhanced HIPC framework.

Table 11. São Tomé and Príncipe: External Debt Service After Full Implementation of Debt-Relief Mechanisms, 2006–26
(Millions of U.S. dollars, unless otherwise indicated)

	Projections										Annual Averages	
	2006	2007	2008	2009	2010	2011	2012	2013	2020	2026	2006–15	2016–26
I. Total debt service	**9.1**	**9.7**	**10.4**	**11.0**	**11.2**	**11.3**	**12.2**	**12.7**	**11.3**	**11.6**	**11.3**	**11.6**
After traditional debt-relief mechanisms 1	**8.9**	**9.4**	**10.0**	**10.0**	**9.9**	**9.6**	**10.4**	**10.4**	**10.6**	**11.4**	**9.9**	**10.8**
Multilateral	7.0	7.5	8.1	8.0	8.0	7.7	8.3	8.2	7.2	7.0	7.9	7.2
IDA	1.8	2.0	2.1	2.2	2.3	2.6	3.1	3.1	3.0	3.1	2.5	3.1
IMF	0.6	0.6	0.6	0.6	0.4	0.1	0.1	0.1	0.0	0.0	0.3	0.0
ADF	2.3	2.5	2.8	2.8	2.8	3.2	3.4	3.4	3.6	3.6	3.1	3.6
Others	2.4	2.5	2.6	2.5	2.4	1.7	1.6	1.5	0.6	0.3	1.9	0.5
Official bilateral	1.9	1.9	1.9	1.9	2.0	2.0	2.1	2.2	3.4	4.4	2.1	3.7
Paris Club	1.4	1.4	1.5	1.5	1.5	1.5	1.6	1.7	2.6	2.9	1.6	2.7
Other official bilateral and commercial	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.8	1.5	0.5	1.0
II. Total debt service	**4.0**	**3.5**	**3.8**	**4.5**	**4.6**	**4.9**	**5.1**	**5.7**	**3.3**	**5.2**	**4.8**	**3.9**
After enhanced HIPC assistance	**3.8**	**3.2**	**3.5**	**3.5**	**3.3**	**3.3**	**3.3**	**3.4**	**2.6**	**5.0**	**3.4**	**3.1**
Multilateral	3.6	2.6	2.8	2.8	2.7	2.7	2.7	2.7	2.1	4.3	2.8	2.6
IDA	0.4	0.4	0.5	0.5	0.5	0.7	0.8	0.8	0.8	3.1	0.6	1.3
IMF	0.6	0.6	0.6	0.6	0.4	0.1	0.1	0.1	0.0	0.0	0.3	0.0
ADF	0.6	0.7	0.8	0.8	0.8	0.9	1.0	1.0	1.1	1.2	0.9	1.2
Others	2.0	0.9	1.0	1.0	1.0	1.0	0.8	0.8	0.2	0.1	1.0	0.1
Official bilateral	0.2	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.5	0.6	0.6	0.5
Paris Club	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.2	0.2	0.3	0.2
Other official bilateral and commercial	0.0	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.3
III. Total debt service	**3.8**	**3.1**	**3.5**	**4.1**	**4.3**	**4.6**	**4.8**	**5.4**	**3.1**	**5.0**	**4.5**	**3.7**
After bilateral debt relief beyond HIPC 2	**3.6**	**2.8**	**3.1**	**3.1**	**3.0**	**3.0**	**3.0**	**3.0**	**2.4**	**4.7**	**3.1**	**2.9**
Multilateral	3.6	2.6	2.8	2.8	2.7	2.7	2.7	2.7	2.1	4.3	2.8	2.6
Official bilateral	0.0	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.3
Paris Club	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other official bilateral and commercial	0.0	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.3
IV. Total debt service	**3.8**	**2.0**	**1.9**	**2.6**	**2.8**	**3.1**	**3.4**	**3.9**	**1.8**	**1.5**	**3.2**	**2.0**
After possible toppping-up of HIPC assistance 2/	**3.6**	**1.7**	**1.6**	**1.6**	**1.5**	**1.5**	**1.6**	**1.5**	**1.2**	**1.2**	**1.8**	**1.2**
Multilateral	3.6	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.0	1.0	1.6	1.0
IDA	0.4	0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
IMF	0.6	0.4	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.2	0.0
ADF	0.6	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.6	0.7
Others	2.0	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.1	0.1	0.6	0.0
Official bilateral	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.1	0.1
Paris Club	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other official bilateral and commercial	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.1	0.1
V. Total debt service	**3.8**	**1.4**	**1.7**	**2.3**	**2.6**	**3.0**	**3.1**	**3.7**	**1.2**	**1.0**	**2.9**	**1.4**
After MDRI and bilateral debt relief beyond HIPC 2/	**3.6**	**1.1**	**1.3**	**1.3**	**1.3**	**1.4**	**1.3**	**1.3**	**0.5**	**0.7**	**1.5**	**0.5**
Multilateral	3.6	0.9	1.0	1.0	1.0	1.1	1.0	1.0	0.2	0.3	1.2	0.2
IDA	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.1
IMF	0.6	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.1	0.0
ADF	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Others	2.0	0.9	1.0	1.0	1.0	1.0	0.8	0.8	0.2	0.1	1.0	0.1
Official bilateral	0.0	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.3
Paris Club	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other official bilateral and commercial	0.0	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.3
VI. Total debt service	**3.8**	**0.9**	**1.0**	**1.7**	**2.0**	**2.3**	**2.4**	**3.4**	**1.1**	**0.7**	**2.4**	**1.2**
After MDRI and possible topping-up 2/	**3.6**	**0.6**	**0.7**	**0.7**	**0.7**	**0.7**	**0.6**	**1.0**	**0.4**	**0.4**	**1.0**	**0.3**
Multilateral	3.6	0.5	0.5	0.5	0.5	0.5	0.4	0.8	0.3	0.2	0.9	0.2
Official bilateral	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.1	0.1
Paris Club	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other official bilateral and commercial	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.1	0.1
Memorandum items:												
Debt service of new debt	0.2	0.3	0.4	1.0	1.3	1.6	1.8	2.4	0.7	0.3	1.4	0.8
Multilateral	0.2	0.3	0.4	1.0	1.3	1.6	1.8	2.4	0.7	0.3	1.4	0.8
Official bilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal HIPC relief												
Under the enhanced HIPC initiative	5.1	6.2	6.5	6.5	6.6	6.3	7.0	7.0	8.0	6.4	6.5	7.7

Sources: São Tomé and Príncipe authorities; and World Bank and IMF staff estimates and projections.

1/ Assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) as of end of 2005, and at least comparable action by other official bilateral and commercial creditors.
2/ Includes additional debt relief provided on a voluntary basis by the Paris Club and some commercial creditors beyond the requirements of the enhanced HIPC framework.

Table 12. São Tomé and Príncipe: External Debt Indicators, 2005–2026 1/
(Percent, unless otherwise indicated)

	Actuals	Projections										Averages	
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2020	2026	2006–15	2016–26
After traditional debt relief mechanisms 2/													
NPV of debt-to-GDP ratio	242	223	197	181	164	147	132	33	13	11	9	111	10
NPV of debt-to-exports ratio 3/ 4/	840	829	792	745	696	649	604	106	29	12	14	448	13
NPV of debt-to-revenue ratio 5/	1,003	758	687	627	562	501	339	148	33	23	28	369	24
Debt service-to-exports ratio	...	40	41	41	40	39	36	3	1	1	2	24	1
Debt service-to-revenue ratio 5/	...	39	37	36	35	32	22	11	3	2	4	22	2
After enhanced HIPC assistance													
NPV of debt-to-GDP ratio	333	308	75	71	66	61	55	14	5	5	4	66	5
NPV of debt-to-exports ratio 3/ 4/	1,156	1,145	303	293	280	267	253	44	12	5	8	261	6
NPV of debt-to-exports ratio (existing debt only) 3/ 4/	1,156	1,125	266	245	226	208	191	34	9	5	7	231	5
NPV of debt-to-exports ratio after full delivery 3/ 4/ 6/	299	305	303	293	280	267	253	44	12	5	8	177	6
NPV of debt-to-revenue ratio 5/	1,381	1,047	263	247	226	206	142	62	14	10	15	222	11
NPV of debt-to-revenue ratio after full delivery in 2005 5/ 6/	357	278	263	247	226	206	142	62	14	10	15	145	11
Debt service-to-exports ratio	...	18	15	15	16	16	16	1	0	0	1	10	0
Debt service-to-revenue ratio 5/	...	17	13	13	14	13	9	4	1	1	2	9	1
After bilateral debt relief beyond HIPC assistance 7/													
NPV of debt-to-GDP ratio	273	254	69	66	61	56	51	13	5	4	4	58	4
NPV of debt-to-exports ratio 3/ 4/	951	943	278	271	260	248	236	41	11	5	7	230	5
NPV of debt-to-exports ratio (existing debt only) 3/ 4/	951	922	241	222	205	189	174	31	9	4	6	200	5
NPV of debt-to-exports ratio after full delivery 3/ 4/ 6/	271	278	278	271	260	248	236	41	11	5	7	163	5
NPV of debt-to-revenue ratio 5/	1,136	862	241	228	210	192	132	58	13	9	13	195	10
NPV of debt-to-revenue ratio after full delivery in 2005 5/ 6/	324	254	241	228	210	192	132	58	13	9	13	134	10
Debt service-to-exports ratio	...	17	13	14	15	15	15	1	0	0	1	9	0
Debt service-to-revenue ratio 5/	...	16	12	12	13	12	9	4	1	1	2	8	1
After possible toppping-up of HIPC assistance													
NPV of debt-to-GDP ratio	267	248	41	41	39	37	34	8	3	3	3	46	3
NPV of debt-to-exports ratio 3/ 4/	928	920	166	168	165	161	156	27	7	3	5	178	3
NPV of debt-to-exports ratio (existing debt only) 3/ 4/	928	900	129	119	110	102	94	17	5	2	4	148	3
NPV of debt-to-exports ratio after full delivery 3/ 4/ 6/	150	159	166	168	165	161	156	27	7	3	5	101	3
NPV of debt-to-revenue ratio 5/	1,108	841	144	141	133	124	88	38	8	6	10	153	7
NPV of debt-to-revenue ratio after full delivery in 2005 5/ 6/	179	145	144	141	133	124	88	38	8	6	10	83	7
Debt service-to-exports ratio	...	17	8	8	9	10	10	1	0	0	0	6	0
Debt service-to-revenue ratio 5/	...	16	8	7	8	8	6	3	1	0	0	6	0
After MDRI and bilateral debt relief beyond HIPC													
NPV of debt-to-GDP ratio	273	254	26	26	25	24	22	5	2	1	1	39	1
NPV of debt-to-exports ratio 3/ 4/	951	943	103	107	107	106	102	17	5	1	2	149	1
NPV of debt-to-exports ratio (existing debt only) 3/ 4/	951	922	66	59	52	46	40	7	2	1	1	120	1
NPV of debt-to-exports ratio after full delivery 3/ 4/ 6/	88	92	103	107	107	106	102	17	5	1	2	64	1
NPV of debt-to-revenue ratio 5/	1,136	862	89	90	86	82	58	24	5	2	4	130	3
NPV of debt-to-revenue ratio after full delivery in 2005 5/ 6/	105	84	89	90	86	82	58	24	5	2	4	52	3
Debt service-to-exports ratio	...	17	6	7	9	9	10	1	0	0	0	6	0
Debt service-to-revenue ratio 5/	...	16	5	6	7	7	6	3	1	0	0	5	0
After MDRI and possible topping-up													
NPV of debt-to-GDP ratio	267	248	19	21	21	20	20	5	2	1	1	36	1
NPV of debt-to-exports ratio 3/ 4/	928	920	78	86	89	90	90	15	4	1	2	138	1
NPV of debt-to-exports ratio (existing debt only) 3/ 4/	928	900	41	38	34	31	28	5	1	1	1	108	1
NPV of debt-to-exports ratio after full delivery 3/ 4/ 6/	61	65	78	86	89	90	90	15	4	1	2	52	1
NPV of debt-to-revenue ratio 5/	1,108	841	68	72	72	70	51	22	4	2	4	120	2
NPV of debt-to-revenue ratio after full delivery in 2005 5/ 6/	72	59	68	72	72	70	51	22	4	2	3	42	2
Debt service-to-exports ratio	...	17	4	4	6	7	7	1	0	0	0	5	0
Debt service-to-revenue ratio 5/	...	16	3	4	5	6	4	2	1	0	0	4	0
Memorandum items (in millions of U.S. dollars):													
NPV of debt after enhanced HIPC assistance	239	243	68	70	72	73	74	72	69	54	44	87	53
Of which: existing debt only	239	239	60	59	58	57	56	55	53	48	38	74	46
Debt service after enhanced HIPC assistance	...	4	3	4	4	5	5	5	6	3	5	5	4
Debt service beyond HIPC assistance	...	4	3	3	4	4	5	5	5	3	5	4	4
GDP	72	79	90	98	109	120	134	520	1,308	1,158	972	574	1,158
Exports of goods and services 3/	21	23	24	26	27	29	31	426	1,235	913	528	491	878
Exports of goods and services 3/ 4/	21	21	22	24	26	27	29	162	564	1,014	576	338	970
Government revenue 5/	17	23	26	28	32	35	52	116	508	554	300	251	525

Sources: São Tomé and Príncipe authorities; and World Bank and IMF staff estimates and projections.

1/ All debt indicators refer to public and publicly guaranteed debt and are defined after rescheduling, unless otherwise indicated.

2/ Refers to public and publicly guaranteed external debt only and assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) as of end of 2005, and at least comparable action by other official bilateral and commercial creditors.

3/ Exports of goods and non-factor services as defined in IMF, *Balance of Payments Manual*, 5th edition, 1993.

4/ Based on a three-year average of exports ending in the current year (e.g., export average over 2003-2005 for NPV of debt-to-exports ratio in 2005).

5/ Revenue is defined as central government revenue, excluding grants.

6/ Assuming full delivery of HIPC assistance as of end-2005.

7/ Includes additional debt relief provided on a voluntary basis by the Paris Club and some commercial creditors beyond the requirements of the enhanced HIPC framework.

Table 13. São Tomé and Príncipe: Sensitivity Analysis, 2006–2026 1/
(Percent, unless otherwise indicated)

	Projections										Annual Averages	
	2006	2007	2008	2009	2010	2011	2012	2013	2020	2026	2006–15	2016–26
Baseline scenario 2/												
NPV of debt-to-revenue ratio 3/	278	89	90	86	82	58	24	5	2	4	72	3
NPV of debt-to-exports ratio 4/	305	103	107	107	106	102	17	5	1	2	86	1
Debt service-to-exports ratio 4/	16.8	5.9	6.7	8.5	9.0	9.7	0.7	0.3	0.1	0.2	5.8	0.1
Memorandum items (millions of U.S. dollars):												
NPV of debt	65	23	26	27	29	30	28	26	14	12	30	14
Of which: new debt	4	8	12	14	16	18	17	15	6	6	13	6
Debt service	4	1	2	2	3	3	3	4	1	1	3	1
Of which: new debt	0	0	0	1	1	2	2	2	1	0	1	1
Exports of goods and services, three-year average	21	22	24	26	27	29	162	564	1,014	576	338	970
Exports of goods and services, annual	23	24	26	27	29	31	426	1,235	913	528	491	878
Revenues	23	26	28	32	35	52	116	508	554	300	251	525
Sensitivity analysis												
Alternative scenario I 5/												
NPV of debt-to-revenue ratio 3/	278	89	92	90	87	90	51	14	22	65	81	31
NPV of debt-to-exports ratio 4/	305	103	107	107	106	150	58	23	21	52	99	28
Debt service-to-exports ratio 4/	17	6	7	9	9	13	2	1	6	14	7	7
Memorandum items (millions of U.S. dollars):												
NPV of debt	65	23	26	27	29	44	56	68	114	172	51	126
Of which: new debt	4	8	12	14	16	32	45	58	106	166	34	118
Debt service	4	1	2	2	3	4	5	7	28	43	5	31
Of which: new debt	0	0	0	1	1	3	4	6	27	42	4	30
Exports of goods and services, three-year average	21	22	24	26	27	29	97	299	534	329	183	515
Exports of goods and services, annual	23	24	26	27	29	31	230	635	485	308	261	471
Revenues	23	26	28	31	33	49	111	501	529	262	247	498
Alternative scenario II 6/												
NPV of debt-to-revenue ratio 3/	278	89	94	94	93	82	95	116	317	453	124	337
NPV of debt-to-exports ratio 4/	305	103	107	107	106	105	116	135	310	399	142	320
Debt service-to-exports ratio 4/	17	6	7	9	9	10	10	13	32	54	11	36
Memorandum items: (millions of U.S. dollars):												
NPV of debt	65	23	26	27	29	31	36	45	167	327	41	198
Of which: new debt	4	8	12	14	16	19	25	35	159	321	24	190
Debt service	4	1	2	2	3	3	3	5	19	48	3	25
Of which: new debt	0	0	0	1	1	2	2	3	18	47	2	24
Exports of goods and services, three-year average	21	22	24	26	27	29	31	33	54	82	29	59
Exports of goods and services, annual	23	24	26	27	29	31	33	36	58	88	31	63
Revenues	23	26	28	29	31	37	38	39	53	72	33	56

Sources: São Tomé and Príncipe authorities; and World Bank and IMF staff estimates and projections.

1/ All debt indicators refer to public and publicly guaranteed debt and are defined after rescheduling, unless otherwise indicated.
2/ Baseline includes enhanced HIPC, bilateral debt relief beyond HIPC asssistance, and MDRI.
3/ Revenues are defined as central government revenues, excluding grants.
4/ Exports of goods and services as defined in IMF, Balance of Payments Manual, 5th edition, 1993; excludes transit trade. The NPV of debt-to-exports ratio is based on the average of three consecutive years of exports of goods and non factor services ending in the current year; the debt-service ratio is based on current export year.
5/ Scenario I assumes a permanent reduction of 50 percent in oil exports and revenues.
6/ Scenario II assumes no oil production, lower growth, and current fiscal stance.

Table 14. São Tomé and Príncipe: Delivery of IDA Assistance Under the Enhanced HIPC Initiative and the MDRI, 2001–43 1/
(Millions of U S dollars, unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2020	2030	2040	2041	2042	2043	Average 2001-05	Average 2006-43
	Projections																	
I. Relief under the Enhanced HIPC Initiative																		
Debt service before HIPC Assistance 1/	1 21	1 6	1 5	1 5	1 6	1 8	2 0	2 1	2 2	2 3	3 0	2 6	0 4	0 1	0 1	0 1	1 5	2 1
Principal	0 7	1 1	1 1	1 0	1 2	1 3	1 4	1 6	1 7	1 8	2 7	2 5	0 4	0 1	0 1	0 1	1 0	1 9
Interest	0 5	0 5	0 5	0 4	0 4	0 5	0 5	0 5	0.5	0 5	0 3	0 1	0 0	0 0	0 0	0 0	0 5	0 2
IDA HIPC assistance 2/	1 2	1 6	1 5	1 3	1 4	1 4	1 5	1 7	1 7	1 8	2 2	-	-	-	-	-	1 4	
Debt service after HIPC assistance 1/	0 0	0 0	0 0	0 15	0 16	0 4	0 4	0 5	0 5	0 5	0 8	2 6	0 4	0 1	0 1	0 1	0 1	1 1
Principal	-	-	-	0 1	0 1	0 2	0 2	0 3	0 3	0 4	0 7	2 5	0 4	0 1	0 1	0 1	0 0	1 0
Interest	-	-	-	0 0	0 0	0 3	0 2	0 2	0 2	0 1	0 1	0 1	0 00	0 00	0 00	0 00	0 0	0 1
IDA HIPC assistance with possible topping-up at completion point 3/	1 17	1 55	1 46	1 28	1 40	1 40	1 9	2 0	2 1	2 2	2 4	-	-	-	-	-		
Debt service after topping up 1/	-	-	-	0 15	0 16	0 4	0 1	0 1	0 1	0 1	0 6	2 6	0 4	0 1	0 1	0 1	0 1	1 0
II. Relief under the MDRI 4/																		
Projected stock of IDA credits outstanding at implementation date 5/						72 1												
Remaining IDA credits after MDRI debt relief						6 8												
Without possible topping-up																		
Debt stock reduction on eligible credits 6/						65												
Due to HIPC relief 7/						30												
Due to MDRI						36												
Debt service due after HIPC relief and the MDRI						0 4	0 0	0 0	0 0	0 0	0 0	0 2	0 2	0 1	0 1	0 1	0 0	0 1
With possible topping-up																		
Debt stock reduction on eligible credits at the completion point						65												
Due to HIPC relief 7/						30												
Due to Topping-up						10												
Due to MDRI						26												
Debt service due to IDA after HIPC relief, topping up and MDRI						0 4	0 3	0 2	0 2	0 2	0 3	2 6	0 4	0 1	0 1	0 1	0 0	0 7
Memorandum Item:																		
Debt service to IDA covered by HIPC assistance as approved at decisic	100	100	100	90	90	89 9	89 9	89 9	89 9	89 9	89 9	0 0	0 0	0 0	0 0	0 0	96 0	64 2
Debt service to IDA covered by HIPC assistance revised at completion	100	100	100	90	90	89 9	89 9	89 9	89 9	89 9	89 9	0 0	0 0	0 0	0 0	0 0	96 0	64 2
Debt service to IDA covered by HIPC assistance with possible topping-u	100	100	100	90	90	89 9	89 8	89 8	89 8	89 8	89 8	0 0	0 0	0 0	0 0	0 0	96 0	52 0
Debt service to IDA covered by HIPC assistance and MDRI (in percent)	100	100	100	90	90	77 1	100 0	100 0	100 0	100 0	98 9	91 1	47 6	0 0	0 0	0 0	96 0	81 8
Debt service to IDA covered by HIPC assistance, topping-up and MDRI	100	100	100	90	90	77 1	100 0	100 0	100 0	100 0	100 0	91 1	47 6	0 0	0 0	0 0	96 0	82 3
IDA debt service relief under the MDRI (million of SDR) 10/						0 0	0 4	0 5	0 5	0 5	0 7	1 6	0 1	0 0	0 0	0 0	0 0	0 7
IDA debt service relief under the MDRI with possible topping-up (million of SDR) 10/						0 0	0 2	0 2	0 2	0 2	0 3	1 6	0 1	0 0	0 0	0 0	0 0	0 5

Source: IDA staff estimates

1/ Debt service until end-December 2005 is estimated on debt outstanding as of December, 1999 From January 2006 onwards, principal and interest due to IDA correspond to prorated projections on disbursed and outstanding debt as of end-December 2005, converted to U S dollars using the exchange rate as of end-December 2005

2/ Enhanced HIPC assistance until November 2024 as approved by the Board of IDA at the decision point (IDA/R2000-235, 12-21-2000) After December 2024, HIPC assistance based on revised schedule which is subject to the IDA approval of revision of HIPC assistance to Sao tome and Principe

3/ Subject to IDA Board approval of topping-up assistance at the completion point.

4/ Stock of debt and debt service denominated in SDRs are converted into U S dollar by applying the end-2005 exchange rate

5/ Stock of debt outstanding on December 31, 2005

6/ Debt disbursed as of December, 31 2003 and still outstanding at the end of 2005

7/ HIPC relief is assumed to proportionally reduce repayments of principal and charges on IDA credits disbursed as of end-December 2003 and still outstanding as of December, 31 2005

8/ Based on debt disbursed and outstanding as of end-1999

9/ Based on debt disbursed and outstanding as of end-2005

10/ For SDR denominated credits, debt relief under the MDRI is estimated as debt service on SDR denominated credits minus USD-based HIPC debt relief on these credits HIPC debt relief is converted into SDR equivalent amounts using the following exchange rates: i) for costs during applying the foreign exchange rate of 1 5104 resulting from the hedging of donor contributions to cover HIPC costs during IDA 14; (ii) for costs from FY09 onwards, by applying the foreign exchange rate of 1 47738 agreed by donors under the latest regular IDA replenishment For USD denominated creditors, debt relief under the MDRI is estimated as debt service on USD denominated credits minus USD-based HIPC debt relief on these credits The resulting MDRI debt relief amounts are converted into SDR equivalent amounts by applying the foreign exchange reference rates agreed by donors under the latest regular IDA replenishment.

Table 15a. São Tomé and Príncipe: Delivery of IMF Assistance under the HIPC Initiative and the MDRI—Without Topping Up, 2000–09 1/
(Millions of SDRs, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007		2008	2009
								Jan-Feb	Mar-Dec		
I. Pre-MDRI Debt relief (under the HIPC Initiative only) 2/											
HIPC-eligible Debt Service due on IMF obligations 3/	-	-	-	-	-	-	-	-	0.4	0.4	0.4
Principal	-	-	-	-	-	-	-	-	0.4	0.4	0.4
Interest	-	-	-	-	-	-	-	-	0.03	0.03	0.03
HIPC assistance--deposits into the HIPC Umbrella Account											
Interim assistance	-	-	-	-	-	-	-	-	-	-	-
Completion point disbursement	-	-	-	-	-	-	-	-	-	-	-
HIPC assistance--drawdown from the HIPC Umbrella Account	-	-	-	-	-	-	-	-	-	-	-
IMF assistance without interest	-	-	-	-	-	-	-	-	-	-	-
Estimated interest earnings	-	-	-	-	-	-	-	-	-	-	-
II. Post-MDRI Debt relief (under both MDRI and HIPC Initiatives)											
Projected pre-cutoff date debt at completion point 4/									1.43		
Delivery of debt relief (on stock basis):									-		
from the MDRI-I Trust 5/									1.43		
from the HIPC Umbrella Account									-		
III. Debt service due to the IMF after HIPC and MDRI debt relief 6/									0.03	0.03	0.03
Memorandum items:											
Debt service due on IMF obligations after HIPC and MDRI debt relief (millions of U.S. dollars)									0.04	0.05	0.05
Debt service due on IMF obligations after HIPC and MDRI debt relief (percent of exports)									0.16	0.18	0.17

Source: IMF staff estimates.

1/ The decision point debt sustainability analysis (DSA) for São Tomé and Príncipe was prepared based on external public and publicly guaranteed debt outstanding and disbursed at end-1999. Since there was no debt outstanding to the IMF at end-December 1999, the IMF did not commit HIPC assistance at the decision point to São Tomé and Príncipe under the enhanced HIPC Initiative.
2/ Reflects the projected delivery of HIPC assistance in the absence of MDRI decision.
3/ Assuming completion point in March 2007. Data prior to completion point are as of end-December 1999. Forthcoming obligations after completion point are based on schedules in effect as of end-December 2006. Interest obligations include net SDR charges and assessments.
4/ Debt associated with disbursements made before December 31, 2004.
5/ Credit outstanding at end-2004 that has not been repaid by the member or with HIPC assistance at the completion point and is not scheduled to be repaid by HIPC assistance, as defined in the MDRI-I Trust Instrument.
6/ As of end-December 2006; reflecting obligations associated with disbursements made after December 31, 2004.

Table 15b. São Tomé and Príncipe: Delivery of IMF Assistance under the HIPC Initiative and the MDRI—with Topping Up, 2000–13 1/

(Millions of SDRs, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007		2008	2009	2010	2011	2012	2013
								Jan-Feb	Mar-Dec							
I. Pre-MDRI Debt relief (under the HIPC Initiative only) 2/															
HIPC-eligible Debt Service due on IMF obligations 3/	-	-	-	-	-	-	-	-	0 4	0 4	0 4	0 3	0 2	0 3	0 3
Principal	-	-	-	-	-	-	-	-	0 4	0 4	0 4	0 3	0 1	0 3	0 3
Interest	-	-	-	-	-	-	-	-	0 03	0 03	0 03	0 03	0 03	0 03	0 03
HIPC assistance--deposits into the HIPC Umbrella Account															
Interim assistance															
Completion point disbursement															
Topping up assistance 4/									0 83						
Topping up interest 4/									0 02						
HIPC assistance--drawdown from the HIPC Umbrella Account	-	-	-	-	-	-	-	-	0 1	0 1	0 1	0 1	0 1	0 3	0 1
IMF assistance without interest	-	-	-	-	-	-	-	-	0 1	0 1	0 1	0 1	0 1	0 2	0 1
Estimated interest earnings 5/	-	-	-	-	-	-	-	-	-	0 01	0 02	0 02	0 06	0 02	0 03
Debt service due on IMF obligations after HIPC assistance	-	-	-	-	-	-	-	-	0 33	0 28	0 27	0 19	0 03	0 03	0 16
Delivery schedule of IMF assistance (in percent of total assistance; on a flow basis)	-	-	-	-	-	-	-	-	10 0	15 0	15 0	12 9	7 9	28 0	11 2
Share of debt service due on IMF obligations covered by HIPC assistance (in percent)	-	-	-	-	-	-	-	-	20 3	31 6	34 5	38 9	81 1	89 9	42 8
Proportion (in percent) of each principal repayment obligation falling due during the period to be paid by HIPC assistance from the principal deposited in Umbrella Account	-	-	-	-	-	-	-	-	21 9	32 8	32 8	37 7	51 5	91 9	36 7
II. Post-MDRI Debt relief (under both MDRI and HIPC Initiatives)															
Projected pre-cutoff date debt at completion point 6/									1 43						
Delivery of debt relief (on stock basis):									1 43						
from the MDRI-I Trust 7/									0 99						
from the HIPC Umbrella Account 8/									0 44						
Delivery of remaining topping up assistance (on stock basis):									0 41						
Topping up assistance									0 39						
Topping up interest									0 02						
III. Debt service due to the IMF after HIPC and MDRI debt relief 9/									0 031	0 028	0 028	0 028	0 028	0 028	0 252
Memorandum items:															
Debt service due on IMF obligations after HIPC and MDRI debt relief (millions of U S dollars)									0 046	0 042	0 042	0 042	0 042	0 043	0 386
Debt service due on IMF obligations after HIPC and MDRI debt relief (percent of exports)									0 193	0 165	0 154	0 145	0 136	0 010	0 031

Source: IMF staff estimates

1/ The decision point debt sustainability analysis (DSA) for São Tomé and Príncipe was prepared based on external public and publicly guaranteed debt outstanding and disbursed at end-1999 Since there was no debt outstanding to the IMF at end-December 1999, the IMF did not provide assistance to São Tomé and Príncipe under the enhanced HIPC Initiative at the decision point The IMF topping up assistance at completion point is estimated at SDR 0 83 million (equivalent to US$1 24 million at the exchange rate of November 22, 2006)

2/ Reflects the projected delivery of HIPC assistance in the absence of MDRI decision

3/ Assuming completion point in March 2007 Data prior to completion point are as of end-December 1999 Forthcoming obligations after completion point are based on schedules in effect as of end-December 2006 Interest obligations include net SDR charges and assessments

4/ Assuming topping up assistance, plus accrued interest, will be disbursed to São Tomé and Príncipe's HIPC Umbrella account six months after the completion point when satisfactory financing assurances are in place

5/ Includes estimated interest earnings on: (1) amounts held in São Tomé and Príncipe's account; and (2) until the disbursement of topping up assistance, the amount of such assistance committed but not yet disbursed. The projected interest earnings are estimated based on assumed interest rates which are gradually increasing to 5 percent in 2011 and beyond; actual interest earnings may be higher or lower

6/ Associated with disbursements made before December 31, 2004

7/ Credit outstanding at end-2004 that has not been repaid by the member or with HIPC assistance at the completion point and is not scheduled to be repaid by HIPC assistance, as defined in the MDRI-I Trust Instrument.

8/ It is estimated that 53 percent of the topping up assistance would be used for financing the MDRI debt relief

9/ As of end-December 2006; reflecting obligations associated with disbursements made after December 31, 2004

Table 16. Paris Club Creditors' Delivery of Debt Relief Under Bilateral Initiatives
Beyond the HIPC Initiative 1/

	Countries covered	ODA (in percent)		Non-ODA (in percent)		Provision of relief	
		Pre-cutoff date debt	Post-cutoff	Pre-cutoff date debt	Post-cutoff date debt	Decision point (In percent)	Completion point
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Australia	HIPCs	100	100	100	100 2/	2/	2/
Austria	HIPCs	100	-	100	-	Case-by-case, flow	Stock
Belgium	HIPCs	100	100	100	-	100 flow	Stock
Canada	HIPCs 3/	- 4/	- 4/	100	100	100 flow	Stock
Denmark	HIPCs	100	100 5/	100	100 5/	100 flow	Stock
France	HIPCs	100	100	100	-	100 flow 6/	Stock
Finland	HIPCs	100	- 7/	100	- 7/	-	-
Germany	HIPCs	100	100	100	- 8/	100 flow	Stock
Ireland	-	-	-	-	-	-	-
Italy	HIPCs	100	100 9/	100	100 9/	100 flow	Stock
Japan	HIPCs	100	100	100	-	-	Stock
Netherlands, the	HIPCs	100 10/	100	100	-	90-100 flow 10/	Stock 10/
Norway	HIPCs	11/	11/	12/	12/	-	-
Russia	Case-by-case	-	-	-	-	-	Stock
Spain	HIPCs	100	Case-by-case	100	Case-by-case	-	Stock
Sweden	HIPCs	-	- 13/	100	-	-	Stock
Switzerland	HIPCs	100		100	Case-by-case	100, flow 14/	Stock
United Kingdom	HIPCs	100	100	100	100 15/	100 flow 15/	Stock
United States	HIPCs	100	100	100	100 16/	100 flow	Stock

Source: Paris Club Secretariat.

1/ Columns (1) to (7) describe the additional debt relief provided following a specific methodology under bilateral initiatives and need to be read as a whole for each creditor. In column (1), "HIPCs" stands for eligible countries effectively qualifying for the HIPC process. A "100 percent" mention in the table indicates that the debt relief provided under the enhanced HIPC Initiative framework will be topped up to 100 percent through a bilateral initiative.

2/ Australia: post-cutoff date non-ODA relief to apply to debts incurred before a date to be finalized; timing details for both flow and stock relief are to be finalized.

3/ Canada: including Bangladesh. Canada has granted a moratorium of debt service as of January 2001 on all debt disbursed before end-March 1999 for 13 out of 17 HIPCs with debt service due to Canada. Eligible countries are Benin, Bolivia, Cameroon, Dem. Rep. Of Congo, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Rwanda, Senegal, Tanzania, and Zambia. 100 percent cancellation will be granted at completion point. As of July 2004, Canada has provided completion point stock of debt cancellation for Benin, Bolivia, Guyana, Senegal and Tanzania.

4/ 100 percent of ODA claims have already been cancelled on HIPCs, with the exception of Myanmar's debt to Canada.

5/ Denmark provides 100 percent cancellation of ODA loans and non-ODA credits contracted and disbursed before September 27, 1999.

6/ France: cancellation of 100 percent of debt service on pre-cutoff date commercial claims on the government as they fall due starting at the decision point. Once countries have reached their completion point, debt relief on ODA claims on the government will go to a special account and will be used for specific development projects.

7/ Finland: no post-COD claims.

8/ Germany proposes to cancel all debts incurred before June 20, 1999 depending on a consensus within Paris Club creditors.

9/ Italy: cancellation of 100 percent of all debts (pre- and post-cutoff date, ODA and non-ODA) incurred before June 20, 1999 (the Cologne Summit). At decision point, cancellation of the related amounts falling due in the interim period. At completion point, cancellation of the stock of remaining debt.

10/ The Netherlands: 100 percent ODA (pre- and post-cutoff date debt will be cancelled at decision point); for non-ODA: in some particular cases (Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Mali, Mozambique, Nicaragua, Rwanda, Tanzania, Uganda and Zambia), the Netherlands will write off 100 percent of the consolidated amounts on the flow at decision point; all other HIPCs will receive interim relief up to 90 percent reduction of the consolidated amounts. At completion point, all HIPCs will receive 100 per cent cancellation of the remaining stock of the pre-cutoff date debt.

11/ Norway has cancelled all ODA claims.

12/ Due to the current World Bank/IMF methodology for recalculating debt reduction needs at HIPC completion point, Norway has postponed the decisions on whether or not to grant 100 percent debt reduction until after the completion point.

13/ Sweden has no ODA claims.

14/ Switzerland: In principle 100 percent cancellation of Pre-cutoff date non-ODA debt. However, Switzerland claims the right at the decision point to forgive only 90 percent in case of major political and/or political weaknesses.

15/ United Kingdom: "beyond 100 percent" full write-off of all debts of HIPCs as of their decision points, and reimbursement at the decision point of any debt service paid before the decision point.

16/ United States: 100 percent post-cutoff date non-ODA treated on debt assumed prior to June 20, 1999 (the Cologne Summit).

Table 17. HIPC Initiative: Status of Country Cases Considered Under the Initiative, September 26, 2006

Country	Decision Point	Completion Point	Target NPV of Debt-to-Exports (percent)	Target NPV of Debt-to-Gov. Revenue (percent)	Assistance Levels 1/ (Millions of U.S. dollars, present value) Total	Bilateral and Commercial	Multi-lateral	IMF	World Bank	Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (millions of U.S. dollars)
Completion point reached under enhanced framework											
Benin	Jul. 00	Mar. 03	150		265	77	189	24	84	31	460
Bolivia					1,302	425	876	84	194		2,060
original framework	*Sep. 97*	*Sep. 98*	*225*		*448*	*157*	*291*	*29*	*54*	*14*	*760*
enhanced framework	*Feb. 00*	*Jun. 01*	*150*		*854*	*268*	*585*	*55*	*140*	*30*	*1,300*
Burkina Faso					553	83	469	57	231		930
original framework	*Sep. 97*	*Jul. 00*	*205*		*229*	*32*	*196*	*22*	*91*	*27*	*400*
enhanced framework	*Jul. 00*	*Apr. 02*	*150*		*195*	*35*	*161*	*22*	*79*	*30*	*300*
topping-up	...	*Apr. 02*	*150*		*129*	*16*	*112*	*14*	*61*	*24*	*230*
Cameroon	Oct. 00	Apr. 06	150		1,267	879	322	37	176	27	4,917
Ethiopia					1,982	637	1,315	60	832		3,275
enhanced framework	*Nov. 01*	*Apr. 04*	*150*		*1,275*	*482*	*763*	*34*	*463*	*47*	*1,941*
topping-up		*Apr. 04*	*150*		*707*	*155*	*552*	*26*	*369*	*31*	*1,334*
Ghana	Feb. 02	Jul. 04	144	250	2,186	1,084	1,102	112	781	56	3,500
Guyana					591	223	367	75	68		1,354
original framework	*Dec. 97*	*May 99*	*107*	*280*	*256*	*91*	*165*	*35*	*27*	*24*	*634*
enhanced framework	*Nov. 00*	*Dec-03*	*150*	*250*	*335*	*132*	*202*	*40*	*41*	*40*	*719*
Honduras	Jul. 00	Mar-05	110	250	556	215	340	30	98	18	1,000
Madagascar	Dec. 00	Oct-04	150		836	474	362	19	252	40	1,900
Malawi					1,057	171	886	45	622		1,628
enhanced framework	*Dec. 00*	*Aug-06*	*150*		*646*	*164*	*482*	*30*	*333*	*44*	*1,025*
topping-up	...	*Aug-06*	*150*		*411*	*7*	*404*	*15*	*289*	*35*	*603*
Mali					539	169	370	59	185		895
original framework	*Sep. 98*	*Sep. 00*	*200*		*121*	*37*	*84*	*14*	*43*	*9*	*220*
enhanced framework	*Sep. 00*	*Mar. 03*	*150*		*417*	*132*	*285*	*45*	*143*	*29*	*675*
Mauritania	Feb. 00	Jun. 02	137	250	622	261	361	47	100	50	1,100
Mozambique					2,023	1,270	753	143	443		4,300
original framework	*Apr. 98*	*Jun. 99*	*200*		*1,717*	*1,076*	*641*	*125*	*381*	*63*	*3,700*
enhanced framework	*Apr. 00*	*Sep. 01*	*150*		*306*	*194*	*112*	*18*	*62*	*27*	*600*
Nicaragua	Dec. 00	Jan. 04	150		3,308	2,175	1,134	82	191	73	4,500
Niger					663	235	428	42	240		1,190
enhanced framework	*Dec. 00*	*Apr. 04*	*150*		*521*	*211*	*309*	*28*	*170*	*53*	*944*
topping-up	...	*Apr. 04*	*150*		*143*	*23*	*119*	*14*	*70*	*25*	*246*
Rwanda					696	65	631	63	383		1,316
enhanced framework	*Dec. 00*	*Apr-05*	*150*		*452*	*56*	*397*	*44*	*228*	*71*	*839*
topping-up	...	*Apr-05*	*150*		*243*	*9*	*235*	*20*	*154*	*53*	*477*
Senegal	Jun. 00	Apr. 04	133	250	488	212	276	45	124	19	850
Tanzania	Apr. 00	Nov. 01	150		2,026	1,006	1,020	120	695	54	3,000
Uganda					1,003	183	820	160	517		1,950
original framework	*Apr. 97*	*Apr. 98*	*202*		*347*	*73*	*274*	*69*	*160*	*20*	*650*
enhanced framework	*Feb. 00*	*May 00*	*150*		*656*	*110*	*546*	*91*	*357*	*37*	*1,300*
Zambia	Dec. 00	Apr-05	150		2,499	1,168	1,331	602	493	63	3,900
Decision point reached under enhanced framework											
Burundi	Aug. 05	Floating	150		826	124	701	28	425	92	1,465
Chad	May. 01	Floating	150		170	35	134	18	68	30	260
Congo, Democratic Rep. of	Jul. 03	Floating	150		6,311	3,837	2,474	472	831	80	10,389
Congo Rep. of	Mar. 06	Floating		250	1,679	1,561	118	8	49	32	2,881
Gambia, The	Dec. 00	Floating	150		67	17	49	2	22	27	90
Guinea	Dec. 00	Floating	150		545	215	328	31	152	32	800
Guinea-Bissau	Dec. 00	Floating	150		416	212	204	12	93	85	790
São Tomé and Príncipe	Dec. 00	Floating	150		97	29	68	-	24	83	200
Sierra Leone	Mar. 02	Floating	150		600	205	354	123	122	80	950
Total assistance provided/committed					**35,170**	**17,248**	**17,783**	**2,603** 3/	**8,494**		**61,849**

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

1/ Assistance levels are at countries' respective decision or completion points, as applicable.

2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanisms.

3/ Equivalent to SDR 1,757 million at an SDR/USD exchange rate of 0.6749, as of September 26, 2006.

APPENDIX I

São Tomé and Príncipe—Management of Public Debt

The authorities have been working to improve debt management, though capacity is still limited. The legal framework for debt management is clear and comprehensive, but the authorities are addressing the following weaknesses: (i) insufficient coordination among government units and reconciliation of data with creditors to improve debt information; (ii) inadequate recording and reporting of data; and (iii) too little capacity to analyze debt management and staffing. The government's debt strategy is to secure for the budget as much concessional external financing as possible. This appendix describes the institutional framework of debt management, assesses current procedures, and identifies areas for improvement.

A. The Institutional Framework for Debt Management

1. **The legal basis for debt management is clear and comprehensive.** The Minister of Planning and Finance chairs the Debt Management Committee, which was created in 1999 and includes representatives from various departments of the ministry and the central bank. The committee's major purpose is to draft and carry out a strategy for debt reduction, establish a clear and consistent borrowing strategy, and coordinate the agencies involved in debt management.

2. **The Minister of Planning and Finance is responsible for contracting and managing external public debt.** Among agencies involved in debt management are the Departments of Planning, Budget, and Treasury, and the Debt Office (all part of the Ministry of Planning and Finance) and the central bank. Financing needs are identified by the Department of Planning based on the public investment program (PIP) and the Department of Budget based on expected financing. The Minister of Planning and Finance is responsible for negotiating new loans and signing the contracts, although these functions can be delegated to ambassadors or the governor of the central bank. New contracts are transmitted to the Debt Office for recording. That office prepares a schedule of debt payments for budgeting purposes and sends debt payment invoices to the treasury for approval and transmission to the central bank. The role and organization of the Debt Office, created in early 2004, have not been completely specified, which has caused some operational problems.

B. Assessment of Debt Management

3. **Better coordination among the government units involved in debt management is needed to improve the flow and quality of information.** The Debt Management Committee needs to do more to facilitate communication between the Treasury Department of the Ministry of Planning and Finance, the central bank, and the Debt Office. The lack of systematic flows of information—in particular, timely access to information on individual loans—hampers the operations of the Debt Office and creates delays in recording and servicing debt. Although responsibility has been transferred to the ministry, the central bank is still involved in managing external debt; it conducts quarterly debt data reconciliation in collaboration with the Debt Office. The Debt Office needs procedures to regularly reconcile

debt aggregates with creditor statements. Contacts with creditors are by fax and electronic mail and communication is often incomplete or addressed to the wrong person.

4. **The debt management system software is being updated and debt reporting improved.** Because of technical problems, the authorities stopped using the UN Conference for Trade and Development's Debt Management and Financial Analysis System (UNCTAD-DMFAS) in 1998 and have used Excel since then. They are currently installing the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) with financial support from the IDA. In May 2006, a Commonwealth Secretariat mission reviewed institutional and technical aspects of debt management and provided training on CS-DRMS. Getting data into and running the new system will take several months. This process was delayed by technical difficulties, and technical assistance is planned for early 2007. The CS-DRMS should allow the government to publish public debt data regularly. This would increase the transparency of debt operations.

5. **There is a need to enhance the capacity for recording data, monitoring debt relief, and analyzing debt sustainability.** In addition to the CS-DRMS training in data recording, there is a need for training in basic debt operations and debt sustainability analysis. At the moment there are not enough staff and resources to carry out basic debt management operations.

APPENDIX II

São Tomé and Príncipe: Debt Sustainability Analysis for Low-Income Country Framework [37]

1. **São Tomé and Príncipe has a moderate risk of debt distress after debt relief under the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI).** The results suggest that the attainment of debt relief at the HIPC completion point and MDRI debt relief will bring about a substantial improvement in the country's debt outlook, though debt ratios will continue to be vulnerable to shocks until oil production starts in 2012.[38] The debt outlook remains vulnerable even under the baseline scenario, as indicated by a breach of debt thresholds prior to the production of oil. The risk of debt distress increases significantly under a scenario with no oil production and no fiscal adjustment. Reducing the risk of debt distress will therefore depend critically on maintaining sound fiscal policy consistent with a prudent borrowing strategy for the medium and long term as well as policies oriented to achieving broad-based long-run economic growth.

A. Background

2. **São Tomé and Príncipe's medium- and long-term external debt at the end of 2005 is estimated at US$325 million in nominal terms, corresponding to a NPV of debt-to-export ratio of 299 percent.** The share of multilateral debt is 61 percent, of which about 88 percent is owed to the IDA, African Development Bank and IMF. The share of official bilateral debt is about 37 percent, of which 38 percent is owed to Paris Club creditors. The share of commercial debt is only 2 percent. São Tomé and Príncipe is current with its obligations to multilateral creditors and has cleared most of its arrears with Paris Club creditors as part of a debt rescheduling agreement on Cologne terms (September 2005). The authorities are currently in the process of signing bilateral agreements with Paris Club creditors and reconciling debt records with other creditors.

3. **The HIPC completion point is expected to be reached in early 2007.** The debt service-to-GDP ratio was about 6.5 percent of GDP in 2006 and is expected to be 3.6 percent in 2007 — a result of both enhanced HIPC and MDRI debt relief. MDRI will result in substantial debt service savings reflecting the large share of debt to the IDA, AfDF, and IMF in the country's total debt.

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[37] This appendix updates the debt sustainability analysis (DSA) prepared in February 2006 (EBS/06/23). This LIC DSA makes use of the updated debt data base which was reconciled for the HIPC completion point and also incorporates revised macroeconomic projections.

[38] São Tomé and Príncipe is currently classified as a "Poor Performer" in IDA's Country Policy and Institutional Assessment (CPIA) index. Under the joint IDA/IMF debt sustainability framework the thresholds are: 30 percent for NPV of debt-to-GDP ratio, 100 percent for NPV of debt-to-exports ratio, and 15 percent debt service-to-exports ratio.

São Tomé and Príncipe: External Public Debt

(Millions of U.S. dollars)

	1999	2005
Total	**292.9**	**324.6**
Multilateral institutions	168.1	200.2
IDA	60.9	72.1
ADF	88.8	99.8
IMF	0.0	3.2
Other	18.3	25.2
Bilateral and commercial	120.0	119.7
Paris Club	51.8	45.4
Non-Paris Club	68.2	74.3
Commercial creditors	4.8	4.8

Sources: São Tomé and Príncipe authorities; World Bank and IMF staff estimates.

B. Medium Term Macroeconomic Framework

4. **The baseline macroeconomic assumptions of the HIPC DSA and the LIC DSA are the same.** [39] The baseline scenario assumes HIPC completion point in early 2007 and full MDRI debt relief. GDP growth is expected to accelerate over the medium-term to 8 percent and then slow gradually to 5 percent in the long term.[40] Domestic investment would rise sharply from about 35 percent of GDP to an average of 60 percent in the medium term, largely on account of oil sector investment initiatives. The rise in the investment ratio will require continuing reliance on foreign savings, although national savings are forecast to rise on account of increased private savings once stability and economic growth become firmly established.

5. **Risks to the macro framework arise from a possible weakening of the fiscal consolidation effort, potential shortfalls in foreign assistance triggered by the expected oil boom, and lower or no oil production.** All scenarios assume no domestic public debt (no significant development of a domestic-based market for government debt is foreseen) and most of the scenarios assume external borrowing on concessional terms. In particular, the

[39] See Box 4 in the HIPC Completion Point Document.

[40] The baseline scenario excludes the proposed topping-up of HIPC relief at completion point. Debt ratios after topping-up of HIPC relief and MDRI are presented in an alternative scenario.

scenario of no oil production assumes no fiscal adjustment, as in the HIPC debt sustainability analysis. This scenario also assumes less concessional terms for external borrowing, reflecting the worsening of the fiscal stance.

C. Fiscal Debt Sustainability Analysis

6. **In the baseline scenario, São Tomé and Príncipe's debt outlook shows a significant improvement, but remains vulnerable until oil production starts** (Table 2 and Figure 1). Both the NPV of debt-to-GDP and NPV of debt-to-revenue ratios remain low throughout the projection period. The debt service-to-revenue ratio is projected to remain below 5 percent after 2007, declining sharply once oil production starts. Topping-up of HIPC assistance improves all debt ratios, particularly the debt service-to-revenue ratio in the 2007-12 period(Table 2).

7. **The sensitivity analysis shows that the debt indicators are particularly vulnerable to a deceleration in GDP and deterioration of the primary balance before oil production starts.** Under the most extreme stress test, which assumes lower real GDP growth and primary deficit (Bound test B3 in Table 2), São Tomé and Príncipe's NPV of public debt-to-revenue ratio increases substantially above the baseline scenario from 2007 to 2010, then falls sharply after oil exports start in 2012 (Figure 1 and Table 2). However, the debt service-to-revenue ratio increases only gradually, as a result of assuming borrowing on highly concessional terms, remaining below 10 percent throughout the projection period.

8. **Under a scenario with no oil production and no fiscal adjustment, the public debt dynamics become explosive** (alternative scenario A1 in Table 2, and Figure 1). In this scenario, all debt indicators are projected to increase rapidly. Both the NPV of debt-to-GDP and the NPV of debt-to-revenue ratios are projected to increase substantially throughout the projection period, leading to an increasing debt service-to-revenue ratio.

D. External Debt Sustainability Analysis

9. **The baseline scenario shows favorable external debt dynamics. Debt relief under the HIPC Initiative and MDRI allows the debt ratios to improve substantially, though ratios remain close to the policy-dependent thresholds until oil production starts** (Table 4 and Figure 2). The NPV of debt-to-GDP ratio is projected to remain below the 30 percent policy-dependent debt-burden threshold throughout the projection period. The NPV of debt-to-exports ratios is projected to increase gradually from 65 percent in 2006 to 105 percent by 2011, when it breachs the policy-dependent threshold, but then to fall sharply after 2012, when oil production starts. The debt service-to-exports ratio is projected to decline from 12 percent in 2006 to 7 percent on average during 2007–11, before declining sharply once oil

production starts. [41] Topping-up HIPC assistance improves all debt ratios, particularly the debt service-to-exports ratio (Figure 3).

10. **The sensitivity analysis shows that in the medium term the debt indicators are particularly vulnerable to a deceleration in GDP and export growth.** In the most extreme stress test, which assumes a two-year shock to the average growth of real GDP growth and export, to the GDP deflator denominated in U.S. dollar, and to the net non-debt-creating flows (Bound test B5 in Table 4), São Tomé and Príncipe's external debt indicators are projected to increase substantially above the policy-dependent thresholds from 2007 to 2010, then fall sharply after oil exports start in 2012 (Figure 3 and Table 4). The debt service-to-exports ratio also increases significantly, but remains below the 15 percent threshold and falls after oil production starts.

11. **In a scenario with no oil production and no fiscal adjustment, external debt vulnerability becomes acute** (alternative scenario A1 in Table 4 and Figure 2)**.** In this scenario, all debt indicators are projected to increase rapidly. Both the NPV of debt-to-GDP and the NPV of debt-to-export ratios are projected to remain above the policy-dependent threshold, leading to an ever increasing debt service-to-export ratio in the absence of fiscal adjustment.

E. Conclusion

12. **São Tomé and Príncipe's risk of debt distress after debt relief under the HIPC Initiative and MDRI will be moderate, but it will remain vulnerable to developments in the oil sector.** Despite a significant reduction in the NPV of debt at the HIPC completion point, São Tomé and Príncipe's public debt will also be vulnerable to shocks to the exchange rate, exports, and foreign grants, at least until oil production starts in 2012. External debt vulnerability would be further exacerbated in the absence of sound macroeconomic policies and undue delays in oil production. These risks underline the need for prudent fiscal and debt management policies, continued reliance on concessional financing, and implementation of structural reforms essential to support broad-based long term economic growth.

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[41] The debt ratios of the LIC DSA may differ from the HIPC DSA as they use different methodologies. The LIC uses the same-year exports, while HIPC DSA uses three-year backward average. The LIC DSA uses a fixed 5 percent discount rate, while the HIPC DSA uses currency-specific discount rates. Finally, the LIC DSA debt service projections use WEO exchange rates, while the HIPC DSA uses fixed exchange rates (end-2005).

Table 1.São Tomé and Príncipe: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-26
(Percent of GDP, unless otherwise indicated)

	Actual			Estimate						Projections				
	2005	Historical Average 5/	Standard Deviation 5/	2006	2007	2008	2009	2010	2011	2006-11 Average	2012	2013	2016	2026	2012-26 Average
Public sector debt 1/	508.8			438.2	78.6	72.0	64.7	58.3	51.5		12.8	4.9	3.6	4.7	
Of which: foreign-currency denominated	508.8			438.2	78.6	72.0	64.7	58.3	51.5		12.8	4.9	3.6	4.7	
Change in public sector debt	77.0			-70.6	-359.6	-6.6	-7.2	-6.4	-6.9		-38.7	-7.9	0.2	0.0	
Identified debt-creating flows	-37.9			-75.2	-52.5	2.4	-3.6	-2.7	-4.4		-38.4	-7.8	0.3	-0.4	
Primary deficit	-28.1	9.2	15.0	-3.1	4.5	9.4	3.5	3.4	2.0	3.3	-0.2	-0.1	0.0	-0.1	-0.1
Revenue and grants	92.8			73.2	58.1	51.9	55.5	53.3	55.2		15.2	7.5	16.3	43.9	
Of which: grants	26.7			22.6	19.0	19.0	18.6	18.1	16.3		4.2	1.5	0.1	0.0	
Primary (noninterest) expenditure	64.7			70.1	62.6	61.3	59.0	56.6	57.1		15.0	7.4	16.3	43.8	
Automatic debt dynamics	-5.0			-67.8	-55.1	-5.4	-5.6	-4.7	-5.1		-37.9	-7.6	0.5	0.1	
Contribution from interest rate/growth differential	-31.5			-45.5	-33.6	-4.3	-4.3	-4.2	-3.8		-38.1	-7.7	0.4	0.0	
Of which: contribution from average real interest rate	-7.1			-7.8	-4.9	0.8	0.7	0.6	0.5		0.1	0.0	0.0	0.0	
contribution from real GDP growth	-24.4			-37.7	-28.7	-5.1	-5.0	-4.8	-4.3		-38.2	-7.7	0.4	0.0	
Contribution from real exchange rate depreciation	26.5			-22.3	-21.5	-1.0	-1.2	-0.5	-1.3		0.2	0.1	...	...	
Other identified debt-creating flows	-4.7			-4.3	-1.9	-1.6	-1.5	-1.4	-1.2		-0.3	-0.1	-0.2	-0.4	
Privatization receipts (negative)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	
Debt relief (HIPC and other)	-4.7			-4.3	-1.9	-1.6	-1.5	-1.4	-1.2		-0.3	-0.1	-0.2	-0.4	
Other (specify, e.g. bank recapitalization)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	
Residual, including asset changes	114.9			4.5	-307.1	-9.0	-3.6	-3.7	-2.4		-2.0	-2.0	-0.1	0.3	
NPV of public sector debt	168.1			25.5	26.4	27.3	27.7	27.7	26.2		7.1	2.9	2.9	5.7	
Of which: foreign-currency denominated	168.1			25.5	26.4	27.3	27.7	27.7	26.2		7.1	2.9	2.9	5.7	
external	168.1			25.5	26.4	27.3	27.7	27.7	26.2		7.1	2.9	2.9	5.7	
NPV of contingent liabilities (not included in public sector debt)	...			...	...	...	...	...	...		...	...	...	...	
Gross financing need 2/	-11.3			8.8	8.1	12.3	6.2	5.8	4.2		0.3	0.1	0.2	0.4	
NPV of public sector debt-to-revenue ratio (percent) 3/	181.2			34.8	45.5	52.5	49.8	52.0	47.5		46.6	39.4	18.0	13.1	
Of which: external	181.2			34.8	45.5	52.5	49.8	52.0	47.5		46.6	39.4	18.0	13.1	
Debt service-to-revenue ratio (percent) 3/ 4/	18.1			16.3	6.3	5.8	4.9	4.6	4.0		3.7	3.1	1.2	1.1	
Primary deficit that stabilizes the debt-to-GDP ratio	-105.1			67.5	364.1	16.0	10.7	9.8	8.8		38.5	7.9	-0.2	0.0	
Key macroeconomic and fiscal assumptions															
Nominal GDP (local currency)	765			983	1,261	1,496	1,750	2,016	2,292		8,968	22,732	26,758	18,505	
Real GDP growth (in percent)	6.0	3.1	1.7	8.0	7.0	7.0	7.5	8.0	8.0	7.6	287.3	150.9	-9.9	-1.0	27.2
Average nominal interest rate on forex debt (in percent)	1.2	1.5	1.1	1.2	0.8	3.2	3.1	3.0	2.9	2.4	2.9	3.0	3.3	1.6	2.8
Average real interest rate on domestic currency debt (in percent)	...	5.7	14.1	...	...	...	...	...	...		...	...	...	...	
Real exchange rate depreciation (in percent, + indicates depreciation)	6.6	1.6	6 6	-4.8	...	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	14.7	6.3	5.1	19.0	19.8	10.9	8.8	6.7	5.3	11.7	1.0	1.0	1.0	1.0	1.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-16.8	35.5	59.2	17.1	-4.4	4.7	3 6	3.7	8.9	5.6	1.7	23.3	5.4	4.7	13.6

Sources: São Tome and Principe authorities; and World Bank and IMF staff estimates and projections.

1/ Public sector debt refers to the gross central government debt.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues including grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations derived over the past 5 years.

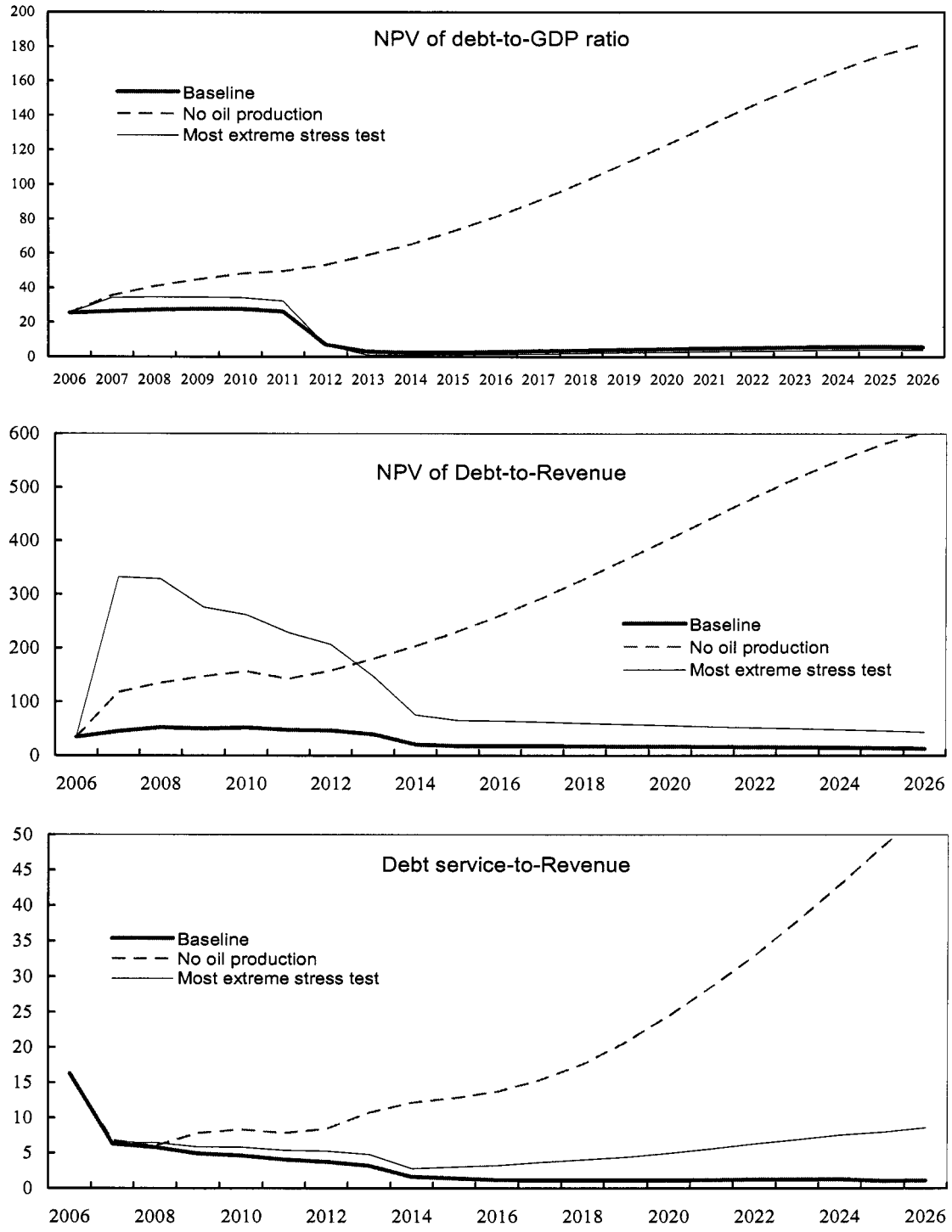
Table 2. São Tomé and Príncipe: Sensitivity Analysis for Key Indicators of Public Debt 2006-26
(Percent)

	Est.	Projections								
	2006	2007	2008	2009	2010	2011	2012	2013	2016	2026
	NPV of Debt-to-GDP Ratio									
Baseline	25	26	27	28	28	26	7	3	3	6
A. Alternative scenarios										
A1. No oil production	25	36	41	45	48	50	53	59	81	182
A2. Primary balance is unchanged from 2007	25	26	23	25	26	27	9	6	18	89
A3. Permanently lower GDP growth 1/	25	27	28	29	29	28	6	1	2	24
A4. Topping up	25	21	22	24	25	24	7	3	3	6
B. Bound tests										
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	25	30	35	38	41	42	10	3	7	54
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	25	42	53	52	51	47	11	3	3	7
B3. Combination of B1-B2 using one half standard deviation shocks	25	37	44	42	40	36	8	1	1	4
B4. One-time 30 percent real depreciation in 2007	25	193	171	153	139	126	32	11	10	19
B5. 10 percent of GDP increase in other debt-creating flows in 2007	25	34	35	35	34	32	7	1	1	4
	NPV of Debt-to-RevenueRatio 2/									
Baseline	35	45	53	50	52	47	47	39	18	13
A. Alternative scenarios										
A1. No oil production	35	118	135	147	156	142	158	180	260	604
A2. Primary balance is unchanged from 2007	35	45	45	45	49	48	60	75	108	203
A3. Permanently lower GDP growth 1/	35	46	53	51	54	51	39	10	13	55
A4. Topping up	35	35	43	43	46	43	43	37	17	13
B. Bound tests										
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	35	50	65	67	74	74	66	37	44	123
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	35	72	103	94	95	86	72	37	19	17
B3. Combination of B1-B2 using one half standard deviation shocks	35	63	82	73	72	64	48	13	8	9
B4. One-time 30 percent real depreciation in 2007	35	332	329	276	262	228	207	147	64	43
B5. 10 percent of GDP increase in other debt-creating flows in 2007	35	59	67	62	64	58	46	14	9	9
	Debt Service-to-Revenues Ratio 2/									
Baseline	16	6	6	5	5	4	4	3	1	1
A. Alternative scenarios										
A1. No oil production	16	7	6	8	8	8	8	11	14	54
A2. Primary balance is unchanged from 2007	16	6	6	4	4	4	4	5	6	15
A3. Permanently lower GDP growth 1/	16	6	6	5	5	4	4	3	2	4
A4. Topping up	16	5	4	4	4	3	3	3	1	1
B. Bound tests										
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	16	7	6	6	6	5	5	5	3	9
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	16	6	9	8	6	6	5	5	2	2
B3. Combination of B1-B2 using one half standard deviation shocks	16	6	8	7	6	5	4	4	2	1
B4. One-time 30 percent real depreciation in 2007	16	8	8	7	6	6	5	4	2	2
B5. 10 percent of GDP increase in other debt-creating flows in 2007	16	6	7	5	5	4	4	4	1	1

Sources: São Tome and Principe authorities; and World Bank and IMF staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Revenues including grants.

Fig. 1. São Tomé and Príncipe: Indicators of Public Debt, 2006-26 1/
(Percent)



Source: World Bank and IMF staff projections.
1/ Baseline scenario includes HIPC and MDRI debt relief.

Table 3. São Tomé and Príncipe: External Debt Sustainability Framework, Baseline Scenario, 2006-2026 1/
(Percent of GDP, unless otherwise indicated)

				Projections										
	Est.	Historical	Standard						2007-11					2012-26
	2006	Average 6/	Deviation 6/	2007	2008	2009	2010	2011	Average	2012	2013	2016	2026	Average
External debt (nominal) 1/	**413.7**			**74.6**	**69.5**	**63.3**	**57.3**	**51.3**		**12.8**	**4.8**	**3.6**	**4.6**	
Of which: public and publicly guaranteed (PPG)	413.7			74.6	69.5	63.3	57.3	51.3		12.8	4.8	3.6	4.6	
Change in external debt	-38.5			-339.0	-5.1	-6.2	-6.0	-6.0		-38.5	-7.9	0.2	0.0	
Identified net debt-creating flows	-17.0			2.1	7.3	2.0	1.5	-1.1		-39.5	-32.3	-31.8	19.3	
Non-interest current account deficit	**56.9**	**23.9**	**16.3**	**61.0**	**62.7**	**62.5**	**62.8**	**230.2**		**49.3**	**-16.8**	**-19.5**	**25.8**	-4.2
Deficit in balance of goods and services	89.5			86.2	88.4	87.1	86.3	248.9		-3.6	-67.1	-55.5	-2.0	
Exports	28.5			26.4	25.9	25.1	24.1	23.3		82.0	94.4	91.3	54.3	
Imports	118.0			112.5	114.3	112.2	110.5	272.2		78.4	27.3	35.8	52.3	
Net current transfers (negative = inflow)	-34.4	-38.5	12.8	-26.7	-26.1	-25.1	-24.0	-19.2		-4.6	-1.7	-0.3	-0.4	-0.7
Other current account flows (negative = net inflow)	1.8			1.5	0.4	0.5	0.5	0.5		57.5	52.0	36.2	28.2	
Net FDI (negative = inflow)	**-34.6**	**-12.9**	**11.5**	**-34.2**	**-51.2**	**-56.5**	**-57.4**	**-227.8**		**-51.0**	**-7.9**	**-12.7**	**-6.6**	-9.2
Endogenous debt dynamics 2/	**-39.3**			**-24.7**	**-4.1**	**-4.0**	**-3.9**	**-3.5**		**-37.8**	**-7.6**	**0.4**	**0.1**	
Contribution from nominal interest rate	1.6			0.6	0.7	0.7	0.7	0.6		0.1	0.1	0.0	0.0	
Contribution from real GDP growth	-32.9			-25.3	-4.8	-4.7	-4.6	-4.1		-37.9	-7.6	0.4	0.0	
Contribution from price and exchange rate changes	-8.0			...	...	...	...	...		...	...	...	...	
Residual (3-4) 3/ 4/	**-21.5**			**-341.2**	**-12.4**	**-8.2**	**-7.5**	**-4.9**		**0.9**	**24.4**	**32.0**	**-19.3**	
NPV of external debt	18.4			21.0	23.1	23.9	24.5	24.5		6.7	2.8	2.8	6.0	
(Percent of exports)	64.7			79.5	88.9	95.2	101.4	105.0		8.2	3.0	3.0	11.0	
NPV of PPG external debt	**18.4**			**21.0**	**23.1**	**23.9**	**24.5**	**24.5**		**6.7**	**2.8**	**2.8**	**6.0**	
In percent of exports	64.7			79.5	88.9	95.2	101.4	105.0		8.2	3.0	3.0	11.0	
Debt service-to-exports ratio (percent)	17.0			5.9	6.7	8.5	9.0	9.7		0.7	0.3	0.2	0.2	
PPG debt service-to-exports ratio (percent)	17.0			5.9	6.7	8.5	9.0	9.7		0.7	0.3	0.2	0.2	
Total gross financing need (billions of U.S. dollars)	0.0			0.0	0.0	0.0	0.0	0.0		0.0	-0.3	-0.5	0.2	
Non-interest current account deficit that stabilizes debt ratio	95.4			400.0	67.8	68.7	68.8	236.2		87.9	-8.9	-19.7	25.8	
Key macroeconomic assumptions														
Real GDP growth (percent)	8.0	4.7	1.7	7.0	7.0	7.5	8.0	8.0	7.5	287.3	150.9	-9.9	-1.0	27.2
GDP deflator in US dollar terms (percent change)	1.8	3.0	4.3	7.1	1.7	2.7	2.4	3.0	3.4	0.3	0.3	0.3	0.3	0.3
Effective interest rate (percent) 5/	0.4	0.1	0.2	0.2	1.0	1.1	1.2	1.2	0.9	1.1	1.0	0.8	0.4	0.6
Growth of exports of goods and services (U.S. dollar terms, percent)	7.0	4.8	6.9	6.0	7.0	6.8	6.4	7.4	6.7	1268.1	189.7	-12.0	-7.9	92.0
Growth of imports of goods and services (U.S. dollar terms, percent)	44.9	13.7	14.8	9.3	10.5	8.4	8.9	174.2	42.3	12.0	-12.4	16.1	4.8	4.0
Grant element of new public sector borrowing (including IMF; percent)	...	...	...	42.4	44.0	47.1	48.9	46.4	45.8	48.1	48.1	48.1	48.1	48.1
Grant element of new public sector borrowing (excluding IMF; percent)	...	...	...	46.9	47.6	49.3	48.9	46.4	47.8	48.1	48.1	48.1	48.1	48.1
Memorandum item:														
Nominal GDP (billions of U.S. dollars)	0.1			0.09	0.10	0.11	0.12	0.13		0.52	1.31	1.51	0.97	

Source: World Bank and IMF staff projections.

1/ External public debt only.

2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Includes deposits and withdrawals from the National Oil Account.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations for the 1999-05 period.

Table 4. São Tomé and Príncipe: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2006-2026
(Percent)

	Est.	Projections						
	2006	2007	2008	2009	2010	2013	2020	2026
				NPV of debt-to-GDP ratio 1/				
Baseline	18	21	23	24	24	3	4	6
A. Alternative Scenarios								
A1. No oil exports 2/	18	46	49	51	52	37	101	166
A2. New public sector loans on less favorable terms in 2007-26 3/	18	21	25	29	30	4	7	10
A3. Topping up	18	15	18	20	21	3	4	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	18	30	34	34	34	4	5	7
B2. Export value growth at historical average minus one standard deviation in 2007-08 4/	18	22	24	25	25	3	4	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	18	36	40	40	40	4	6	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 5/	18	35	36	36	36	4	4	3
B5. Combination of B1-B4 using one-half standard deviation shocks	18	36	40	41	40	5	6	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 6/	18	29	32	79	77	8	10	12
				NPV of debt-to-export ratio				
Baseline	65	79	89	95	101	3	6	11
A. Alternative Scenarios								
A1. No oil exports 2/	65	173	187	193	198	119	297	452
A2. New public sector loans on less favorable terms in 2007-26 3/	65	79	95	114	125	4	8	18
A3. Topping up	65	57	69	78	87	3	5	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	65	114	116	122	127	4	6	12
B2. Export value growth at historical average minus one standard deviation in 2007-08 4/	65	91	111	118	125	4	6	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	65	138	134	139	144	4	7	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 5/	65	132	140	143	148	4	5	5
B5. Combination of B1-B4 using one-half standard deviation shocks	65	128	145	150	156	4	7	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 6/	65	110	89	227	230	6	10	15
				Debt service-to-exports ratio				
Baseline	17.0	5.9	6.7	8.5	9.0	0.3	0.1	0.2
A. Alternative Scenarios								
A1. No oil exports 2/	17.0	12.6	13.6	17.2	18.2	12.6	22.7	44.6
A2. New public sector loans on less favorable terms in 2007-26 3/	17.0	5.7	6.7	8.9	10.1	0.3	0.2	0.5
A3. Topping up	12.2	3.8	4.1	6.2	6.8	0.3	0.1	0.1
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	17.0	6.2	7.0	8.8	9.3	0.3	0.2	0.3
B2. Export value growth at historical average minus one standard deviation in 2007-08 4/	17.0	6.4	8.0	10.3	11.0	0.4	0.2	0.3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	17.0	6.5	7.2	9.0	9.5	0.3	0.3	0.4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 5/	17.0	5.9	7.3	10.1	10.5	0.3	0.5	0.9
B5. Combination of B1-B4 using one-half standard deviation shocks	17.0	6.2	8.0	10.0	10.6	0.3	0.3	0.5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 6/	17.0	8.2	8.4	10.2	10.6	0.3	0.5	0.9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 7/	53	51	49	47	45	38	33	32

Source: World Bank and IMF staff projections.

1/ By the year 2023 real GDP growth slows down significantly due to the projected decline in petroleum production.

2/ Variables include real GDP growth, growth of GDP deflator (U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseli

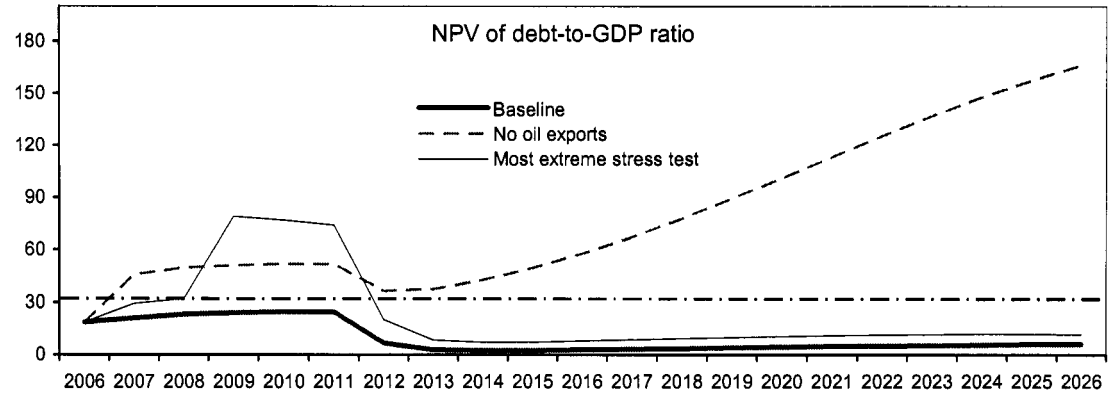
4/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

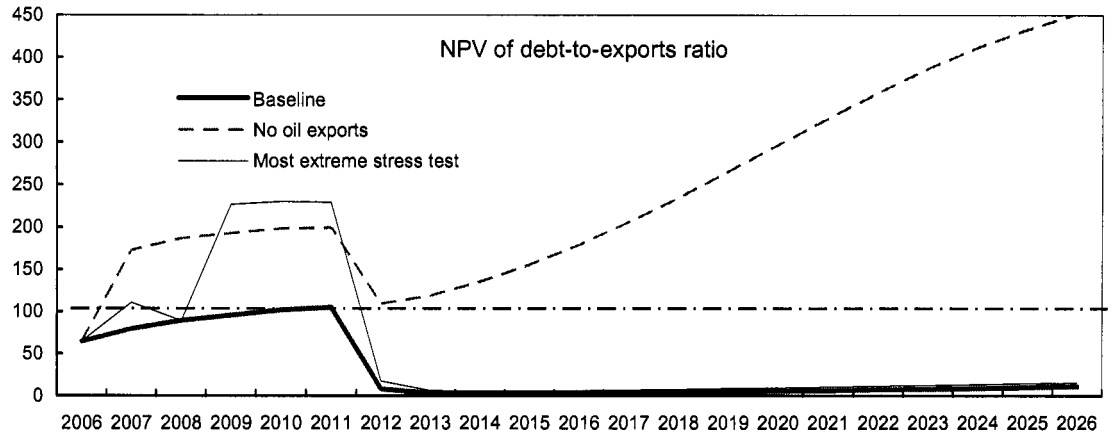
5/ Includes official and private transfers and FDI.

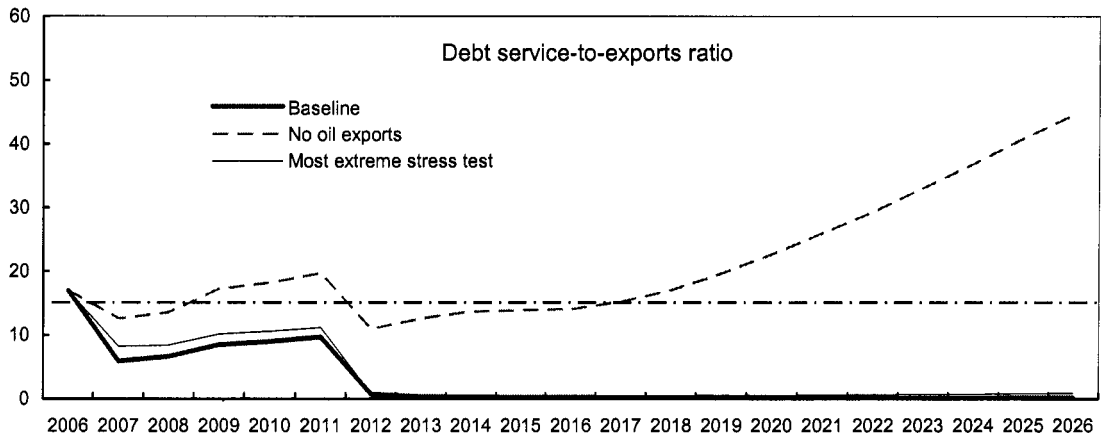
6/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

7/ Based on historical level of concessionality. Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Fig. 2. São Tomé and Príncipe: Indicators of External Debt, 2006-26 1/
(Percent)

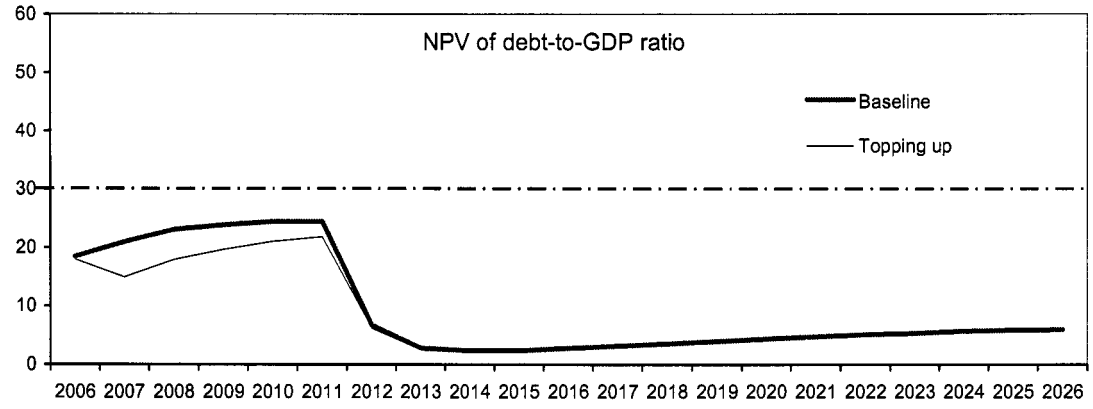


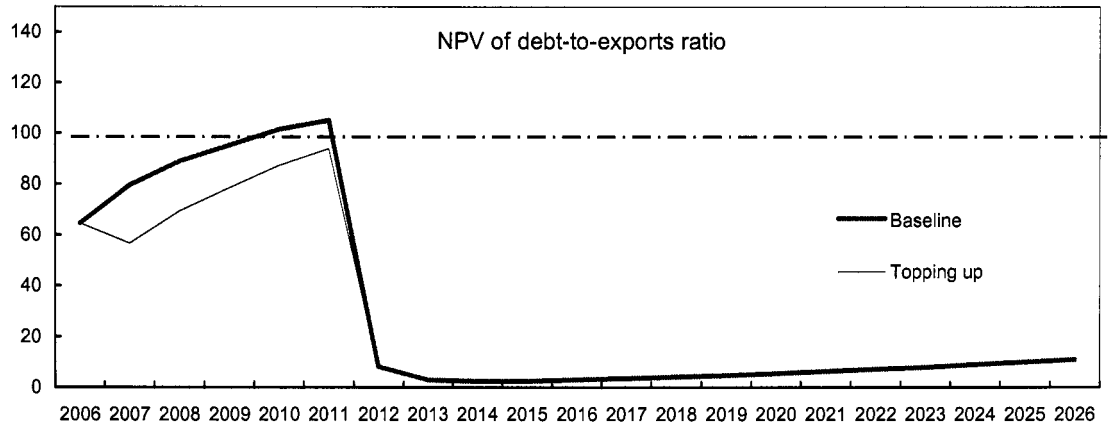


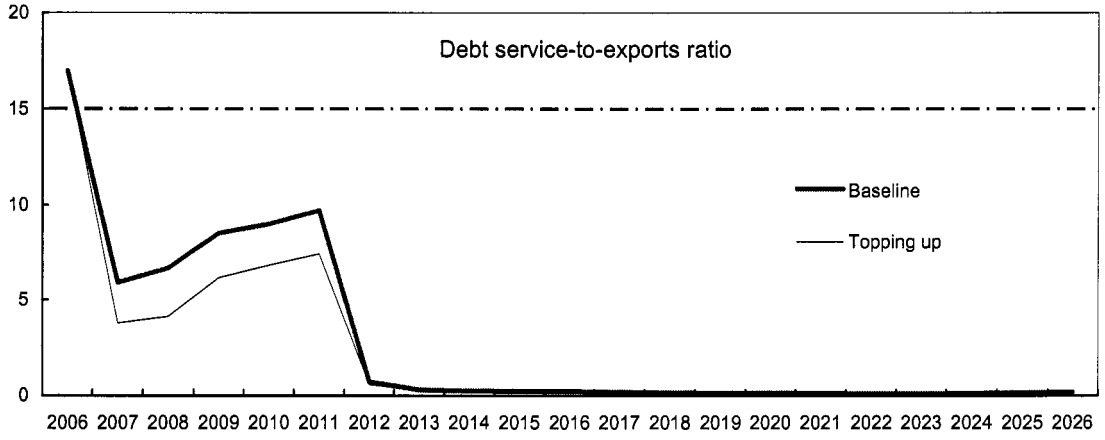


Source: World bank and IMF staff projections.
1/ Baseline scenario includes HIPC and MDRI debt relief.

Fig. 3. São Tomé and Príncipe: Indicators of External Debt, 2006-26 1/
(Percent)







Source: World Bank and IMF staff projections.
1/ Baseline scenario includes HIPC and MDRI debt relief.

APPENDIX III

Education and Health Establishments Built or Refurbished to Reach the HIPC Completion Point

Table 1. Classrooms: List of Locations and Sources of Funds, 2001-September 2006

Schools	Classrooms Built	Financing source	observation
Yo Grande	2	HIPC	School / teacher residence
Abade - Principe	2	HIPC	New school
Paula Lavres - Principe	2	HIPC	Enlargement of school
Santo Antonio	2	HIPC	Enlargement (secondary)
Angolares	2	HIPC	Enlargement
Boa Entrada	6	HIPC	New school
Riboque Santana	2	HIPC	Enlargement
12 de Julho	2	HIPC	Enlargement
Neves	2	HIPC	New school, in progress
Almeirim	1	HIPC	Enlargement in progress
O que del Rei	3	HIPC	Enlargement
Liceu National	8	HIPC	Enlargement (secondary)
Morro Peixe	2	HIPC	New school
SubTotal HIPC	**36**		
Jose Leal Boucas	2	Taiwan, Province of China	Enlargement
Capela	2	Taiwan, Province of China	Enlargement
Batepa	2	Taiwan, Province of China	Enlargement
Conde	2	Taiwan, Province of China	Enlargement
Praia Gamboa	3	Taiwan, Province of China	Enlargement
Ribeira Afonso	2	Taiwan, Province of China	Enlargement
Santa Geny	2	Taiwan, Province of China	New school
Esprainha	2	Taiwan, Province of China	New school
Almas	8 6 (secondary) 2 (primary)	Taiwan, Province of China	New School, 6 classes for 5^{th} & 6^{th} grades, 2 classes for 1^{st}-4^{th}.
Subtotal: Taiwan, Province of China	**25**		
Porto Alegre	2	UNICEF	Enlargement

Agua Ize	4	Dr. Meya	Enlargement, secondary (for 5th & 6th grades)
Santa Catarina	4	Dr. Meya	Enlargement, secondary (for 5th & 6th grades)
Dna Agusta	2	Alisei / EU	School and teacher residence, primary
Mendes da Silva	2	EU	School and teacher residence, primary
Pedroma	2	Alisei /EU	New School, primary
Agua Ize	4	EUA	
Mesquita	2	BAD	Enlargement, primary
Praia Yamé	4		New school, primary
Subtotal diverse donors	**26**		
OVERALL TOTAL	**87**		
Of which primary	**63**		Originally (in 2000) primary defined as grades 1-4
Of which secondary [1]	**24**		Originally (in 2000) secondary defined as grades 5 and above.

Sources: Ministry of Education / Office of the Minister of Planning and Finance and the HIPC unit.
[1] Highlighted classes are secondary classes. In 2000, when the HIPC conditions were agreed to, primary education consisted of grades 1-4, and grades 5 and above were considered secondary. Since 2005, when the new education strategy has been implemented, grades 5 and 6 are considered primary and classrooms were built to eventually implement the expanded primary education. In practice, this was just starting in 2005. Per the 2000 HIPC accounting, 24 secondary classes have been built.

Table 2. Health Care Posts/Centers: List of Locations and Sources of Funds, 1999-2006

Districts	**Work undertaken**	**Observation**
Caue	Posto Monte Mario	Equipped, HIPC funds
	Posto de Ribeira Peixe	United States
Cantagalo	Posto comunitorio de Angra Toldo Cavalete	HIPC funds
	Posto de Agua Ize	Equipped, Taiwan, Province of China
Agua Grande	Posto Vila Fernanda	Equipped, IDA
Lobata	Posto de Desejada	Equipped, French Cooperation
	Posto Boa Esperanca	Equipped, UNICEF
	Posto Agua Sampaio	UNICEF
	Centro Maternidade Lobata	Added maternity wing to health center, Taiwan, Province of China
Lemba	Posto de Santa Catarina	French Cooperation
Principe	Posto Comunitario de Nova Estrela	Equipped, Italian Cooperation
	Posto de Picao	Equipped, Italian Cooperation