Country Focus Report 2023

SAO TOME AND PRINCIPE

Mobilizing Private Sector Financing for Climate and Green Growth

AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

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ADF	African Development Fund
AEO	Africa Economic Outlook
AfDB	African Development Bank
BCSTP	Central Bank of S„o TomÈ and PrÌncipe
BES	Blue Economy Strategy
BISTP	International Bank of S„o TomÈ and PrÌncipe
CFR	Country Focus Report
CSP	Country Strategy Paper
DFI	Direct Foreign Investment
DGA	Environment Directorate of S„o TomÈ and PrÌncipe
ECF	Extended Credit Facility
ENCO	National Oil Company of S„o TomÈ and PrÌncipe
EMAE	Water and Electricity Utility of S„o TomÈ and PrÌncipe
ESRU	Efficient Sustainable Resource Use
EUR	Euro
FDI	Foreign Direct Investment
GCF	Green Climate Fund
GDP	gross domestic product
GDI	Gender Development Index
GGGI	Global Green Growth Institute
HDI	Human Development Index
HDR	Human Development Report
IUU	illegal, unreported, and unregulated
IMF	International Monetary Fund
MDB	Multilateral Development Bank
MW	megawatts
NGO	non-government organization
NCP	Natural Capital Protection
NDC	Nationally Determined Contribution
NPL	non-performing loans
NIR	Net International Reserve
PANA	National Action Plan
PAGEF	Economic and Financial Management Project
PPP	public-private partnership
SDG	Sustainable Development Goal
SME	small- and medium-scale enterprises
STP	S„o TomÈ and PrÌncipe
UNESCO	United Nations Educational, Scientific and Cultural Organizaton
UNDP	United Nations Development Programme
USD	United States Dollars
VAT	value added tax

SÃO TOMÉ AND PRÍNCIPE

KEY MESSAGES

Private sector financing for climate change and green growth

Although there are some green growth and climate action activists in S„o TomÈ and Prìncipe (STP) the issue is not yet well enshrined in government policies and regulations. However, there is a political will and commitment from the government to take action to strengthen cross-sectoral coordination on mobilizing green financing and engage with the private sector. The country needs to create a robust green growth framework to set out the countryís vision on the issue which would allow for strong coordination across the country and horizontal and vertical integration. Implementation of these overarching policies and regulations will require the development of green skills and addressing existing capacity gaps that limit the development of commercially viable green growth and climate change projects for private sector investments.

The main barriers preventing the mobilization of private sector finance at sufficient scale to meet the countryís green growth and climate action goals relate to the high levels of external debt resulting from unaffordability of capital; the low levels of skills and capacities among institutions to develop and implement commercially viable green growth and climate action projects for private sector investments. This lack of skills is particularly relevant for non-energy related sectors and limited integration among different sectors at national level to ensure equitable distribution of the mobilized private sector finance will be important.

Blending and green financial instruments are an opportunity for STP to further mobilize domestic and international private sector finance for green growth and climate action and offers an opportunity to de-risk investments in key sectors.
The private sector financing opportunities are immense, and unlocking these opportunities will need action by multiple stakeholders. The following actions should be considered:

- The government should create a green growth and climate action framework to facilitate national coordination, including the Nationally Determined Contributions (NDC).
- Multilateral Development Banks (MDB) and Direct Foreign Investment (DFI) should become less risk averse by further engaging with the STP government to identify ways to provide affordable capital for green growth and climate change investments. They should also use innovative financing instruments that de-risk private sector investments, particularly in non-energy sectors such as water and health infrastructure development.
- The domestic and international private sector should collaborate with national government, MDB and DFIs and other private sector actors to identify key risks to investments and propose ways of addressing them.
- Developed country governments should work with MDB and DFIs to ensure that they have sufficient capital to enable them to implement more risk-agnostic measures to finance green growth and climate action in STP.

Natural capital for climate finance and green growth

Renewable natural capital plays a major role in the STP economy, but it has not grown sufficiently over the last quarter century to keep pace with the population. On the contrary, the per capita level has declined and to reverse this trend the loss of forest ecosystems and marine biodiversity should be prevented with concrete and robust action. STP should ensure a sustainable exploration of these systems to ensure their preservation for the benefit of future generations. If carefully implemented, clean energy sources can also be a source of renewable natural capital.

The use of non-renewable assets in STP is relatively low, however the inert exploration should be done in very sustainable and managed way. If oil discovery is successful, the country should further strengthen its regulation and policies on non-renewable exploration. For cropland and pastureland goods and services can generate increases in value by investing in new technologies, as well as extending the value chains.

The channels for increasing the returns from natural capital require both domestically and internationally driven actions. Domestic work on good governance in managing the returns from natural capital and in bringing together physical and human capital to add value to exports is key. Internationally, STP is well placed to take advantage of international agreements on climate change and biological diversity to finance higher returns from its substantial endowments of natural assets.

In addition, the ability of the country to access international mechanisms to market carbon credits at higher prices will increase unit rents significantly. For fisheries, the country should take action to stop illegal, unreported and unregulated (IUU) fishing and to sign access agreements for distant water fleets that prevent overexploitation of wild stocks while generating fair revenues for local communities. For tourism, STP should put in place a mechanism to roll out its tourism strategy 2016-2025 to increase total income, with an emphasis on sustainable ecotourism.

The analysis has been based on data collected by the World Bank for major categories of assets but the coverage of forms of natural capital is not complete. Work is needed in particular on estimating the value of renewable energy sources such as sunshine, wind and hydro, as well as that of landscapes and biodiversity.

I. INTRODUCTION

This Country Focus Report (CFR) for S„o TomÈ and PrÌncipe (STP) reviews the role of the private sector in financing climate change and green growth. It further explores the scope for harnessing natural capital to finance adaptation and mitigation to climate change and to promote green growth. It aims to replicate at the country level the analyses carried out at the continental level in the African Development Bankís main African Economic Outlook (AEO) report.

This CFR is structured as follows. Section 2 reviews STPís recent macroeconomic performance and outlook. Section 3 discusses private sector financing for climate and green growth in STP. Section 4 considers the role of natural capital for climate finance and green growth in STP. Section 5 draws some policy recommendations for the government, the donorsí community, the domestic and international private sector, and developed country governments.

II. SÃO TOMÉ AND PRÍNCIPE'S ECONOMIC PERFORMANCE AND OUTLOOK

Background/ Key messages

The economy of S„o TomÈ and PrÌncipe is grappling with grave threats. Complications stemming from the COVID-19 pandemic, enduring energy deficiencies, the late 2021 and early 2022 flooding, coupled with a dramatic surge in global food and fuel costs, have all served to intensify the countryís deep-rooted socio-economic frailties. Consequently, economic growth in 2022 dwindled to an estimated 0.9%, a considerable drop from the average annual growth rate of roughly 4% seen in preceding years. By April 2023, inflation rate stood at 20% year-on-year, following a peak of 25.6% in January. Simultaneously, there was a significant reduction in international reserves, falling to USD 4.5 million in March 2023.

The lionís share of the population earns their livelihood from low-efficiency activities such as subsistence farming, fishing, and various other informal endeavours. However, this type of agriculture falls short of meeting the countryís demand in both quantity and price, leading to a heavy reliance on imported food.

A smaller segment of the labour force is employed in more formal sectors such as public administration, tourism, and services.

Overfishing has placed a significant strain on the fishing industry, causing a concerning depletion of marine resources.

The cost of imports is ninefold that of exports, with fuel being a key contributor to the foreign debt, given that thermal power stations generate 95% of the electricity, despite the countryís considerable renewable energy potential.

Socio-economic developments are primarily funded by Official Development Assistance, with the private sector lacking sufficient capital to hasten progress towards the Sustainable Development Goals. Meanwhile, the government budget is consumed by operational costs and the burden of an extensively subsidized social sector and public utilities.

2.1 RECENT MACROECONOMIC AND FINANCIAL DEVELOPMENTS

Economic growth: Real gross domestic product (GDP) growth over the last five years to 2022 averaged 2.2% with the service sector value added contribution standing at 2.4% followed by the industry sector (2%), while the agriculture sector has been declining (-0.9%). The main driver of growth has been the trade sector, pushed by the high demand of consumption goods. GDP growth declined from 1.9% in 2021 to 0.9% in 2022 (Figure 1), due to the lingering effect of the COVID-19 pandemic that severely impacted the tourism sector, coupled with Russiaís invasion of Ukraine, which disrupted global trade. The economic slowdown was further exacerbated by the rise of food and oil prices in the international market. STP imports 100% of its oil and half of its food needs.

The economic structure of the country has not changed much between 2018-2022. The service sector has the highest contribution

Table 1: Macroeconomic Indicators

	2018	2019	2020	2021	2022(e)	2023(p)	2024(p)
Real GDP Growth	2.9	2.2	3.1	1.9	0.9	1.6	1.9
Real GDP Growth per Capita	1.4	0.7	1.2	-0.2	-1.0	-0.4	0.0
Inflation	7.8	7.8	9.9	8.1	17.9	13.4	9.5
Overall Fiscal Balance, Including Grants (% GDP)	-3.1	-2.6	-3.7	-5.9	-7.2	-5.5	-4.5
Current Account (% GDP)	-19.2	-21.0	-11.8	-16.9	-19.4	-16.2	-13.9

Source: AfDB Statistics Department, April 2023
Note: Data from Domestic authorities; estimates (e) and prediction (p) based on authors' calcula-tions.

to GDP, standing at 69% on average in the past five years to 2022, followed by industry (13.3%) and agriculture (12.7%). As a Small Island Development State tourism contributes 43.7% of total foreign currency revenue in 2021. Wholesale, retail, restaurants, and hotels contributed, on average, 30% to GDP in 2021 and 2022. According to World Bankís Poverty Assessment (2019) report, the service sector accounts for 60.3% of employment in the country followed by agriculture and the fishery sector (27.3%), and industry (12.3%). Although STP has experienced steady growth in the past twelve years, the growth rate has not been sufficient to transform the economic structure and accommodate the active workforce.

Monetary policy and inflation: The Central Bank of STP (BCSTP) has been implementing a prudent monetary policy for the past five years (2018-2022). BCSTP reference interest rates declined slightly to 10% in 2022 from 9% in 2018 and money in circulation rose only by 39.9% from STN1.8 billion Dobras (STN) in 2018 to STN 2.6 billion in 2022. Credit to the economy declined by 20.9% from 2018 to 2022, reflecting the decline in economic activities. Loan to private sector declined slightly from STN 1.8 billion in 2018 to STN 1.5 billion in 2022. Loan to trade sector, industry and construction declined from 19% to 8%, 5% to 1%, and 36% to 32% from 2018 to 2022 respectively. The decline in loans was due to a compound of factors from the COVID-19 pandemic to the torrential rain in the late 2021 and early 2022 as well as the Russiaís invasion of Ukraine[1]. These exogenous factors had a huge impact on the private sectorís ability to expand their business. On average, trade is the sector with most non-performing loans, standing at 11.1% in the past five years to 2022. Nonetheless, return on asset rose to 2.4% in 2022 from -0.2% in 2018 and return on equity followed the same trend by rising from 1.0% in 2018 to 12.6% in 2022. The positive profitability ratios illustrate the banking sectorís fundamental robustness and soundness. As a result, loans to other financial institutions rose from STN 1.4 billion in 2018 to STN 2.9 billion in 2022. The Russian invasion of Ukraine provoked a rise of food and oil prices in the international market which also affected domestic prices. Inflation rose to 25.2% year-on-year in 2022 from 9.5% in 2021. The rise of inflation might compromise the countryís efforts to restore macroeconomic stability and reduce fiscal deficit. It should be recognized that the peg exchange rate to Euro agreement limits the BCSTPís ability to conduct more aggressive monetary policy and interventions.

Fiscal and current account balances: STP has been running a structural fiscal deficit over a decade to 2021 averaging 8% of GDP due to low fiscal base, large wage bill and the high need for public investment. The primary deficit rose to an estimated 6.1% in 2022 from 3.6%

1 Agreed wording at the African Development Bank Annual Meetings 2022 in Ghana. Algeria, China, Egypt and South Africa entered a reservation and proposed ìRussia-Ukraine Conflict.

in 2021 due to the expansion of government expenditure to mitigate the effects of Russiaís invasion of Ukraine. Public investment rose from 5.9% in 2021 to 9.3% in 2022 of GDP. In 2022, the wage bill accounted for 66% of the total current expenditure while public investment accounted for 26% of total revenue. Public investment is financed mainly by multilateral and bilateral donors through grants and loans. Fiscal revenue only finances the current expenditure due to low fiscal base and high level of informality. As a result of the fiscal and balance of payment imbalance accounts, the government implemented an Extended Credit Facility (ECF) program for USD 18 million with the International Monetary Fund (IMF) to create the foundations for stronger and more inclusive growth. One of the outputs of the programme was the introduction of Value Added Tax (VAT) in 2021 to expand the tax base but its introduction was delayed to June 2023 as part of the next IMF program and will help the governmentís effort on resource mobilization.

Public debt is sustainable but under stress, averaging 81.5% of GDP over the past ten years to 2022. Public debt (as a percentage of GDP) rose sharply from 72.3% in 2018 to 117.1% in 2019 due to the recognition of the State-Owned Enterprises loans but it declined to 92.2% in 2022 following the decision by government to contract only concessional loans under the IMF program. The government accounted for the large debt owned by the Water and Electricity Company (EMAE) to the National Oil Company (ENCO) for USD 102.7 million in 2019. As a result, overall public debt increased from USD 296 million in 2018 to USD 500.7 million in 2019. The country is highly dependent on imported fossil fuel to generate power through thermal generators which puts extra pressure on public finances by constantly contracting loans to meet the countryís power demand. In the midst of the COVID-19 pandemic, the oil price rose in 2022 due to Russianís invasion of Ukraine forcing the government to mobilize more foreign reserves to meet the power demand. However, public debt has been contained as most loans are concessional and grants. Almost all public investments financing is through development partner grants.

The current account deficit stood stable at 19.4% of GDP in 2022. It rose from 19.2% of GDP in 2018 to 21% in 2019, declining to 11.8% in 2020 before rising again to 16.9% and 19.4% in 2021 and 2022. The country would need to increase exports to reduce its current account deficit in the short term but because it imports most of its fuel for power generation and food, it reduces the capacity of its foreign reserves: fuel and food imports represented 33% and 19% of total imports in 2022. While the countryís total average exports stood at USD 112.2 million, imports stood at USD 200.3 million between 2018-2022 The financing gap is filled by multilateral and bilateral partners through grants and loans. Angola is the main fuel provider to STP with an outstanding debt of USD 68 million in 2022, while Portugal exports mostly food products with its debt standing at USD 52.6 million in 2022. Heavy reliance on food and fuel imports has exposed the country more acutely to external shocks such as the COVID-19 pandemic and Russianís invasion of Ukraine, which had a huge impact on the balance of payments and foreign reserves. The Net International Reserve (NIR) averaged USD 34.1 million from 2018 to 2021, representing 3-4 months of imports, before taking a dive in 2022 by dropping to USD 14.3 million from USD 29.9 million in 2021 and 56.3 million in 2013. The sharp fall was created by global oil and food prices rising from the adverse effects of the pandemic and Russianís invasion of Ukraine. The NIR drop put the peg agreement the country has with Portugal at risk, which requires three months of import standing at around USD 40 million of foreign reserve needs.

Financial sector: There are efforts to expand and enhance STPís emerging financial sector. When the Country Strategy Paper (CSP) approval in 2018, the financial sector was comprised of six commercial banks and two insurance firms. At that time, Visa and Mastercard were not widely accepted in the country except in some hotels but in 2020, the country introduced automated transfer

machine, which accepts the Visa card. However, Mastercard transactions remain difficult, but negotiations are under way to change this. However, since the approval of the CSP 2018-2022, two commercial banks closed while only four commercial banks (owned mainly by foreign shareholders) remain in the market. According to data from the World Bank, the countryís financial sector assets as a percentage of GDP were 37.2% in 2019. This is lower than the average for sub-Saharan Africa, which was 107.6% in the same year. The low level of financial sector development in STP can be attributed to a range of factors, including a small domestic market, limited financial infrastructure, and challenges related to financial inclusion.

Poverty and social indicators: STPís Human Development Index[2], was 0.617 in 2018 and 0.618 in 2021, representing an improvement of one place in the index. The population income poverty rate[3] (at purchasing power parity of $1.90) declined from 35.6% in 2019 to 25.6% in 2021. This was due to improvements in child mortality rates, school attendance, sanitation, electricity and housing access. The intensity of deprivation fell slightly from 41.7% in 2019 to 40.9% in 2020, contributing to a reduction in the population vulnerable to multidimensional poverty from 19.4% in 2017 to 17% in 2020. Notably, urban areas and southern districts such as CauÈ and Lemb· have higher levels of poverty incidence.

Sustainable Development Goals (SDGs): STP was ranked 10th (with a score of 59) in 2018 and also 10th (with a score of 61.61) in 2020 out of 52 surveyed countries on the index of the Sustainable Development Goals Center for Africa. The country had an index score of 61.6 and a ëleaveno one behindí score of 58.2 which was higher than the Southern Africa average of 56.8 and 53.4, placing the country on 10th and 12th position on Africa SDG Index. STP is on track with climate action SDG (13) and has recorded moderate improvement on SDGs 1 (No Poverty), 2 (Zero Hunger), 3 (Good Health and Well-Being), 4 (Quality Education), 11 (Sustainable Cities and Communities), 14 (Life Below Water) and 16 (Peace and Strong Institutions).

Education, Skills and Employment. STP is ranked 138 out of 191 countries in the 2021 United Nations Development Programme (UNDP) Human Development Report (HDR). Primary school enrolment has continued to increase, reaching a gross enrolment ratio of 107% in 2017, slightly above the World average of 103.37% across 147 countries. The countryís literacy rate stood at 90.1% in 2022. The share of public spending on education in the 2021 state budget increased to 16.6% from 12.4% in 2016. However, unemployment in STP is among the highest in Central Africa. According to the UN SDG report, the national unemployment rate rose to 15.7% in 2022 from 8.9% in 2017. While lower amongst men (5.1%), unemployment is significantly higher for women (14.6%) and young people in the 15-24-year age group (21.3%). The educational system law established that technical, vocational education and training is pursued as extra-curriculum education. There are only four professional centers in the country, providing training such as information technology, human resources, plumbing, welding, health and safety, tourism and hospitality, electronics, and mechanics. However, there is a need to better match these skills and qualifications of graduates with the demands of the private sector and labour market.

Health. Current health expenditure in STP was 5.53% of GDP as of 2019. Its highest value over the past 19 years was 12.6% in 2003, while its lowest value was 5.3% in 2015. Healthcare expenditure per capita in 2018 was USD 118, which was primarily funded by government (49%), development assistance (32%) and out of pocket (19%). The Universal

2 UNDP Human Development Report 2021/2022.
3 UNDP Human Development Report 2019, 2021/2022 and UNDP Global Multidimensional Poverty Index 2022.

Health Coverage Index was 54.8 in 2019, an improvement compared to 51.1 in 2010. Cause of death by non-communicable diseases in STP was reported at 57.6% in 2019, which includes heart disease, strokes, kidney disease, cirrhosis, chronic obstructive pulmonary disease, asthma. According to the 2021 UNDP HDR, life expectancy at birth stands at 67.6 years old.

Gender Equality and Inclusion. The country has made significant strides in promoting gender equality by creating a conducive environment for the promotion of gender equality. In the 2020 Human Development Reportís Gender Development Index (GDI), STP registered a score of 0.906, a slight improvement compared to 0.900 in 2019. Likewise, the country registered also an improvement on the Gender Inequality Index (GII) by jumping from 0.547 in 2019 to 0.494 in 2021 score on Gender Inequality Index, according to the HRD 2019 and 2021-2022. Gender equality is enshrined under the countryís 1990 constitution. Historically, women in STP have occupied high levels in government, including the posts of Minister of Finance, President of the Supreme Court, Prime Minister, and the Central Bank. Despite this, in the 2022 elections, only eight of 55 elected MPs were women and only four government members are women. Therefore, more effort is required to extend opportunities for womenís participation in decision-making at all levels.

2.2 OUTLOOK AND RISKS

Economic growth: STPís medium-term economic outlook is uncertain due to the heavy impact Russianís invasion of Ukraine is having on global trade. The STP economy is projected to grow by 1.6% and 1.8% in 2023 and 2024, respectively, due to the slow return to global trade after the pandemic. STPís economy is highly dependent on the trade sector which represents around 60% of the economy. Therefore, Russiaís invasion of Ukraine represents a challenge to the countryís growth and its capability to overcome the lingering effect of the pandemic. The government should put in place policies to support the ease of doing business and obtaining financing.

Monetary policy and inflation: The country is expected to continue to implement a prudent monetary policy to continue responding to imported inflation as a result of Russianís invasion of Ukraine. Therefore, the inflation rate is expected to slightly reduce from 17.9% in 2022 to 13.4% in 2023 and further to 9.5% in 2024. However, the countryís high dependency on imports, including food and fossil fuel for power generation and uncertainty stemming from the conflict will continue to pose a high risk to the countryís price levels due to the cost transfer of imported goods. Furthermore, the Central Bank of S„o TomÈ and PrÌncipe (BCSTP) is expected to continue building its foreign reserves to respond to the pegged exchange rate system with the Euro at 24.5 for the Dobra. The increased need of fossil fuel for power generation has been putting the foreign reserves under pressure, which could put at risk the pegged exchange rate agreement with Portugal. Previously, the country was rescued by Portugal with a loan of around USD 15 million to the Treasury to keep the minimum level of foreign reserves. Net international reserves have declined to USD 14 million in December 2022 from USD 29.9 million in December 2021.

Fiscal and current account balances: The fiscal deficit (as a percentage of GDP) is projected to decline from 7.2% in 2022 to 5.3% in 2023 and 4.3% 2024 due to prudent public expenditure and some austerity measures designed to contain inflationary pressures. The Government will have to implement macroeconomic reforms to ensure quality and value for money of expenditure in this low fiscal space scenario. The agreed IMF program is expected to boost domestic fiscal revenues and rationalize budgetary expenditures, which will help to support the most vulnerable. This will be done through the introduction of VAT, which will create the fiscal space to implement development programs to gradually decrease public debt. The imposition of VAT will help to broaden the countryís tax base and increase revenue. The Government is also expected to

Box 1. Impact of Russia's Invasion of Ukraine on São Tomé and Príncipe

1. BACKGROUND

Russiaís invasion of Ukraine had a major impact on global oil and food prices. The resulting global trade disruption led to an international shortage of supply of food products and oil. The price of wheat rose by 2.4% from 608 USD/Bushel in July 2021 to 1,293 USD/Bushel in May 2022. Oil prices increased by 50.9% from USD 74.69 per barrel in July 2021 to USD 112.7 per barrel in July 2022. As a result, the general prices of food products and fossil fuel in the international market increased to unprecedented levels. Inflation rose in most regions, including in African countries. According to the IMFís 2023 World Economic Outlook, average inflation rates in advanced economies reached 7.2% in 2022 from 3.1% in 2021 and 0.7% in 2020, while inflation in emerging economies reached 9.9% in 2022, up from 5.9 in 2021 and 5.1% in 2020. The already constrained trade conditions of African countries triggered by the COVID-19 pandemic was further exacerbated by the conflict. STP was not spared these impacts.

2. ECONOMIC IMPACT IN SÃO TOME AND PRÍNCIPE

S„o TomÈ and PrÌncipe (STP) has remained vulnerable to shocks. Besides Russiaís invasion of Ukraine, the country had already been severely affected by the COVID-19 pandemic which closed all economic activities including tourism, which contributes 70% of its foreign exchange. At the end of 2021 the country also experienced severe floods, which affected infrastructure and productive activities with an estimated loss of USD 37.5 million, around 7% of GDP. Inflation jumped from 8.1% in December 2021 to 17.9% in December 2022, a sharp rise compared to an average of 7.6% in the past 10 years. This was the first time that inflation rate moved to double digit for a decade. Food has the highest weight in the consumer basket of goods (used to measure inflation), accounting for 72.7% of the total weight.

STP is highly dependent on fossil fuel for power generation, which accounts for 95% of power supply through thermal generators. The import of fossil fuel depletes the countryís reserve, representing 35.3% of the total countryís debt. STPís total debt stood at USD 505 million at the end of 2022, of which USD 178.3 million is attributed to the national oil company (Empresa Nacional de CombutstÌveis e ”leo s- ENCO). ENCO is responsible for importing the countryís oil for EMAE, the national power and water company. EMAEís debt to ENCO represented 39.5% of GDP in 2022. EMAE is a public utility company fully owned by the government. The government has often intervened to ensure the continued supply of fuel due to EMAEís inability to honour its debt to ENCO. As a result, Russiaís invasion of Ukraine has put an extra burden on public finances with increasing oil prices.

3. BANK'S SUPPORT

AfDB has been working with the country on energy transition initiatives to ensure the islands are no longer dependent on imported fossil fuels in the medium term. Going forward, the Bank plans to support the countryís green energy transition through the countryís power transformation plan. The transition to clean energy production will help the country reduce its production costs and reduce its oil import-related debt.

implement an automatic fuel price adjustment mechanism to reduce pressure on international reserves and public debt. Moreover, the anticipated rebound in export and tourism earnings will help to narrow the current account deficit to 17% in 2023 and 15.1% in 2024 while international reserves are expected to rise to USD 20.3 million in 2023 and USD 25.2 million in 2024 as a result of inflows of multilateral and bilateral loans and grants. Furthermore, the country should put in place an import substitution policy to further protect its foreign reserves and improve the long-term prospect of the current account balances.

Risks - the key downside risks and mitigation measures: The country is highly vulnerable to external shocks and climate change events. The unknown outcome of the current war in Ukraine is a major risk to the S„o TomÈ and Prìncipeís economic recovery and sustainability given its high level of dependency on food and oil imports. The effects of Russiaís invasion of Ukraine have already been transmitted to STP via double digit inflation, which is the highest level recorded over the past 10 years. Beyond the great effort the country must make to import oil, it also represents a higher level of public debt as the country lacks resources to pay for oil imports. The continued increase of public debt presents a high risk to the countryís economy and its ability to finance its investment and import needs.

Nevertheless, the Government of S„o TomÈ and Prìncipe in March 2023 has agreed to go ahead with an IMF initiative to support the country with economic reform and adjustments under a 40-month program supported by an Extended Credit Facility (ECF) of USD 20 million. The program aims to restore macroeconomic stability, improve the living conditions of the population, foster economic recovery, and promote sustainable and inclusive growth.

The country is highly vulnerable to external shocks and climate change events. The unknown outcome of the current war in Ukraine is a major risk to the São Tomé and Príncipe's economic recovery and sustainability given its high level of dependency on food and oil imports.

III. PRIVATE SECTOR FINANCING FOR CLIMATE AND GREEN GROWTH IN SÃO TOMÉ AND PRÍNCIPE (STP)

3.1 THE IMPERATIVE FOR GREEN GROWTH AND THE ROLE OF PRIVATE SECTOR FINANCING

As an island, green growth and climate change issues are a survival matter for São Tomé and Príncipe.

S„o TomÈ and PrÌncipe (STP) as a Small Island Developing State is highly vulnerable to the impacts of climate change due to its geographical position and insularity. The countryís rich forest and coastal resources are increasingly at risk due to recurrent floods, rising sea levels and deforestation with large consequences for economic development and food security. Although STP has contributed less than 0.1% to the total global historical GHG emissions, it has been badly affected by extreme weather such as flooding. In December 2021 and March 2022, the country experienced torrential rain and floods leading to infrastructure damage and an estimated loss of around USD 50 million (or 10% of its GDP). The torrential rain disrupted trade activities by cutting connections between regions and destroying several bridges that have not yet been restored. It also had high impact on traders and SMEs, which were already weakened by the COVID-19 pandemic. As a result, the Government declared a state of disaster and requested support from international community and development partners. Despite these adverse environment impacts, S„o TomÈ and PrÌncipe is a GHG sinkhole, contributing to the sequestration of CO, a major contributor to global warming.

The countryís long-term strategy (Vision 2030) has set out nine objectives to transform and develop the country, including its environmental protection. Its second objective, to accelerate sustainable growth and job creation aims to: (i) diversify the economy by expanding its productive base; (ii) improve public finance; (iii) improve and modernize economic and social infrastructures and (iv) improve land management and preserve the environment. Vision 2030 aims to transform the country into a stable, democratic, and modern hub capable of providing high quality services to the region and the world. According to the countryís Nationally Determined Contributions (NDC), the country is committed to the reduction of greenhouse gas emissions by 27% through producing renewable energy by 2030. The NDC mitigation measures seek to: (i) increase the share of renewable energy integrated into the national grid, (ii) reduce power grid losses and increase energy efficiency, and (iii) significantly reduce the transport sectorís carbon footprint. These measures will help to reduce gas emissions by 27% through the production of renewables and the projected cost stands at around USD 150 million. However, the goal to reduce gas emissions depends on the countryís capacity to mobilize additional resources. The NDC also indicates planned adaptation measures in the agriculture, livestock, energy, transport, coastal zones, fisheries, water and civil protection

sectors with the objective of reducing climate-related risks and increasing the resilience of communities and sectors. This will be done by strengthening technical and institutional capacities, mainstreaming climate resilience into national and subnational planning, budgeting and public investments. The government developed a multisectoral investment plan in 2017 to integrate climate changes and disaster risk into the management of coastal areas. Since the approval of the plan, some progress has been made by implementing some small-scale projects led by non-governmental organizations, including an awareness-raising campaign for the population living in the coastal areas.

Climate change is a national priority due to the countryís particular vulnerability. Therefore, directing resources towards the sector will help to address the drivers and effects of climate change, ensuring sustainable use of the environment and supporting economic growth. The country should prepare to lead the climate change agenda in the continent to take advantage of its vast and rich environment. It can better use the available instruments, capacities and resources for a successful transformative economy around green growth and energy transition.

STP has demonstrated strong political commitment to green growth by outlining its green growth and climate action priorities.

Through its NDC, the country has outlined its mitigation measures, namely: (i) an increase in renewable energy share integrated in the national grid; (ii) a reduction in power grid losses and increase of energy efficiency and (iii) a significant reduction in the transport sectorís carbon footprint. These measures will be the main contributor to the reduction of greenhouse gas emissions. Meanwhile, the adaptation measures also expressed in the NDC will cover agriculture, livestock, forestry, energy, transport, coastal zones, fisheries, water and the civil protection sectors. These mitigation and adaptation measures will be the main factors for the countryís green transformation. The NDC is aligned with the countryís long-term strategy (Vision 2030), which expresses the need to guarantee the protection of the environment and its National Development Plan, which seeks to improve land management and environment preservation. There is wide understanding and awareness in the country of the need to preserve and protect the environment due to its rich forest, fauna, sea, birds and marine life. In fact, the PrÌncipe Island is considered as a United Nations Educational, Scientific and Cultural Organization (UNESCO) biosphere reserve. The reserve includes the entire island and its islets, Bom Bom, Bone do Joquei, Mosteiros, Santana and Predra Galei and Tinhosas islands. The country has also a Green Climate Fund (GCF) program to support the countryís implementation of its long-term strategies on climate changes, especially those in the NDC program.

STP has not been rated in the Green Growth Index 2022 report of the Global Green Growth Institute (GGGI) but scored 70.46, 72.01, and 44.76 in the Efficient and Sustainable Resource Use (ESRU), Natural Capital Protection (NCP), and Social Inclusion (SI) indices. The country had scores for three dimensions except on green economic opportunities. The Seychelles as a comparison, had a lower score on ESRU (51.57), the same score on NCP (72.9) and higher on SI (74.84) compared to S„o TomÈ and PrÌncipe. The Green Growth Index measures a countryís performance in achieving sustainability targets, including Sustainable Development Goals (SDGs), Paris Agreement, and Aichi Biodiversity Targets. The score ranges from 1 to 100 where 100 represents a very high green growth performance.

On the efficient and sustainable resource use (ESRU) pillar, the country had the highest score on the sustainable land use component with 99.48, followed by material use (83.32), efficient and sustainable energy (58.88) and efficient and sustainable water use (50.51) whereas on the natural capital protection pillar, the country scored highest on the GHG emissions

reductions component at 97.09, followed by environmental quality (85.84), biodiversity and ecosystem protection (74.97), and cultural and social value (43.04). On the Social inclusion components, the STP scored highest on social equity (90.47), followed by social protection (54.06), access to basic services and resources (43.19) and gender balance (19.00). The country has no ranking on the Green Growth Index (GGI).

The private sector in São Tomé and Príncipe should drive the green growth and climate action agenda to fully transform the country into a green ecological country.

STP will need substantial resources to meet its green growth and climate action targets. According to the NDC, the country needs around USD 150 million to reduce gas emissions to 27% by 2030. However, the overall estimated needs for the country for 2020-2030 period stand at around USD 185.2 million both for mitigation, adaptation and other related activities.

Figure 1.1: São Tomé and Príncipe Index

Source: AfDB

National frameworks that recognize the private sector can play an important role in catalysing other sources of private sector finance, as well as in directing finance towards sectors that are currently underfunded. The countryís policies on green growth and climate action fully recognized and incorporated the private sector role. This is expressed in the countryís NDC, which identified the need to mobilize resources from multilateral and bilateral donors as well as the private sector to meet its financing needs.

3.2 PRIVATE SECTOR FINANCE FLOWS, GAPS AND NEEDS FOR GREEN GROWTH AND CLIMATE ACTION IN STP

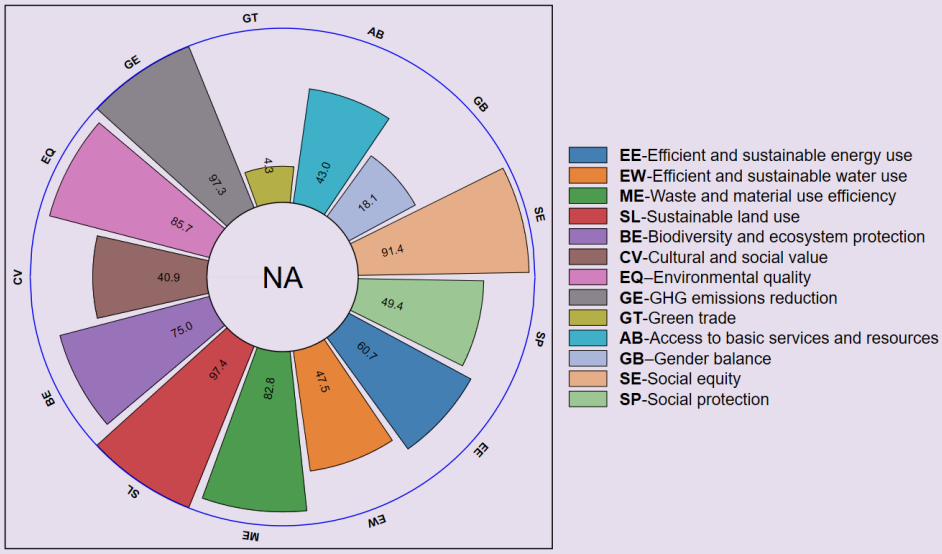
3.2.1 Current flows of finance

Climate finance flows in STP come mostly from the public sector with almost no private sector presence in the country.

On average, the climate finance annual flow stands at USD 49 million per year. About 99.2%

of this annual flow comes from international donors in the public sector while only 0.8% comes from the private sector. Some non-government organizations (NGOs) are heavily engaged in awareness and policy advocacy of climate change issues and most public policy in climate change are implemented by NGOs. Aid inflow contributes to 40% of the total fiscal revenue on average. For instance, during the COVID-19 pandemic, the country managed to mobilize a high level of aid contributing to a better economic performance in 2020 of 3.1% of GDP against 2.2% in 2021. There is high correlation between the level of aid inflow and economic performance. Therefore, efforts must be made to mobilize more climate finance for the private sector to bridge the gap of climate financing needs in the country. Although the initial cost to fulfil the countryís NDC by 2030 stands at USD 150 million, the countryís overall financing gap stands at USD 60.1 million for the overall climate plan to be achieved.

Figure 2.1: São Tomé and Príncipe Green Growth Index



Source: AfDB

STP needs to put in place climate finance mechanisms and policies for the private sector to leverage public sector resources.

Financing from the private sector stands at around USD 3.9 million with almost all financing coming from international sources and no domestic private sector participation. The local private sector is unable to mobilize financing for climate change activities and participates only as sub-contractors to undertake some local work. It lacks the knowledge and financing to develop climate-related solutions but nevertheless, efforts must be made to strengthen their approach to adopt green transition international standards in their business activities.

The energy sector benefits the most from private sector finance in STP with few investments in other climate change activities to ensure the country's green transition.

The country has invested in adaptation and mitigation, accounting for between 41.7% and 44.2% of the total climate finance inflow between 2010-2020. The cross-cutting issues benefited only 14% over the same period. STPís power generation is 92.4% thermal (18.35MW) and 7.6% hydro (1.50 MW), giving a total energy generation of only 19.85 MW, which is insufficient to meet current demand, estimated at 20.8 MW. However, future

demand is expected to reach 51.7 MW in 2035 and therefore to meet this rapidly growing demand, the country needs an energy transition investment of USD 223.3 million (USD 205.8 for S„o TomÈ and USD 17.57 for PrÌncipe Island) for generation, transmission, distribution and off-grip of power for the 2018-2035 period. The government plans to alter the energy mix by 2030 with 50% of clean power generation. To meet this shortfall, the country needs to mobilize private sector investments.

Other sectors have benefited very little from climate finance investments. From 2010-2020 the country received USD 55 million of climate finance, averaging USD 5 million per year and on average USD 3 million was allocated for adaptation and mitigation.

3.2.2 Private sector finance needs for the future

STP will need more than USD 185.2 million by 2030, averaging USD 17.8 million per year to meet its climate change financing needs.

According to the countryís NDC, the main guide document for the countryís intentions for climate change and green growth, the level of investment stands at USD 150 million for a period of 13 years. Over the years the country has received on average USD 5 million per year from multilateral donors which has been mainly directed towards adaptation and mitigation measures.

The country will need heavy investment to transform the power sector from thermal to green generation. Today, 18.35 MW (or 92.4%) and 1.50 MW (or 7.6%) of power generation is thermal and hydro, respectively. The local production capacity totals 19.85 MW for a demand of 20.8 MW. According to the World Bank, the countryís power demand is projected to reach 51.7 MW in 2035 and therefore, the country will need an investment of around USD 223.3 million to meet its power demand and transition to green energy. This will require the share of the installed capacity of renewable energy to reach around 50%. A mix of green power generation must be considered such as solar energy, natural gas and hydropower to replace the current thermal plants which today consume a large quantity of fuel oil. Water and sanitation access in rural areas in STP stands at 75% and 26%, respectively, and will require an investment of USD 144.3 million for 2017-2030 to reach the SDG targets for access. However, almost no investments have been made in these sectors and the level of investment required remains the same as in the countryís original water strategy. The blue economy is another investment target, in which the island state should heavily invest to take advantage of its environmental endowments. According to the countryís Blue Economy Strategy (BES), around USD 116.1 million is needed for environmental (climate change, coastal area, biodiversity), fishery, tourism, water and territorial planning. The private sectorís share for climate finance inflows in STP needs to be revised to 60% from the current 99.2%, where the public sector should contribute only 30% of the total climate finance inflows by 2035.

3.2.3 Emerging innovative private sector financing mechanisms for green growth and climate action

STP has almost no private sector finance for green growth and climate action and a lot needs to be done to mobilize innovative instruments.

The country should consider innovative financing mechanisms such as the Biennial Update Reports, National Communication, Biennial Transparency Report, and NDCs. Apart from the Paris-Agreement form of financing, there are other financing instruments from the African Development Bank such as the Africa Climate Change Fund, Africa Climate Technology Center, African Water Facility, Agriculture Fast Track, Climate Development Special Fund, Rural Water Supply and Sanitation Fund, Sustainable Energy Fund for Africa, and Urban Municipal Development Fund. These are coupled with other funds such as the Adaptation Fund, Climate Investment

Apart from the Paris-Agreement form of financing, there are other financing instruments from the African Development Bank such as the Africa Climate Change Fund, Africa Climate Technology Center, African Water Facility, Agriculture Fast Track, Climate Development Special Fund, Rural Water Supply and Sanitation Fund, Sustainable Energy Fund for Africa, and Urban Municipal Development Fund.

Funds, Global Environment Facility, and the Green Climate Fund (GCF). STP shall develop a long-term climate finance strategy based on its needs and priorities with the support of its international partners. A summarized table of the emerging innovative private sector financing instruments for green and climate action in STP is shown below (Table 2.1).

3.3 OPPORTUNITIES AND BARRIERS FOR MOBILIZING PRIVATE SECTOR FINANCE FOR GREEN GROWTH AND CLIMATE ACTION

3.3.1 Opportunities for private sector investments

Table 2.1: Innovative instruments used to mobilize private sector finance in STP

Type of instruments	Green and sustainable finance e.g., sustainable bonds, sustainability-linked loans/ bonds, social bonds	Blended financing instruments e.g. guarantees, first loss	Private equity and venture capital	Carbon markets
Current performance	Still very limited use, but multilaterals are trying to bring the subject of green financing to the country agenda.	STP has not benefited yet from blended finance and the subject is new to the country. Efforts are being made by multilateral institutions to support the country in facilitating the inflow of blended financing.	Private equity and ven-ture capital are almost non-existent for green financing in STP.	The country is committed to reduce CO emissions by 27% by 2030.
Contextual challenges to scaling up in STP	-Market conditions, policy; -Insufficient operationalization of regulation and governance; -Smaller ticket size project opportunities; -Limited technical capacity.	-Absence of conducive supporting frameworks for the use of blended finance instruments across some sectors. -The limited technical capacity for blending of finance.	-Shallow domestic financial markets that limit sources of investments to only international investors.	-Most demand for carbon credits is from international sources, with very limited con-sumption locally that could further expand the market.
Key factors enabling successful use of instrument	-High volume of national wealth held by domestic private sector which could be used to mobilize sustainable finance in domestic currency. -Presence of legislation and policy reforms that support further expansion of sustainable finance.	-A government commitment to financing climate action using public sector domestic finance. -Presence of strong public finance management systems e.g. that track public finance allocation and spending.	-Presence of regulatory frameworks that encourage innovation. -Presence of a deep consumer market for products.	-Increased carbon pricing globally, which provides a positive market signal for current investments in carbon reduction. -The high potential for emission reductions and emission removals in STP. -Strong experience in Africa in the development of carbon pro-jects, mainly devel-oped from the execu-tion of Kyoto Protocol Clean Development Mechanism projects. - The establishment of the African Carbon Markets Initiatives means that STP can build on its existing experiences to scale up the use of these schemes to mobilize additional climate finance.

STP mobilizes less private sector finance than its peers.

Analyses carried out for the AEO 2023 found that public sector finance investments (proxied by public finance investment per capita) were a significant determinant of private sector investment[4]. Unfortunately, STP has benefited little from private sector financing and much needs to be done to reverse the situation.

Opportunities for private sector investments in green growth and climate action in STP cut across the economy.

S„o TomÈ and Prìncipe (STP) received investments of around USD 306.3 million by 2019 for exploring six blocks for oil. The oil investments are the main private investments the country received to date, but the country is struggling to find a viable oil block. Therefore, low private investments have been directed to climate action and green growth to date. Similarly, no major investments have been made for climate change and green growth. There is low awareness of green financing from the private sector in STP. The country does not have green financing instruments such as climate bonds, green equity, carbon market, debt-climate swaps, climate-related debt and private sector equity for green financing. As matter of fact, the government itself is insufficiently prepared to take advantage of this available green financing.

STP has a large forest area, marine life, a high level of rain, palm trees, and water courses with enormous potential to produce electricity, sunshine all year long, and sea. The Prìncipe Island is a UNESCO conservation area, and the S„o TomÈ Island has a huge area under forest. STPís soil is classified as medium to high fertility with a good water retention capacity. These soil characteristics, associated with the relief and climate, give the country diverse ecosystems including forest ecosystems, agricultural ecosystems and inland water ecosystems. The country is made up of 40% natural forest, 21% secondary forest and 29% of shade forest. Six categories of ecosystems and land use have been identified, namely: (i) cloud and mountain forest; (ii) lowland forest; (iii) secondary forest; (iv) shadow forest; (v) savannah and dry forest; and (vi) mangrove. The flora of the archipelago contains 224 species, 85 of which are endemic and correspond to about 15% of the native flora of S„o TomÈ and 10% of the vegetation of Prìncipe. These ecosystems provide a diverse plant heritage, with various forest formations, which play an important economic, ecological, and social role. There is a need to preserve and conserve the forest and biodiversity of both islands since they open the opportunity for the country to engage in climate-financing activities. The country has a huge potential to tap into innovative climate and green growth financing where the private sector could fill the existing gap of clean and climate financing to promote the energy transition and support economic development across the islands. Investments in the country must take into consideration its unique geographical island characteristics and the forest, marine life and water courses of the country must be protected and preserved.

3.3.2 Barriers to private sector investments

(a) Inappropriate policy and regulations towards climate financing

STP lacks attractive regulations and effective implementation policies towards climate financing.

The environment and energy regulation of the country is quite limited and there is no general overarching environment and energy law. Rather, there are several scattered pieces of legislation focusing on various forms of harnessing and using energy and mitigation measures for the environment. Electricity is the most developed energy source, with an important and growing role in the economic and social development of the country, regulated by electricity regulation. The General Environment

4 AEO (2023).

Directorate (DGA) under the Ministry of Public Works, Infrastructure, Natural Resources and Environment, is responsible for the environment including ensuring the preservation of ecosystems and safeguarding species. The DGA is responsible for: ensuring the effective enforcement of laws and environmental policy instruments through assessment and monitoring; collaborating on the development of an integrated environmental policy; ensuring multi-sectoral coordination; creating and coordinating the national environmental information system and producing statistical indicators; accrediting companies working in environmental fields; collaborating on the definition of the waste management policy; encouraging the development of new environmental technologies; coordinating the integration of environmental issues with international relations, proposing the designation of focal points; and coordinating the relevant actions. Given the breadth of its mandate, the directorate lacks human and institutional capacity to fulfil its role. It focuses mainly on defining public policy, approving projects and issuing environmental licences, managing waste management, and chemical products. DGA is also responsible for monitoring and ensuring implementation of the countryís international instruments such as the Clean and Development Mechanisms, the National Action Plan for Adaptation to Climate Change (PANA), the National Biodiversity Strategy and Action Plan and the Action Plan for Integrated Management of Urban Solid Waste. Although the country has these instruments, policies, and regulations, it does not have the full capacity to implement and monitor them without international support. This limits the countryís ability to leverage private sector financing for climate change and green growth.

(b) Low levels of skills within the country to meet green growth and climate action needs

STP lacks adequate green skills, with existing skills mostly concentrated in the renewable energy sector.

The transition to green growth and the implementation of climate change adaptation and mitigation plans requires green skills and capacities within several sectors. Existing skills and capacities are mostly limited to renewable energy as this is where most of the private sector financing is directed. The absence of adequate skills and capacities increases the risks that private sector investors and lenders attach to lending, as they fear projects may not be sufficiently implemented on time and as required. Skill gaps result as countries are forced to depend on external providers, which creates a problem, including a financing risk, once these external sources of skills exit. This means that STP needs to focus on further expanding its home-grown skills and capacities across sectors, while also promoting innovation to attract private sector investors.

(c) Lack of clear guidelines on green growth priority sectors means that the green growth needs for STP are unknown

STP lacks a strong national green growth and climate change policy framework capable of bringing together all actors to mobilize and leverage private sector finance.

Needs for green growth in different countries are expected to vary, with priorities changing over time depending on mobilizing finance and implementing projects. However, the absence of clear policies and strategies to provide direction means that the needs of many countries remain unknown, and financing needs unquantified. Most low-income African countries and those in fragile contexts are least likely to have green growth policies or regulations even though they are equally in need of transitions to green growth. However, this is not the case for STP, which has a good example of clear policy with the National Action Plan for Adaptation to Climate Change (PANA -2006), which should help the country mobilize and channel climate finance towards local projects. However, the country is unable to fully mobilize resources due to lack of well-structured projects.

(d) Given the high perceived risk for private sector investments in STP, the absence of regulations for managing exit risk remains a barrier for new private sector investors

Exit risk is also a key determining factor for private sector investments in STP, which emerges when investors have no clear pathways or assurances of ease of exiting the markets by selling their stakes in their projects and recouping their investments. STP is perceived as having narrow and under-developed financial markets, therefore private sector investors may require assurances about their ease of exit. This is mostly due to capital movement barriers, coupled with weak legal frameworks that fail to provide clarity on the rights of investors. There is also a lack of standardization in regulations, methodologies, and taxonomies in STP, which presents an additional barrier to investors looking to make investments in green growth. It is difficult to determine what counts as green investments in different jurisdictions, and the difference in definitions means that investors consider these definitions on a project-by-project basis as opposed to a portfolio basis which increases transaction costs.

(e) STP lacks investment-ready project pipelines for green growth

STP does not have concrete projects ready for investments. Most green projects identified need further design, technical support, and investment studies. This uncertainty contributes to the lack of private sector investment. Furthermore, existing investment policies and frameworks are not clear on the mechanisms to recover private sector investments. Suspension of contracts do not contribute to the countryís reputation on contract enforcement. Therefore, it is important to put in place a legal and regulatory framework capable of providing assurance to the private sector on their investments.

3.3.3 Pathways to mobilizing private sector finance for green growth and climate action in STP

There are several pathways that STP can use to unlock private sector finance for green growth and climate action. These are discussed below.

(a) Deepening domestic financial markets to mobilize domestic finance for green growth.

STP has an embryonic financial market, which could represent an opportunity to introduce climate financing products.

According to data from the World Bank, the countryís financial sector assets as a percentage of GDP were 37.2% in 2019. This is far lower than the average for sub-Saharan Africa, which was 107.6% in the same year. The low level of financial sector development in STP can be attributed to a range of factors, including a small domestic market, limited financial infrastructure, and challenges related to financial inclusion. Although STPís financial market is at early stage of development, the country has high appetite for climate financing instruments due to its status as a UNESCO biodiversity conservation area. The mobilization of private sector finance through domestic financial markets reduces currency risk and can leverage investments for green growth.

(b) Stronger engagement with sustainable and green finance through implementation of future-leaning policies.

STP has developed policies on green growth, but financing policies are yet to be developed.

The lack of experience on climate financing limits the countryís ability to develop robust financing policies. There is a need for the country to work with international green growth institutions to develop a robust financing framework for the country which could form the basis for domestic climate financing. The commercial local banks could start promoting climate financing if the central bank puts in place the right incentives.

(c) Ramping up the use of blended finance instruments for financing green growth.
Blending finance across sectors will need frameworks that are informed by the nature of markets in those sectors.

The implementation of a conducive operating framework for blending finance in different sectors, based on a contextual understanding of financing needs as well as the nature of the market will be needed. The level of risk encountered by private sector investors will determine the extent to which public finance is used to de-risk investments. However, levels of risk will vary by sector and region as regions have different levels of physical risk, and sectors will have varying levels of willingness to pay for goods and services. The country should have sector-specific frameworks for guiding the development of blended finance instruments, while also maintaining flexibility to allow cross-sectoral blending of finance. Additionally, STP institutions willing to use blended finance will need technical assistance to enable them to effectively assess the feasibility of investments as well as ensuring that the project is implemented to completion.

(d) Skills and capacity, particularly for the informal sector, to increase innovation and engagement with key private sector.

The development of green skills and capacities needs to be integrated into existing institutions, including education institutions and innovation centres.

Existing skills and capacities are limited to a specific set of sectors, mostly those related to renewable energy as this is where most of the private sector financing is currently directed. This means that STP should focus on expanding skills and capacities across multiple sectors, while at the same time promoting innovation elsewhere to attract private sector investors.

(e) Implementation of fiscal incentives to attract private sector investments particularly towards other sectors that generate infrastructure outcomes.

STP needs to update its investment laws to attract the private sector, including laws affecting climate change.

The country has almost no fiscal incentives for climate change investments. However, the Government has been implementing a number of laws to make the oil sector attractive to private investors, such as the oil revenue framework, oil fiscal law, oil operations framework, and production sharing agreement model. These laws provide a number of incentives to private investors, including fiscal incentives. A dedicated agency, the National Oil Agency was created in 2004 and approved in 2014 to work with private investors and create incentives to enter or expand the sector. Although the country has not yet discovered viable oil production fields, it has already received investments of around USD 306.3 million by 2019 for about six blocks which represent the main private investments the country has received so far. In contrast, few private investments have been directed to climate action, green growth or infrastructure and therefore the country should put in place fiscal policies to attract investments in infrastructure, which will contribute to green growth and climate change. Although the power sector is very attractive to the private sector, substantial work needs to be done to reform it, including revision of legal and private sector investment laws. A framework electricity law from December 2014 is in need of updating and more specific laws and regulation must be put in place to promote green growth and climate change in the country, including green financing instruments such as climate bonds, green equity, carbon market, debt-climate swaps, climate-related debt and private sector equity for green financing.

(f) The role of MDB and DFIs

STP needs more affordable capital from MDB and DFIs.

Public investment in STP is financed mainly by multilateral and bilateral donors through grants and loans, representing around 40% of the overall public investments. Fiscal revenues are used to finance recurrent expenditures due to

the low fiscal base and high level of informality, which stands at around 60% of the economy. STP is already working with MDB in various sectors, mainly social. There are also increasing engagements with MDB in the power sector to facilitate direct foreign investments (DFIs) to overcome the power challenge the country faces. According to the countryís Nationally Determined Contributions, the main guiding framework for climate change and green growth, the level of investment in STP stands at USD 150 million for a period of 13 years. Over the past ten years the country has received on average USD 5 million per year from multilateral donors. These investments have been towards mainly on adaptation and mitigation measures.

The country needs substantial investments to transform the power sector from thermal to green generation. Today, the country generates 18.35 MW (or 92.4%) of thermal power and 1.50 MW (or 7.6%) of hydro power, totalling 19.85 MW against a demand of 20.8 MW but according to the World Bank, the countryís power demand is projected to reach 51.7 MW in 2035. Therefore, the country needs an investment of around USD 162.95 million to meet its future power demand and transition to green energy with the installed capacity of renewable energy to be around 50%. A mix of green power generation (such as solar energy, natural gas and hydropower) should replace the current thermal plant that consume fuel oil.

Water and sanitation access in rural areas in STP stands at 75% and 26%, respectively which requires an investment of USD 144.3 million in 2017-2030 period to meet SDG plans. However, almost no investment has been received in these sectors and, the level of need remains the same as in the original water strategy. The blue economy is ripe for investment to take advantage of the countryís unique environment endowments. According to the countryís Blue Economy Strategy (BES), STP needs around USD 116.1 million for environment (climate change, coastal area, biodiversity), fishery, tourism, water and territorial planning.

MDB and DFIs can play a significant role in private sector financing for STP by mobilizing extra resources to support these critical sectors of the economy. MDB can work with the authorities to put in place well-structured policies to introduce and implement PPPs to leverage private investments on green economy.

(g) Enhancing stakeholder collaboration

Collaboration is needed across different stakeholders, particularly between government and domestic and international private sectors to identify viable investments in green growth and climate change activities.

There is little awareness of green growth and climate change initiatives, industries, and financing in STP. There are also no major investments being made to advance climate change mitigation and green growth. Therefore, multi-stakeholder partnerships are important for unlocking private sector finance to enable green growth. As a result, several MDB in STP are working with the government to advocate for engagement on various climate change initiatives and to put in place the right environment for the sector to grow. The country should continue working with MDB to update its legal framework, develop a conducive environment for green financing instruments such as climate bonds, green equity, carbon market, debt-climate swaps, climate-related debt and private sector equity for green financing. The right legal framework should help in the mobilization of DFIs and private sector investment.

3.4 POLICY RECOMMENDATIONS

Green growth financing and climate change policies in STP must be developed by the public sector with the full participation of the private sector which is in a better position to provide the resources required for sector development by leveraging public sector investments. The investments required are significant, and the public sector is unable to satisfy all demand.

Box 2: Príncipe Island: UNESCO Biosphere Reserve

STP is located in the equatorial zone and lies on the same latitude as the Amazon and Maiombe ñ the biggest global forests. The island has a surface of 71,592 ha with a rich sea and forest and is home to diverse animal species and plants such as vascular plants, molluscs, insects, birds, reptiles, and bats. The great biodiversity in terrestrial and marine ecosystems has led to its nomination as a UNESCO biosphere reserve of tropical forest in West Africa. The forest contains a wide range of plant communities and habitats of high international importance such as primary tropical forest, forest shade, palm tree, and lowland riparian habitats. The island is also an important area for the reproduction of sea turtles, seabirds and cetaceans, as well as coral reefs. It is considered as an area for conservation of global biological diversity and this status should support its ability to leverage investment and financing in green growth and climate change in the country.

To create a thriving circular economy based on green growth, the private sector must lead these changes and will require interventions by different stakeholders in the short, medium, and long term. Below is a set of recommendations, with indications of whether these should be implemented in the short term [S], medium term [M] or long term [L].

3.4.1 National Government

-[S] Create a legal framework to promote a circular economy based on green growth and climate change activities.

-[S] Ensure vertical and horizontal coordination by national-level institutions responsible for facilitating the implementation of green growth and climate action frameworks.

-[S] Review the private investment law and related laws to ensure readiness for domestic and local investment.

-[S] Create laws for a sustainable financing framework with fiscal incentives to encourage climate financing for non-traditional sectors.

-[M, L] Mainstream green skills development into education institutions to ensure a continuous supply of workers with green skills to enable the transition to green growth.

-[M] Develop multi-stakeholder platforms that link the domestic private sector with international actors specialized in private sector finance such as MDB, DFIs and the international private sector.

3.4.2 MDB and DFIs

-[S] Engage with MBDs and DFIs to identify primary sector actors for green growth financing and climate change investments.

-[M, L] Use innovative financing instruments that de-risk private sector investments, particularly in non-energy sectors such as water, transport and telecommunication infrastructure development.

3.4.3 Domestic and international private sector

-[M, L] Collaborate with national government, MDB and DFIs and other private sector actors to identify the key risks to investments and propose ways of addressing them.

3.4.4 Developed country governments

-[S] Climate financing flow from developed countries to developing countries should be facilitated to ensure the necessary investments are directed to green growth in developing countries.

IV. NATURAL CAPITAL FOR CLIMATE FINANCE AND GREEN GROWTH

4.1 THE EVOLUTION OF NATURAL CAPITAL IN SÃO TOMÉ AND PRÍNCIPE

This section explores the scope for harnessing natural capital to finance climate change adaptation and mitigation and to promote green growth in STP, within the broader context of Southern Africa. The section begins with an analysis of the natural wealth of S„o TomÈ and PrÌncipe. It goes on to consider ways in which any underperformance of natural capital can be enhanced. Natural capital includes both non-renewable resources (fossil fuels and minerals), and renewable ones, such as forests, cropland, pastureland, grasslands and marine areas. STP has a huge potential on renewable natural capital due to its large forest and marine area.

The channels for sustainably increasing the returns from natural capital include domestic and internationally driven actions. Good governance is critical in managing the returns and in bringing together physical and human capital to add value to exports. There is a special opportunity for making greater use of international agreements on climate change and biological diversity to finance higher returns from the substantial endowments of natural assets in the region that can serve global goals. The country could take advantage of these agreements to capture international investment on countryís vast forest and marine resources.

Natural capital is tracked in three groups: (a) renewable capital, consisting of forest timber, forest non-timber, mangroves, fisheries, protected areas, cropland, and pastureland; (b) non-renewable assets, separated into oil, natural gas, coal, and minerals. In addition, non-measured forms of natural wealth, such as renewable energy have potential expansion opportunities from solar, wind and hydro-resources, landscapes, and marine assets are also reviewed but qualitatively.

S„o TomÈ and PrÌncipe is gifted with rich and abundant renewable resources (arable land, water, forest, fisheries and sun) but no known mineral resources, although the country claims an area of the Gulf of Guinea that may have considerable deep-water hydrocarbon reserves. The PrÌncipe Island is part of the UNESCO biosphere reserve (see Box 2). Natural capital in STP is a major contributor to economic growth and critical to physical and social infrastructures. These natural resources contribute to fiscal revenue, food, income, and employment. Rents generated from natural resources can enable a country to acquire the necessary human capital, technology, and science necessary for economic growth. Although no viable oil and gas fields have yet been found, the country has received large investments amounting to USD 306 million for oil exploration. Some of these investments, worth USD 4.9 million, were directed to social projects.

The economic value of a mineral resource is measured by its ìresource rentî which is the economic return earned from the sale of a mineral over and above the costs of extracting it, including the risk-adjusted opportunity cost of capital. It represents the economic income derived solely from scarcity of a resource.

Table 3.1: Natural resources rents (as percentage of GDP), 2000, 2010, 2015, 2018-2020

Country Name	2000	2010	2015	2018	2019	2020
Angola	55.5	40.2	10.8	27.5	26.1	25.5
Botswana	2.4	2.1	0.8	0.8	0.6	0.7
Eswatini	3.0	2.2	3.3	3.0	3.4	3.9
Lesotho	3.5	3.9	6.2	3.4	3.9	5.1
Madagascar	3.3	5.8	8.6	4.8	4.7	5.3
Malawi	10.1	5.9	8.9	5.0	4.2	4.0
Mauritius	0	0	0	0	0	0
Mozambique	6.2	11.1	13.0	16.0	12.4	11.7
Namibia	0.6	2.4	1.9	1.2	1.4	2.0
São Tomé and Príncipe	..	4.0	3.4	2.2	2.0	1.9
South Africa	3.0	6.2	2.6	3.4	3.7	3.9
Zambia	9.1	18.7	11.2	11.5	11.6	11.8
Zimbabwe	3.9	7.1	4.6	6.1	5.3	6.8

Source: World Bank data

Using natural capital is not just about liquidating natural capital to purchase other assets; rather it is about efficient use of all-natural capital and sustainable management of renewable natural capital while investing in other assets to increase productivity. The contribution of natural resources is described by total natural resources rents calculated as the difference between the price of a commodity and the average cost of its extraction, harvesting or production costs[5]. Table 3.1 shows the evolution of natural resource rents[6] as a percentage of GDP from 2010 to 2020. Natural resource rents in STP have been declining from 2010 to 2020 due to diminishing investment returns on oil and gas exploring companies as no viable field has yet been found to enable the investors to recover their costs.

In the case of S„o TomÈ and PrÌncipe, the area of agricultural land (cropland and pasture) stands at 76,214, of which cropland stands at 41,367, land under permanent crops 39,257, arable land 2,110 and other land 34,847. The rest of the land is mostly forest. The main agriculture products are cocoa, occupying 26,076 ha of land and which earned more than half of the countryís export income in 2021 with an annual production of 3,000 tons. Palm oil is another important export product, making up over 30% of the countryís exports in 2020 and ranking second after cocoa. Other major agricultural products are coffee, pepper and coconut.

Forest is another category of undervalued capital. As noted in the AEO2023 report, the efficiency of sequestering carbon in terrestrial ecosystems (particularly forest) can be increased by choosing land use and land management methods selectively to increase GHG storage without compromising the use of forests for productive purposes, the amount stored can be increased globally around 20%[7]. In addition to increasing the storage of carbon, however, it is critical to increase the income received for storage. Given STPís status as a UNESCO biosphere reserve there is a great

5 https://databank.worldbank.org/metadataglossary/adjusted-net-savings/series/NY.GDP.TOTL.RT.ZS
6 Natural capital is defined by the World Bank as agricultural land, protected areas, forests, minerals, and energy.
7 World Bank (2022). A Balancing Act: Efficiency, Sustainability, Prosperity. World Bank, Washington DC.

potential to leverage its forest by promoting a well-managed land use for its continued preservation. This could allow the country to attract green financing to the country focus on biosphere preservation.

The AEO2023 report noted that the categories of natural capital evaluated fail to cover all sources of such capital on the continent. Africa benefits from substantial sunshine, wind and hydro resources to generate clean energy. STP in addition has geothermal resources, which can make a contribution to increasing local energy and contributing to a low carbon pathway. The climate, together with the landscape, fauna and flora form a strong basis for tourism. However, the contribution this natural capital makes to the flows of goods and services is not assessed, which then underestimates their contribution to the economy. STPís forest is a great source of tourism and sector grew by 172% from 2012 to 2019. The tourism sector contributes around 6% of GDP and accounts for 77% of the countryís total foreign exchange earnings. Furthermore, given the countryís exceptional landscapes, fauna and flora, an increase in the share of GDP from tourism can be expressed as a clear objective. Other contributions of natural wealth, such as solar or hydro in generating electricity have not been assessed which should be addressed as a matter of urgency.

Marine wealth is an important component of S„o TomÈ and Prìncipeís natural capital, and it has been absent from the wealth accounts prepared so far. S„o TomÈ has a sea territory 160 times bigger than its land territory. As the AEO 2023 notes, capture fishery provides protein, minerals, and micronutrients for over 400 million people on the continent and employs around 13 million people. There is concern, however, about over-exploitation of the wild stocks, which are rapidly decreasing. Key factors contributing to overfishing in Africa are overcapacity; illegal, unreported, and unregulated fishing activities; poor resource governance; insufficient knowledge and misperception. In a composite index that measured the state of IUU fishing practices assessing susceptibility and vulnerability in global coastal African countries on a score ranging from 1 to 5, where one is the best and five is the worst, STP sits just below the world average at 2.4 where the global average is 2.24[8]. The fishery sector was estimated to contribute to 7.7% of GDP in 2018 with around 30,000 people directly involved in the fishing sector (15% of the labour force) with about 4,155 fishers. The country has around 45 landing sites and coastal villages (28 in S„o TomÈ and 17 in PrÌncipe) with very little basic infrastructure and little cold room storage. The vast and rich marine of the country is therefore ripe for expansion of economic activities.

4.2 OPPORTUNITIES FOR ENHANCING THE CONTRIBUTION OF NATURAL CAPITAL IN STP

The review has shown that natural resources rents has declined steadily in STP over the years as percentage of GDP from 4% in 2010 to 1.9% in 2020. Measures to reverse this trend are divided into those pertaining to non-renewable natural capital and those involving renewable natural capital.

4.2.1 Non-Renewable Resources

The extractive sector significantly contributes to public and private finance in many African countries, with some heavily reliant on these resources for public revenue. Africaís extractive resources will contribute over US$ 30 billion annually to government revenue by 2040[9]. The continentís value of non-renewable capital was estimated at US$ 1.89 trillion in 2018, with mineral and fossil fuel wealth estimated to be US$ 290 billion and US$ 1.05 trillion, respectively[10]. It is clear that non-renewable natural capital has a heavy impact on some countriesí annual revenue contributing to economic and social public investments.

Marine wealth is an important component of São Tomé and Príncipe's natural capital, and it has been absent from the wealth accounts prepared so far. São Tomé has a sea territory 160 times bigger than its land territory.

8 www.iuufishingindex.net
9 AfDB (2016).
10 Zeufack et al. (2021).

However, there is a need for countries to ensure a fair share of resource rents from these resources and effectively manage the revenues. For instance, the negotiated royalty rates in most cases are often too low. On the other hand, obtaining a ìfair shareî of the revenue from non-renewable resources does not guarantee economic development if the revenues are not well applied. Most resource rich countries in Africa are plagued with governance issues and weak institutions, reflected in the low rate of growth transformation in the country compared to rate of revenues. As a result, countries in Africa experience low growth and high poverty rates[11]. The recommendations from the AEO 2023 report for ensuring a fair share of rents for the state and for ensuring transparency, efficiency, and good governance in managing them are clearly valid for mineral rich countries. Nevertheless, countries like STP should also put in place robust governance structures to ensure good management of any eventual discovered mineral resources.

4.2.2 Renewable Resources

Renewable resources lie at the heart of tourism development in STP. The tourism sector is driven by the countryís unique natural resources such as sea, forest, fauna and marine life and is increasingly becoming a key driver of growth in STP, accounting for about 15% of GDP and around 60% of the countryís foreign earnings. It is one of the fastest growing sectors, posting an average growth of about 7.5% between 2017 and 2019, driven by a significant increase in tourist arrivals from about 7,900 a year in 2010 to 34,000 in 2019. The country heavily relies on tourists from Portugal, Spain, South Africa, Angola and Cabo Verde. Approximately 3,000 people are employed in the tourism sector, representing about 7% of the countryís total labour force. In 2020, the tourism sector was heavily impacted by COVID-19, which reduced the number of visitors by 70%. The tourism reduction was due to the pandemic travel restrictions and containment measures. Tourist arrivals declined to 10,718 in 2020 from 34,918 in 2019. Although the tourism sector contributes on average only 6% of GDP, it accounts for 40.5% of the countryís total foreign exchange earnings.

Vision 2030 guides the blue economy (BE) development, characterizing the Islands as an international biosphere reserve, ensuring inclusive and resilient growth, and integrating the green and blue economy sectors for a quality of life for all. The blue economy covers a wide range of marine activities such as fisheries and aquaculture, coastal tourism and recreational uses of natural capital, passenger transport services and ocean freight, sea-port operation, coastal development, biotechnology and renewable energy. It employs around 30,000 people, directly and indirectly, which represents around 15% of the total population. The blue economy offers an opportunity for developing new sources of growth based on innovative solutions that can create jobs and improve STPís competitiveness, while preserving biodiversity and the rich marine environment. It can also contribute to food security and tourism by offering a differentiated ocean product service. Therefore, the country should seek to exploit its natural resources on sustainable green growth development.

11 Barbier 2011.

V. CONCLUSION AND POLICY RECOMMENDATIONS

5.1 CONCLUSION

Renewable natural capital plays a major role in the STP with little contribution from non-renewable resources. However, the country has not fully utilized its renewable natural capital. The tourism and marketing strategy designed in 2018 and under mid-term review set a target of 50,974 tourist arrivals in the island by 2025 from 30,800 in 2017, an increase of 65.5%. This increase of tourists would support the countryís growth and capture essential capital revenue. Moreover, as a UNESCO biosphere reserve, the country could more aggressively promote green growth and climate financing to support economic activity based on sustainable climate development. The country should mobilize innovative climate financing instruments such as grants, loans, green finance, carbon market, debt-climate swaps, climate-related debt and private sector participation. The MBDs and DFIs should also contribute to the countryís green transformation by supporting local institutions to upgrade the legal and regulatory framework. Other area of intervention, which should count with the MBDs and DFIs support is the institutional support for capacity building of institutions dealing with green growth and climate change.

5.2 POLICY RECOMMENDATIONS FOR PRIVATE SECTOR FINANCING FOR CLIMATE CHANGE AND GREEN GROWTH

5.2.1 National Government

-[S] Ensure vertical coordination by national-level institutions responsible for facilitating the implementation of green growth and climate action frameworks.

p-[S] Rapidly implement the sustainable financing frameworks that were developed during the implementation of the MTP III and the fiscal incentives policy developed in 2023.

-[M, L] Mainstream green skills development into education institutions to ensure that there is a continuous supply of green skills to enable the transition to green growth.

-[M] Develop multistakeholder platforms that link domestic private sector with other international actors such as MDB, DFIs and international private sector that are sources of private sector finance.

5.2.2 MDB and DFIs

-[S] Become less risk averse by further engaging with the STP government to identify ways to provide affordable capital for green growth and climate change investments.

-[M, L] Use innovative financing instruments that de-risk private sector investments, particularly in non-energy sectors such as water and health infrastructure development.

5.2.3 Domestic and international private sector

-[M, L] Collaborate with national government, MDB and DFIs and other private sector actors to identify key risks to investments and propose ways of addressing these investment risks.

5.2.4 Developed country governments

-[S] As shareholders of MDB and DFIs, developed country governments can instruct these institutions to be less risk averse when

financing green growth in Kenya and providing additional capital to these institutions.

5.3 POLICY RECOMMENDATIONS FOR INCREASING THE CONTRIBUTION OF NATURAL CAPITAL TO CLIMATE FINANCE AND GREEN GROWTH

a. STP Government should increase investment and efficiency to increase rents on cropland and pastureland, taking account of climate change impacts. This is something that needs to be undertaken in the short term and continued in the coming decades.
b. STP Government should promote and enforce stricter policies and regulations protecting forests and preventing illegal logging. Sustainable forestry practices such as selective logging practices and reforestation should also be promoted through instruments such as performance bonds for forest lessees. These are short-term measures.
c. Development partners and STP Government should work together to exploit international agreements in a number of areas. These include the creation of a single market for the trade of emissions credits (under Article 6 of the Paris International Agreement), which will raise the price of carbon credits in the forests; and increased participation in the voluntary market, where new opportunities are arising through the Post-2020 Global Biodiversity Framework. This is something that can start right away but may take a few years to mature.
d. STP Government should prepare itself to be part of the growth in carbon sequestration related to nature-based solutions related to forestry and land use, agriculture and soil sequestration, and blue carbon. It can be done by developing new offsets and ensuring the integrity of certification of voluntary carbon markets.It will need some support from development partners to achieve these goals.
e. STP Government should exploit landscapes more effectively for tourism by developing ecotourism further as a short-to-medium-term endeavour.
f. For fisheries STP government need to do more to tackle IUU fishing in the short term. The Government also needs to work with development partners and developed country governments to make sure that access agreements for distant water fleets do not over exploit stocks and that the revenues are fair. These are short-term goals.
g. In the area of renewable energy, STP government, working with development partners and capital markets need to exploit the potential for such energy at a much faster rate. This will take some time and can be seen as a medium-term goal, but one that can be started right away.
h. STP government, development partners and developed countries should look at means for making natural capital more productive in the region through strategic partnerships with state-owned enterprises and foreign investors. Current negotiations under the African Continental Free Trade Area (AfCFTA) should include opportunities offered by franchising to boost continental trade as one instrument for this. The goals are medium-term but need to be initiated right away,

Annex 1. São Tomé and Príncipe Selected Macro-Economic and Social Indicators

Selected Indicators

Indicators	Unit	2010	2015	2018	2019	2020	2021	2022 (e)	2023 (p)	2024 (p)
National Accounts										
GNI at Current Prices	Million US $	204	330	393	421	459	504	...	...	...
GNI per Capita	US$	1,120	1,640	1,860	1,960	2,100	2,260	...	...	...
GDP at Current Prices	Million US $	197	318	416	431	477	531	600	673	767
GDP at 2010 Constant prices	Million US $	197	247	275	281	290	295	298	302	308
Real GDP Growth Rate	%	6.7	3.9	2.9	2.2	3.1	1.9	0.9	1.6	1.9
Real per Capita GDP Growth Rate	%	4.3	2.0	1.3	0.7	1.2	-0.2	-1.0	-0.3	0.0
Value Added: Mining and quarrying	Million US $	1	1	1	1	1	1	2	...	...
Value Added: Mining and quarrying	% GDP	0.4	0.3	0.3	0.2	0.2	0.2	0.3	...	...
Value Added: Fishing	Million US $	10	21	27	33	43	47	48	...	...
Value Added: Fishing	% GDP	5.2	6.7	6.5	7.7	9.1	8.8	7.4	...	...
Prices and Money										
Inflation (CPI)	%	13.4	5.3	7.8	7.8	9.9	8.1	17.9	13.4	9.5
Exchange Rate (Annual Average)	local currency/US$	18.5	22,090.6	20,736.5	21,882.9	21,467.1	20,700.8	23,355.1	23,563.5	22,868.8
Government Finance										
Total Revenue and Grants	% GDP	38.2	28.9	24.1	22.0	26.0	19.7	21.1	20.4	19.8
Total Expenditure and Net Lending	% GDP	49.9	37.3	27.2	24.6	29.7	25.6	28.3	25.9	24.2
Overall Deficit (-) / Surplus (+)	% GDP	-11.7	-8.4	-3.1	-2.6	-3.7	-5.9	-7.2	-5.5	-4.5
External Sector										
Terms of Trade Growth	%	1.9	59.8	9.6	2.9	-11.5	17.4	-1.1	-26.1	-3.6
Current Account Balance	Million US $	-49	-69	-80	-91	-56	-90	-117	-109	-107
Current Account Balance	% GDP	-24.8	-21.6	-19.2	-21.0	-11.8	-16.9	-19.4	-16.2	-13.9
Debt and Financial Flows										
Debt Service	% exports	6.6	3.9	2.6	4.5	5.0	3.0	6.2	5.0	7.8
External Debt	% GDP	79.5	85.8	66.3	65.4	64.9	58.5	58.1	54.8	54.2
Net Total Financial Flows	Million US $	46	23	68	44	91	289	...	...	...
Net Official Development Assistance	Million US $	50	49	52	51	92	70	...	...	...
Net Foreign Direct Investment	Million US $	51	15	23	24	47	60	...	...	...
Demography										
Total Population	Millions	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Population Growth Rate	%	2.3	1.8	1.6	1.5	1.9	2.0	1.9	2.0	2.0
Urban population	% of total	62.3	68.2	71.9	73.2	74.1	74.9	75.8	76.6	77.3
Life Expectancy at Birth	Years	65.2	67.2	68.4	68.5	67.8	67.6	68.8	68.9	69.0
Fertility Rate	births per woman	4.7	4.4	4.0	4.0	3.9	3.8	3.8	3.7	3.6
Poverty and Income Distribution										
Pop. living below national poverty line	% of total population	...	...	...	...	...	...	...	...	...
Population living below $2.15 a day	% of total population	22.6	...	...	...	...	...	...	...	...
Gini Index	%	30.8	...	...	...	...	...	...	...	...
Labor Indicators										
Labor Force participation (total)	%	54.5	54.5	54.2	54.1	53.5	53.6	53.8	53.8	...
Labour Force participation (youth)	%	35.8	35.6	34.4	33.9	33.2	33.3	33.7	33.9	...
Unemployment rate (total)	%	14.6	13.8	14.0	14.1	15.4	15.3	15.3	15.5	15.5
Unemployment rate (youth)	%	21.5	20.6	21.1	21.2	23.8	22.8	22.7	23.0	22.9
Natural Resources rents										
Total natural resources rents	% GDP	4.0	3.4	2.2	2.0	1.9	...	...	...	...
Oil rents	% GDP	...	...	...	...	...	...	...	...	...
Natural gas rents	% GDP	...	...	...	...	...	...	...	...	...
Mineral rents	% GDP	...	...	...	...	...	...	...	...	...
Forest rents	% GDP	4.0	3.4	2.2	2.0	1.9	...	...	...	...
Coal rents	% GDP	...	...	...	...	...	...	...	...	...
Natural Capital Renewable Resources										
Arable land	1000 hectare	6.0	4.0	4.0	4.0	4.0	...	...	...	...
Agricultural land	1000 hectare	46.0	44.0	44.0	44.0	44.0	...	...	...	...
Other land	1000 hectare	...	...	...	...	0.1	...	...	...	...
Forest land	1000 hectare	58.1	55.0	53.1	52.5	51.9	...	...	...	...
Planted Forest	1000 hectare	...	...	...	...	...	...	...	...	...
Annual freshwater withdrawals, total	% of internal resources	1.5	1.8	1.9	1.9	...	...	...	...	...
Total Fisheries Production	metric tons	4,837.0	11,440.8	6,006.6	4,273.6	5,617.5	...	...	...	...
Climate Finance and Green Growth										
Total Climate Finance*	Million US $	...	...	...	...	120.2	...	...	...	...
Green Growth Index**	%	...	...	...	...	...	...	...	...	...

(e) Estimations *(p) Projections* *Last Update: June 2023*

** Source: Climate Policy Initiative (www.climatepolicyinitiative.org)*

***Source: Global Green Growth Institute (GGGI). The scores for the Green Growth Index range from 1 to 100, with 1 having the lowest or very low performance and 100 having the highest or very high performance*

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