

**PROJECT DOCUMENT**

Project Title: Platform for Exchange on the Future of Sao Tome and Principe with Oil

UNDP Project Number:

UNFIP Project Number: UNDP-STP-04-309

Programme Framework Topic: Peace and Security

Project Purpose: Strengthen national capacities to assess other countries' experience with oil, define options for the future of Sao Tome and Principe that are debated and adopted with civil society participation.

Project Duration: 5 months

Start Date: 1 March 2004

Docket Number: Intersessional 2004

Location: Sao Tome


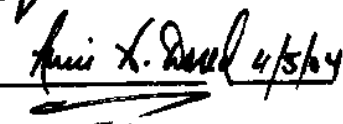
UN Organization responsible for management/lead agency: UNDP

Approved UNF Funding: \$50,000.00

UNF core	47.819
UNF other	
UNDP Adm Costs (5%)	2.361
<b>Total UNF</b>	<b>50.000</b>
Other sources:	
UK core	128.571
UK Adm Costs (5%)	5.429
<b>Total UK</b>	<b>135.000</b>
<b>UNDP</b>	<b>164.500</b>
<b>Grand Total</b>	<b>349.500</b>

**Brief Summary:** The project will strengthen national capacities through the provision of national consultants, and the required working tools, who will work with the Oil Technical Commission to achieve the following objectives:

- analyze experiences of other oil countries, draw lessons for Sao Tome and Principe and propose options and action plans for economic scenarios
- propose transparent and participatory formulas for oil revenue management
- strengthen the platform for dialogue on the future of STP with oil

On behalf of	Signature	Date	Name and Title
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## **FOREWORD**

This project document reflects broad planning discussions with a variety of stakeholders and potential funders both internationally as well as at the national and regional levels. It was originally conceived of as a funding proposal for a full-scale project to be supported by the UN Foundation (UNF). However, based on conversations with UNF and UNFIP staff, it was later determined that the proposal should only cover an initial planning grant of USD 50,000 to support the formulation of a larger, more comprehensive UNF supported project to follow in mid-2004.

The present project document defines the activities, and allocation of funding to be provided by UNF and the UK Department for International Development (DFID) in the first phases of the project. These activities form an indispensable complement to the activities being funded by UNDP and the World Bank toward the same objectives.

As illustrated in this project document, initial UNDP and World Bank financing will primarily be directed at the associated international costs of advancing the major project activities described in Section II item c. The two organizations will collaborate closely throughout the implementation of these objectives.

From a practical perspective, UNDP will manage both its own core resources as well as those provided by UNF under a unified accounting system. Funding provided by DFID will be handled under a system of cost sharing.

The outcomes of these various interventions are expected to provide guidance on the subsequent steps that will be required to support the government of Sao Tome and Principe in effectively and transparently managing its oil resources. We hope this project will help guide Sao Tome and Principe on a path toward prosperity and serve as a model to inform other resource-rich states on how they can transform their immense natural wealth into tangible benefits for all their citizens.

## **I. Background and Analysis**

### **Problem Statement**

#### **a) What the need is and why it exists**

São Tomé and Príncipe (STP) stands at a major turning point of its history. Its biggest challenge is to define the course of its future with oil revenues, which, at a given point, could exceed ten times its current GDP. Many countries have failed to take full advantage of this kind of unexpected resources. The challenge is even bigger considering the small size of the country (140,000 inhabitants) and its lack of absorption capacity and economic diversification (mostly based on cacao production and export). The population expects that everything will change for the better with oil, but lacks knowledge and information on the exact prospects and its possible evils, such as inflation, greed, corruption, migrants, security, pollution, youth and family destabilization, HIV/AIDS, etc

As the licenses for the allocation of blocks are expected to generate very sizeable bonuses by early 2004, there is an urgent need to assess the likely impact of these resources, as well as future oil revenues, on Sao Tome and Principe. This assessment should be accompanied by a dialogue with the civil society and all the partners, on what is going to change with the oil prospects and how oil revenues should be managed. The IMF is advising a very cautious approach. This needs to be assessed in a multi-dimensional mode and the population needs to understand the risks and the options available, and understand why things will not necessarily change overnight.

Right now the country is very poor and it does not have all the necessary capacities to assess all the implications of the oil revenues. Its financial management capacities and control mechanisms are also deficient and need to be strengthened. It is in that sense that this project is very strategic and that its timing is very critical. The project will also have a very important demonstration impact, because on one side, it will draw from other countries experience, and on the other it will help to support capacity and participatory processes that can set an important example for other countries seeking to promote effective and beneficial use of their natural resources. In other words, as one working African democracies it may have the basis required to succeed where others have failed.

#### **b) Population group adversely affected**

The experience of other countries that benefited from oil revenues (or other natural resources such as diamonds) indicates that the benefits of oil were not properly shared with the population and that in some instances living conditions that may have improved for a minority did not necessarily improved for the majority. There is also a risk that the population will be divided between those who benefit from the oil economy and those who are left-out. The gap between the two could widen depending on how oil revenues will be used to strengthen the traditional sectors of the economy, particularly in rural areas as well as in creating and strengthening new sectors of the economy.

#### **c) Gender analysis of the problem and perceived solutions**

As mentioned above, a large part of the population could be adversely affected, but in some cases women more than men. Increased wealth may lead to more prostitution and the spreading of HIV/AIDS as well as alcoholism and household violence with their adverse impact on women and children.

However, it is important to highlight the fact that in the Government of STP key positions such as Prime Minister and Ministers of Health and State Reform and the Governor of the Central Bank are held by women. Although gender parity is not generally a practice in the oil business, measures will be taken to create an enabling environment to facilitate gender balance in STP in that sector as well.

#### d) Environmental aspects of the problem

Oil research and production will take place in deep sea areas and the risk of pollution can be very high if safety measures are not planned in advance, including continuous control mechanisms and emergency specialized services in case of oil spills. Fishing is an important sector of the economy with, on one side, licenses being paid by some European and Asian countries and, on the other side, many fishermen living on traditional fishing. Fish is also an important component of the nutrition habits of the Sao Tomeans, making it a sensitive element of their good health.

## **II. Objectives and Strategy**

### **Project Objectives, Activities and Anticipated Results**

#### a) Programme Strategy

The strategy is to learn the lessons from the experience of other oil countries that faced similar situations and reflect on options to choose from to define a new path and action plans for the future of Sao Tome and Principe, with the full participation of the civil society.

This requires the strengthening of national human capacities to fully comprehend and analyze external inputs and assess options for STP. It also requires resources to strengthen the technical capacity, the working tools and the logistic support of the Technical Commission to enable it to conduct the participatory process.

#### b) Goals and objectives

The goals and objectives of this project are to analyze experiences of other oil countries, draw lessons for Sao Tome and Principe and propose options and actions plans for economic scenarios. Transparent and participatory formulas for oil revenue management will also be proposed and a platform for exchange on the future of Sao Tome and Principe with oil strengthened. The need for transparency and accountability will be based on the principles of the Extractive Industries Transparency Initiative, Publish What You Pay campaign, among others.

#### c) Major project activities

##### Support to the Technical Oil Commission

-The Technical Oil Commission will be reinforced with national consultants of different specialties recruited through the project in order to work closely with the international consultants covering the same respective specialties.

-The Technical Oil Commission so reinforced will prepare the missions of the international consultants, prepare critical path/calendar of activities and support the implementation of the project under the supervision of the Ministry of Natural Resources and Environment.

-For each of the following subjects, the work will focus on lessons learned from the experience of other oil countries, how these lessons should be adjusted to the context of STP and what would be the resultant scenarios to consider for the future of STP:

- Oil revenues prospects;
- Economically sustainable use of oil revenues at the macro level;
- Sustainable use of oil revenues in all sectors of the economy;
- Mitigation of negative impact of oil revenues on socio-cultural life;
- Management of Oil Fund, with respective regulatory frameworks, transparent and accountable handling of oil revenues and human capacity requirements;
- Employment prospects in oil sector and corresponding training requirements;
- Government institutional framework to deal with oil sector

-At different stages of this process, the Technical Oil Commission will present its findings to the National Oil Council for endorsement.

#### Organization of National Seminars

Seminars on the oil subject will be organized for the civil society and the parliamentarians and once the documents resulting from the above-mentioned consultancies will be ready, the Technical Oil Commission will present for discussions and validation its recommendations at two national seminars on:

1. Oil prospects, economic and socio-economic impacts and resulting options and action plans
2. Oil funds management and regulatory framework options and control mechanisms

#### Development of Oil Funds Management and Regulatory Framework Option

Policy options for the management of oil funds and a regulatory framework will be developed. This process will also be fully documented and supported by the web page created by the Technical Oil Commission

In order to better supervise oil resource management, to guaranty its efficient use, and to respond to the demands of the oil sector, a capacity building programme for institutions like the Parliament, Audit Office, Law Courts, and civil society should be elaborated.

The adoption of rules and procedures commonly accepted will be put into practice so the budgeting process will be improved as well as the financial execution.

**d) Changes that the project will facilitate**

The project will increase information available on all issues related to oil and ensure better understanding and engagement on the part of the population on the issues related to the future of STP with oil. It will increase confidence in national leader's capacity to manage oil revenues in consultation with civil society and facilitate stronger national management of oil resources and the promotion of sustainable development for Sao Tome and Principe.

**f) What provisions are being made to ensure that the project is sustainable?**

The project is anchored at the heart of the Technical Oil Commission and is directly executed by the Ministry of Natural Resources and Environment. It is also guided and supervised by the National Oil Council.

The project inputs focus on national capacity building, both in terms of human resources and in terms of equipment. The Government is planning to increase its 2004 budget in support of the National Oil Commission.

**g) Gender and environmental considerations**

The implementation strategy incorporates the gender perspective in different ways. Key positions in the Government of STP are occupied by women and since many other high-level positions in the administration are occupied by women, it is expected that although the oil sector is not known for its gender parity, usual practice to involve women at all levels in STP will also be applied in this case.

As for the environmental aspects, although oil research and production will only take place in deep sea areas and not on land, the risk of pollution can be very high if safety measures are not planned in advance, including continuous control mechanisms and emergency specialized services in case of oil spill. This element will be included in the analysis on the oil prospects.

**Relationship to UNF/UNFIP Programme Framework and Project Criteria**

In view of the range of issues that it covers, this project should be seen as cutting across all UNF/UNFIP programme areas. The project is clearly focusing on the prevention of problems rather than remediation since it takes place at an early stage, about three years before the oil revenues are expected to flow. The project is strategic in nature in that it will support early interventions at a historic turning point for Sao Tome and Principe. Support for an inclusive and transparent national exchange on the use of future oil resources can have far ranging impact on future development in Sao Tome and Principe, providing an opportunity for the countries people to ensure that national resources will be invested in health and education, in the promotion of gender equality and protection of vulnerable groups, in environmental protection. The lessons learned from this national effort at ensuring open dialogue in the management of oil resources can potentially have significant impact in other developing countries facing similar challenges in how to manage national resources for the benefit of their people and the promotion of sustainable development.

The project impact could have one the highest multiplier effect that could be expected from a project, considering the impact that an effective strategy and adequate

mechanisms to manage oil revenues and human resources, fully supported by the population, could have on the future of STP for the next 25 years.

The project does not target actual service delivery per se, but the UNDP/UNF contribution focuses on capacity strengthening and civil society participation, while the Government will use the World Bank AT fund at its disposal and UNDP resources to provide the policy analysis, planning and technical assistance that are required to assist the Technical Oil Commission to prepare options for the dialogue with the civil society.

### **National/Government Commitment**

#### **a) Project's relationship to national strategies and priorities**

According to a national survey funded by ADB and UNDP in 2000/2001, 53,8% of San Tomeans are living below the poverty line and 15,1% in extreme poverty. The Government, through a participatory process, has formulated the Poverty Reduction Strategy Paper (PRSP), taking into account the Millennium Development Goals is aiming at reducing poverty by 50 % in 2010 and by another 1/3 in 2015.

The strategy revolves around five axes: (i) Accelerated and re-distributed growth; (ii) Creation of opportunities to increase and diversify revenues; (iii) Development of human resources and access to basic social services; (iv) Reform of public institutions, strengthening of capacities and promotion of good governance; and (v) Mechanisms of monitoring, evaluation and actualization of the strategy.

Four objectives have been identified for the accelerated growth: (i) Diversification of the agricultural sector; (ii) Greater utilization of local products; (iii) Increased tourism; and (iv) Oil revenues.

#### **b) Prior obligations and prerequisites**

The project depends from other inputs to finance international advisory services, but the Government has demonstrated its commitment in deciding to use its own resources under the Government/World Bank Technical Assistance Fund as well as UNDP resources to meet these expenses.

#### **c) Inclusion of the project in the government budget/plans**

The project is included in government budget plans.

#### **d) Measures of the national authorities to ensure project sustainability**

The Government will fund additional civil servants positions for the Technical Oil Commission in 2004. However, the future institutional structure to support the oil sector will probably be larger than this commission. Options will be discussed based on proposals emerging as inputs from this project and the Government is committed to establish a sustainable structure.

### **Process followed in Project Identification/Formulation**

#### **a) Participants in the Logical Framework preparation**

The logical framework was prepared jointly by the UNDP country office in Sao Tome and Principe and national technicians supporting the National Oil Council and reviewed by the minister in charge of the portfolio.

**b) Consultation of beneficiaries and other stakeholders during project preparation**

UNDP had meetings with the Prime Minister, key ministers, the President of the National Assembly, the committee of the Federation of NGOs and other individuals from the civil society. The IMF made a presentation on the issues arising from the prospect of large revenues from oil, in front of large of audience comprising the Government ministers, political parties, syndicates, businesses and NGO representatives. This was followed by a debate that highlighted the need for a systematic process of dialogue. The Minister of Infrastructure and natural resources conducted the project formulation jointly with the technicians advising the Oil Council, the Government adviser on World Bank and IMF matters and UNDP.

**Related Past and Current Activities**

**a) Lessons learned from past approaches to resolve the problem**

One of the greatest problems that impedes the country's development process is the lack of highly qualified cadres. This is particularly felt in the area of oil business management, as it has been attested by all the difficulties surrounding the signing of the different agreements between the Government of Sao Tome and Principe and oil companies such as Environmental Remediation Holding Corporation (ERHC), Exxon Mobil and Norway's Petroleum Geo-Services.

Subsequent to the presidential election in July 2001, the newly elected President, following consultations with the World Bank and IMF, proposed the revision of the agreements signed with all international corporations, on the assumption that the terms contained in the agreements were disadvantageous for the Santomean population. The National Oil Council, chaired by the President himself, was then created to manage this dossier.

The National Oil Council has been benefiting, through a WB Technical Assistance Fund at the disposition of the Government, from the services of three legal, economic and geophysical international experts. The experiences of other developing countries in management of oil resources have influenced the Government in seeking to ensure stronger national management of future oil revenues. The experience of Chad in developing a legal framework for transparent oil management was taken into account.

**b) Other relevant government/civil society efforts which are currently underway to address this problem**

The Government briefed the National Assembly on the progress made concerning the re-negotiation of the existing contracts with major oil companies. Statements by the Government on this process have been covered by the media and civil society. However, the question of how to use the oil revenues and how to manage the oil fund have not yet been extensively debated.

**c) How the current joint project will draw from, build on and complement these efforts**



So far the Commission's work has focused on the revision of the agreements previously signed with international corporations on their rights in oil exploration and exploitation. They now need to turn their attention to the wider context of the expectations that have emerged at the level of the population. The project will provide them with the additional capacities and means that they need to do so.

### **Beneficiaries**

#### **a) Project beneficiaries**

The nature of the project is such that the whole population of STP will benefit. Direct beneficiaries will be members of the Technical Oil Commission and the Government as support will be provided to its efforts to ensure a broad national dialogue on oil resource management. The ultimate beneficiaries will be the people of Sao Tome and Principe whose interests will have been defended and oil resources invested in sustainable development in their nation.

### **Value Added of joint UN intervention**

#### **a) Principal thrust of each partner's intervention**

The Technical Assistance Fund made available by the World Bank for Sao Tome and Principe will be used by the Government to provide part of the international expertise. The Government will also receive the advice of the World Bank in the recruitment of consultants and the assessment of their reports. UNDP, with its own resource, will complement the international expertise. It will also start the funding of national consultants until UNF/UNFIP and UK resources are available.

#### **b) How the interaction between these interventions will enhance the development impact of the project**

The World Bank has an established expertise in the fields of oil revenue management and in providing advice in the strategic choices for economic management. UNDP has expertise in capacity building and in supporting an enabling environment for dialogue. The Bank operates mostly from its Headquarters and UNDP is well represented at the local level, working closely with the Government and civil society on a constant basis. The dialogue between the Government and the two organizations will add value to the quality of the project results.

### **Value added from NGO and civil society partnerships**

#### **a) Principal thrust of each partner's intervention**

Local NGOs have recently been established in the field of governance and their interest on oil revenue management has been growing. The establishment of a platform for exchange on the subject will give them an opportunity to participate in the proposed process and establish their credibility as valuable partners. It will also give them an opportunity to position themselves in monitoring Governments actions.

#### **b) How the interaction between these interventions will enhance the development impact of the project**

Civil society organizations have raised objections about the lack of transparency in governance in Sao Tome and Principe. This project will give them more systematic and rational mechanisms to express themselves and make their ideas count. This