Management Response

Management welcomes IDEV's evaluation of African Development Bank (Bank) Country Strategies and Programmes in the **Democratic Republic of São Tomé and Príncipe (STP)**. Overall, Management agrees with the evaluation's lessons, conclusions and recommendations, which reflect a small island state's specific economic context and are consistent with staff's findings from regular monitoring, follow-ups and portfolio performance reviews. The evaluation findings and recommendations will serve as the basis for dialogue with STP authorities, inform the preparation of the new Country Strategy Paper (2024-2029) and guide the implementation of ongoing operations and the design of future programmes. Management will incorporate the evaluation's recommendations to prepare a more focused CSP that addresses, in particular, the need to strengthen the Bank's implementation capacity in the context of strategic staffing to better support Lusophone countries and the critical challenge of energy transition while mainstreaming key themes such as private sector and institutional development.

INTRODUCTION

The Independent Development Evaluation (IDEV) evaluated the Bank's Country Strategy and Programme in STP for 2012-2022, spanning the implementation of two Country Strategy Papers (CSPs).

Management welcomes the independent evaluation and acknowledges the evaluator's effort to accurately capture STP's specific development context as a Small Island Developing State (SIDS), which presents unique challenges to project design and outcomes.

The Bank's Country Strategy serves as the basis for its strategic engagement with Regional Member Countries (RMCs) and as a programming framework that determines resource allocation, which supports the achievement of specific national development objectives. The evaluation finds that the Bank's strategic approach to STP is relevant to the country's development challenges. It is also coherent internally and with other partners' interventions, with satisfactory interlinkages between the Bank's investment and non-lending activities. The programme's effectiveness was also assessed as satisfactory. However, implementing agencies' capacity gaps, fiscal constraints impacting the government's ability to sustain investment during, and post-project closure and project design weaknesses have contributed to efficiency and sustainability gaps. Management notes that these constraints are partially due to the country's situation of fragility. STP's eligibility for the Transition State Facility from 2023 onwards will provide additional tools to address weaknesses identified in the evaluation.

The evaluation identifies actions implemented during the last year of the evaluation period, which have begun to positively impact outcomes, especially in strengthening monitoring and evaluation systems and improving portfolio quality. These include a four-day training course on M&E for Lusophone countries and the incorporation of an M&E module in the fiduciary clinic delivered annually. The evaluation highlights the low levels of dedicated Portuguese-speaking staff as a constraint to operational quality while noting recent efforts to address this. In the development of the new CSP, Management is committed to strengthening the Bank's capacity to support Lusophone RMCs - particularly in addressing weak implementation capacity in the context of its strategic staffing.

Management further notes the evaluation observations concerning the difficulties in mobilising the Bank's Non-Sovereign Operations Window in STP due to a minimum investment size that is too large for the country's economy.

Overall, Management agrees with the evaluation's findings, conclusions, and recommendations, which will be used as a basis for the dialogue with the Authorities and the design of the new CSP (2024-2029), as well as guiding the implementation of the ongoing operations and the design of future programmes.

EVALUATION KEY FINDINGS

This section summarizes Management's response to the key findings and conclusions under the main components of the evaluation, namely the relevance, coherence, effectiveness, efficiency, and sustainability.

Relevance

The evaluation found that the Bank's strategies and portfolio in STP were relevant to the government, other clients and beneficiaries. The Bank was selective in prioritizing the demands within the limited resources.

The evaluation stressed the flexibility of Bank financing in adapting to emerging needs and several unforeseeable crises, including the COVID-19 pandemic and various climate events, while maintaining a relatively selective focus within the pillars of the strategy. Management notes that the need for flexibility is partly due to significant development needs and the relatively low number of development partners active in the country, often giving the Bank the role of financier of first and last resort. In the new Country Strategy, the Bank will further select the priority areas while strengthening collaborations with partners in key sectors, starting with the energy sector.

Coherence

Coherence of the Bank's STP Programme is rated as satisfactory, noting that the Bank engaged with a range of development partners in dialoguing with the Government and designing its operations in a set of harmonised interventions. Management believes this reflects significant efforts at coordination with other partners and a reorganisation of the responsibilities for STP under the strategic guidance of a country manager with a stronger focus on the country. Management intends to use the forthcoming CSP to solidify coherence further.

IDEV further notes that the coordination and joint work with other Development Partners (DPs) has gained momentum in recent years. There is an increasing effort to work with the Government to achieve better coordination in DP activities. Management stresses its intention to sustain the momentum and deepen further the partnerships with DPs, noting that several recently approved operations benefit from implementation partnerships with other DPs.

In recent years, the Bank has also been instrumental in establishing a joint round table with GoSTP, the World Bank and the United Nations Development Programme (UNDP) to discuss a way forward in the context of the energy crisis. The Bank will also work alongside other DPs to establish an Energy Working Group to strengthen coordination, building on the round table to manage the energy crisis.

The evaluation further notes the need for an overall coordination strategy and a dedicated unit in the Government. Management agrees on the importance of increasing Government leadership in aid coordination; it notes that the low number of DPs active in STP and the general lack of government resources might suggest that this objective can be achieved via flexible and informal arrangements rather than setting up a formal structure that could absorb resources from other areas. To this end, following a recommendation from the PAGL audit in 2019, the Government nominated a focal point of the Ministry of Finance for the multilateral partners aiming to improve the coordination and monitoring efforts and tracking of results.

Effectiveness

The evaluation noted that during the evaluation period, the Bank's strategies and programmes achieved a more significant proportion of outputs than outcomes. Management notes that in some cases, planned outcomes were not achieved due to resource reallocations to respond to a crisis or reflect changing policy priorities, sometimes following a change of administration. Management is pleased with the evaluation finding that the Bank's COVID-19 pandemic emergency interventions delivered results, especially in strengthening health systems, providing income support to households and cash flow to firms.

The evaluation noted the impact of Bank interventions on private sector development. For example, during the evaluation period, the Bank supported the preparation of a long-term strategy for private sector development for 2015-2024 and the Public-Private Partnership Law. In parallel, the Bank undertook actions to support streamlining the legal framework and introduction of arbitration as an alternative means for resolving commercial conflicts. Support for enhancement of the payment system is ongoing through the Payment System Infrastructure and Financial Inclusion Project, phase I and II. As part of its support for the new CSP and building on conducted ESWs, management is exploring options for maintaining a strong focus on the business environment, possibly as a crosscutting element in each selected pillar. Management will continue exploring policy innovations and new financial products tailored to STP's private sector needs.

Efficiency

The evaluation assessed the Bank's overall efficiency as partly unsatisfactory due to delays in project implementation, difficulties in disbursing counterpart funding and weaknesses in quality at entry of project design that create implementation delays. Management notes that the average start-up delay of eight months is consistent with the relevant Presidential Directive. Management also notes that STP's remote geographical location and its ICT infrastructure weakness reduced the Bank's ability to support in-country project implementation during the COVID-19 pandemic, including the last years of the evaluation period.

Management notes the evaluation's observation that towards the end of the evaluation period, the Bank took actions to address these weaknesses, which included a series of procurement trainings, a waiver requested for counterpart funding, improved M&E systems and baseline studies undertaken to enhance the quality at entry. Management is committed to sustaining and accelerating these measures' implementation under the new CSP.

Management acknowledges that weaknesses in quality at entry and portfolio implementation are partly related to the high turnover of task managers supporting STP, combined with language barriers. This has sometimes affected the continuity of support and attention to STP's specific development context. Management has already taken steps to ensure greater stability in staffing for STP through the establishment of an Angola-based procurement and energy position to support STP and deploying an STP-based Country Economist in 2021. Moreover, Management notes that oversight of the STP Programme has been assigned to the Angola-based Country Manager rather than the regional hub covering multiple countries. Management believes the arrangement has provided STP with more direct and dedicated managerial oversight. In the future, Management intends to consolidate these steps. Further, Management concurs with the recommendation to secure appropriate staffing levels covering STP. However, STP's relatively small portfolio size requires an agile approach that envisages the creation of a hub of Portuguese-speaking task managers covering both Angola and STP.

Sustainability

Management notes that the evaluation rated the sustainability of Bank programmes as partly unsatisfactory, based on weaknesses noted in financial and institutional capacity, technical soundness and stakeholder ownership. The evaluation mentions, for example, limited resources in the state budget and limitations in the long-term planning of the institutions as limiting factors for sustainability. The evaluation also notes the importance of securing stronger ownership from national institutions to ensure sustained results from Bank programmes.

Management notes that the vibrancy of STP's democracy means that there are regular changes in Government, often requiring development partners to adapt priorities to the new political settlement. Management also agrees with the identified financial and institutional constraints. These are likely to reflect fragile situations partly deriving from structural drivers such as climate vulnerability, geographical remoteness and the small economic size of the country.

Management notes that eligibility to the Transition States Facility over the African Development Fund's 16th cycle starting in 2023, as well as reforms to the minimum country allocation, will provide additional tools to address the identified issues of fragility and sustainability. Management also believes deploying a Country Economist based in STP in 2021 and the increased Portuguese-speaking positions working on STP will strengthen policy dialogue and ongoing interaction with the client, as the report recommends.

Knowledge, Policy Dialogue and Capacity building

Management notes that the Bank engages proactively in policy dialogue and provides policy advice to GoSTP, and overall non-lending activities are considered satisfactory. Management acknowledges the significant institutional capacity challenges in the country, inclusive of the high turnover in public sector personnel and more broadly high emigration flows. The evaluation stresses that nearly all the Bank's project interventions embed a capacity building intervention, and this is consistent with the country's needs. For instance, the ongoing Zuntámon Initiative envisages a long-term capacity building, training of trainers and knowledge sharing to the public actors at the Investment Agency (APCI), coordination unit for the reform of business environment and women organizations. Management intends to further strengthen this approach under the new CSP. Therefore, will proceed with capacity building and technical assistance at policy level; on the-job-training initiatives including potential budgeting for internship positions for young STP nationals in the implementation units of all future operations.

Cross-cutting issues

Management notes that the evaluation's emphasis on gender outcomes increased during the evaluated period, with more explicit observations included in strategic documents and programmes but found limited evidence of translating these objectives in the implementation of the projects and results reporting. Management believes that the recent introduction of a gender marker system to rate the gender impact of proposed operations will further embed gender impact across the Bank's work in STP, in parallel with the gender budgeting tool that the GoSTP is currently implementing. The Bank will continue to integrate and mainstream gender in project designs with resources planned to be allocated to interventions to increase women's access to productive assets, markets, technologies and innovation in particular in agriculture and fisheries. Furthermore, technical assistance and capacity building activities are being designed in planned interventions to support the government to continue moving from a gender-neutral approach to a gender mainstreamed approach in policies and programmes.

The focus on climate change and green growth was also found to have increased over the evaluation period, albeit from a low base, and most respondents strongly agreed that the Bank addresses environmental and climate issues. Given the country's significant climate vulnerabilities and considerable natural capital and biodiversity, Management will consider ways to scale up operational focus on climate activities and leverage STP's natural capital for resource mobilization. Under the new CSP, management envisages increasing support to the country's transition to green growth by investing in utility-scale renewable energy including strengthen policy, regulations and governance. Management will seek additional co-funding through climate funds to complement and catalyze the impact on expected results. The planned Co-management of Climate Extremes for Agriculture and Fisheries Resilience project, co-financed by GEF, intends to reduce the climate vulnerability of the food systems, improve their productivity and climatic resilience focusing on selected agriculture and fisheries value chains. Management also intends to pilot in the country the Adaptation Benefit Mechanism to test innovative approaches to leverage and conserve STP's significant biodiversity.

Programme Management

The evaluation highlights a satisfactory quality at entry of operations, noting how the implementation of Country Portfolio Improvement Plans helped improve the quality of portfolio performance. Notably, the evaluation highlights that the CPPR 2021 shows that many targets have been met. The 2022 review showed further improvement in disbursement, start-up delays, pre-feasibility studies and availability of baseline indicators at project completion stage. Regarding the quality of supervision, Management notes the evaluation's findings that the number of supervisory missions implemented over the evaluation period was well below the norm. Management acknowledges that this dimension needs to be improved for timely resolution of constraints and believes that the recent inclusion of STP as a beneficiary of the TSF will support further strengthening of institutional capacity building. Management will incorporate these findings in its dialogue with the authorities.

Partnerships and Aid Coordination: IDEV notes that the coordination and joint work with other DPs have gained momentum in recent years. There is an increasing effort to work with the Government to achieve better coordination in DP activities. Management stresses its intention to sustain the momentum and deepen further the partnerships with DPs, noting that several recently approved operations benefit from implementation partnerships with other DPs.

Borrowers' Performance: Management concurs with the importance of strengthening the Government's M&E systems and increasing its ownership of externally financed projects. The Bank provided specific M&E training, building PIUs' and EAs' capacity on the tools and methods required to collect data and reporting. The Bank will continue to work with the Government to improve follow-up on the Programmes' results, outcomes and outputs.

Management further notes that limited financial resources also impact the borrower's performance. However, management notes that this may partly be attributed to the two extraordinary external shocks: the COVID pandemic and the impact of Russia's invasion of Ukraine[1] on oil and food prices. These shocks put enormous pressure on STP's small and vulnerable economy and public finances, affecting Government capacity and performance assessment. Management believes a long-term focus on strengthening resilience is needed to consolidate gains and achieve sustainability.

CONCLUSION

Management appreciates the evaluation's insightful observations and recommendations, including its careful consideration of the country's specific SIDS development context. Many of these, including the weaknesses in programme delivery, align with its findings from regular monitoring and reviews and are under implementation. Key lessons such as the need to invest in preparatory studies to inform investment projects or include more structured consultations with DPs as part of design of Bank operations are also already being implemented. Management is also committed to ensuring additional capacity to Lusophone RMCs is considered, especially when it comes to strategic staffing. The evaluation's findings are helpful and will inform the current engagement and design of future strategies and programmes. Responses to each of the recommendations made in the evaluation report are provided in the Management Action Record table below.

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

<table>
<tr><th colspan="2">MANAGEMENT ACTION RECORD</th></tr>
<tr><th>RECOMMENDATION</th><th>MANAGEMENT RESPONSE</th></tr>
<tr><td colspan="2">Recommendation 1– Enhance the focus on developing infrastructure, which is one of the Bank's comparative advantages in STP:</td></tr>
<tr><td>a) Continue to support the development of critical infrastructure in energy, where the Bank has experience and a comparative advantage.

b) Strengthen collaboration and partnerships with other development partners to scale up resource mobilization and ensure support for emerging priorities in areas where the Bank does not have strong leverage.

c) Strengthen collaboration with the government and other development partners to ensure the sustainability of Bank projects and programmes.</td><td>AGREED — Management agrees with the recommendation, which balances the need for selectivity and focus on the Bank's competitive advantage with the need to build a coalition of development partners to ensure coordination and sustainability.

Further actions:

1. Management will reflect the suggested focus on infrastructures in its proposal for the Country Strategy Paper for STP (2024-2029) (COAO; Q2 2024).

2. Management will also scale up energy transition as a top priority for the forthcoming programming cycle, with a focus on presenting a new operation in 2024 and scaling up dialogue in the sector (PESD, COAO, LIST; Q3 2024).

3. The Bank will build on the newly constituted round table on the energy crisis to facilitate a permanent DP-Government Energy Sector Working Group, which will enable a more practical coordination and dialogue to avoid overlapping of efforts and boost possible co-financing schemes (COAO, LIST, PESD; Q2 2024).

4. Management will present to Board two operations supporting domestic revenue mobilization and improved expenditure controls with a view to bolstering long-term fiscal sustainability, accelerating the reforms in the energy sector and improving Government capacity to maintain the impact of Bank-financed projects (ECGF; Q2 2024).</td></tr>
<tr><td colspan="2">Recommendation 2– Enhance measures to nurture and develop the business environment and lay the foundation for investing in STP's private sector, particularly small and medium enterprises:</td></tr>
<tr><td>a) Maintain a strong focus on implementing the ongoing Zuntamon project, approved under the Bank's Lusophone Development Compact, making best efforts to attract investments to non-sovereign operations as part of the project's second phase.

b) Consider reviewing the policy and rules for countries to access the Bank's private sector window, taking into consideration small island developing states like STP.</td><td>AGREED — Management agrees with the need to fast-track the implementation of Zuntamon and attract investments to non-sovereign operations. Management will leverage the recent appointment of Regional NSO Lead to deepen private sector dialogue and have a more strategic approach to NSO pipeline development, using analytical tools such as private sector profiles.

Further actions:

5. In order to adhere to selectivity principles in developing CSPs, management will approach the issue of business environment as a cross-cutting issue anchored on the pillars identified in the forthcoming CSP (PIFD, COAO, LIST Q2 2024).

6. Management will focus on accelerating the implementation of the ongoing phase of Zuntamon by strengthening the Bank</td></tr>
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MANAGEMENT ACTION RECORD	
RECOMMENDATION	**MANAGEMENT RESPONSE**
	team, reinforcing monitoring mechanisms of activities and improve coordination with other involved partners. Management also commits to, on a best-efforts basis, implement its second phase as an NSO **(AHHD, PIFD; Q3 2025)**. 7. Management will consider a comprehensive review of the Bank Group's approach for engagement in Small Island States, including a review of NSO procedures, to better tailor the products to their specific economic and geographical context **(SNSP, PINS; Q4 2025)**.
Recommendation 3– Address challenges in program implementation:	
a) Ensure that resources are available to meet requirements for program supervision and support, conduct policy dialogue, develop the portfolio, and build partnerships in STP, taking into consideration the language barrier for Lusophone countries. b) Enhance dialogue with the government to reduce systemic delays, not only by considering case-by-case waivers on counterpart funding in situations similar to STP's, but also by involving executing agencies and beneficiary institutions more closely in designing projects that address the country's unique characteristics.	**AGREED** — Management acknowledges that institutional and geographical constraints make STP a challenging context to implement projects, and additional human resources and an enhanced dialogue with the client is needed to increase execution speed and effectiveness. Management acknowledges the specific language requirements in STP and other Lusophone countries. Management commits to: 8. Increase the number of Lusophone task manager positions covering STP by at least one, adopting a "hub and spoke" model with increased operational staff dedicated to Lusophone countries, and with particular attention to agriculture, a sector envisaged in the CSPs of the three Lusophone countries in the Southern Region **(PTVP, AHAI; Q2 2024).** 9. Conduct one fiduciary clinic per year including elements of M&E training **(SNDS, COAO, LIST; ongoing).** 10. Increase the alignment of project's activities with the Country's policies strategies with the establishment of a GoSTP-Bank portfolio review committee led by the Ministry of Finance, meeting regularly at least twice per year as well as requesting earlier appointment of Government focal points earlier in project design **(LIST, COAO; ongoing)**.