

Popular Information Bulletin



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PREFACE

This booklet will help to explain many changes that are happening in São Tomé and Príncipe. These are challenging times for the country, with many people suffering from poverty and disease.

Many of us hope that the new oil industry can bring improvements. But there is much confusion around the oil. These pages will clarify how much oil we have, how much money oil can bring, and when the money will arrive.

It also explains that oil is not always a blessing. Many countries have ended up poorer after they found oil. It is very important that any money received from oil is spent wisely. The booklet explains how the new oil law should safeguard the money and where you can get more information about how the oil money is spent.

To help everyone understand the country's situation, the booklet describes what the government is currently spending money on, and where that money comes from. In this way we can begin to plan for how to improve people's conditions. To succeed in that, everyone should have a voice. That is what this National Forum is for: To give everyone an opportunity to express how they want the government to help them to a better life.

I Oil

Where is the oil?

Ten years ago, scientists discovered that there might be a lot of oil under the sea between São Tomé and Príncipe and Nigeria. It is difficult to see things under the ground beneath the ocean. Scientists use machines to take special pictures, called seismic surveys. These pictures are not very clear, but they support the idea that there could be oil. We cannot be sure until we start drilling. STP and Nigeria have agreed to work together to look for the oil, and to share the oil if we find it.

The area that might hold the oil is called the **Joint Development Zone**. It is managed jointly by Nigeria and São Tomé and Príncipe through an association called the **Joint Development Authority**.



Some people think that our country could become one of Africa's big oil producers someday, but it's also possible that there is no oil at all. It could take five years or more before we are certain. The arrow at the bottom of the page shows how long it takes to develop an oil field and when we can expect to receive revenues from it – if there is any oil there at all.

Is there oil anywhere else?

The waters that belong to Sao Tome e Principe that are not part of the Joint Development Zone are called the **Exclusive Economic Zone**. We do not know yet, but there might be oil in these waters. Scientists are doing seismic surveys of these waters, but the most likely place to find oil is the Joint Development Zone. That is the area closest to Nigerian waters where oil has been found before.

How do you get oil when it is in the sea?

It is very difficult to take oil from under the sea, especially when the sea is very deep. The process of extracting oil is slow and complicated. First more seismic pictures must be taken. Then holes must be drilled into the earth 2000 meters under the sea to look for oil. Then wells must be dug and huge metal platforms must be built to hold the machines that extract the oil.

Can the government of São Tomé e Príncipe search for oil?

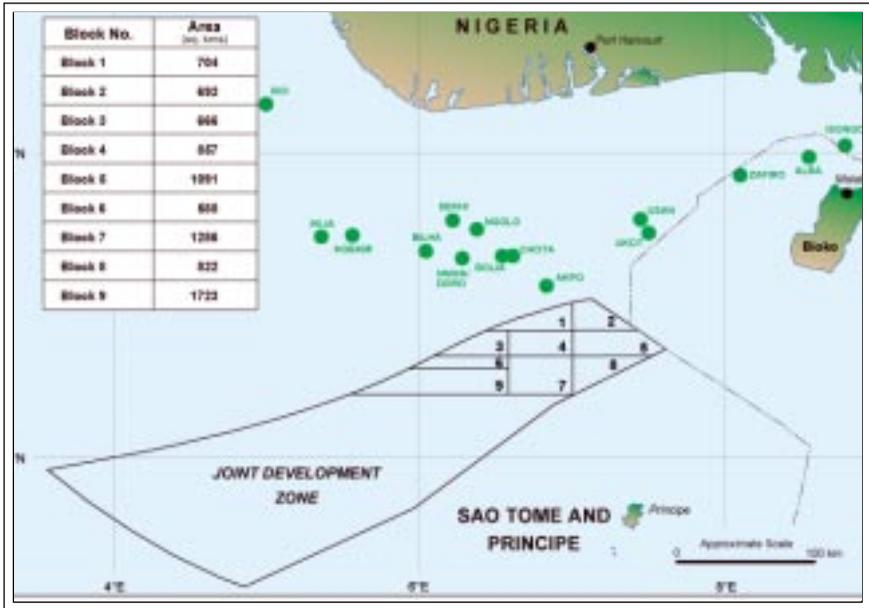
No. This work is too difficult. It requires large teams of petroleum engineers, using very expensive equipment. Only a few people have the equipment and experience to do this work, so we must ask them to do this work for us.

| TIME | 2004 | 2005 | 2006-2008 | No oil is found |
|---------------------------------|------------------------------------|----------------------|--------------------------------|-----------------|
| What is happening with the oil? | Negotiating with the oil companies | New seismic pictures | Early drilling and exploration | |

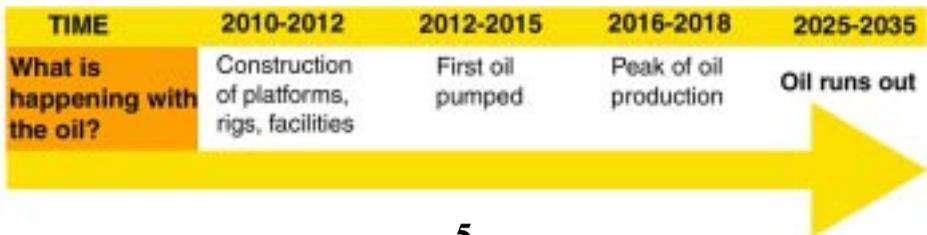
Oil is found

Which companies will search for the oil?

We will let many different companies try. Different companies will work in different areas. The main areas that might have the oil have been divided into parcels, just as land can be divided into different farms. These parcels are called “blocks”.



The companies offer money to the government for the right to explore and exploit each block. Often companies have to work together, because it is very complicated and dangerous to look for oil so far under the ocean.



Who decides which companies will do this?

The oceans are not owned by individuals, but rather are controlled by the governments of coastal countries. So it is the São Toméan government that decides which companies can explore the blocks, together with the Nigerian government.

Since the two countries have agreed to share the blocks, both sides must agree. Sometimes the two countries have different opinions, so it can take time to reach an agreement. But the government is being very careful about renting the blocks only to companies with enough experience and equipment to exploit the oil efficiently.

If the government lets inefficient companies use the blocks, we will get less money. Out of the nine blocks in the Joint Development Zone, only one block has been rented so far. The other blocks will be let out gradually, so that São Tomé and Príncipe can receive as much money as possible.

How do the companies pay São Tomé and Príncipe?

The government asks oil companies to pay money for the right to look for oil in each block. This money is called a **signature bonus**. The money will be split between São Tomé and Príncipe and Nigeria, so São Tomé and Príncipe will receive only part (40%) of the bonuses for the blocks. We must make this money last for a long time, since it will be years before the drilling is completed. But each time a block is rented out companies pay a bonus. This year companies will pay for renting the first of the nine blocks in the Joint Development Zone

The most important payments will come from oil production if oil is found. In this case, the foreign companies who explored the block will be permitted to sell some of the oil to pay the costs of their work. Only then will the São Toméan and Nigerian governments receive more money from the production of the oil. In the meantime, the government must be sensible about saving money and deciding how the rest of the money should be spent.

II The Oil Law

Why do we have an oil law?

If oil is found we will have to work hard to protect it. Oil money can be a blessing or a curse. In other countries where they have found oil, people have gotten poorer because the money was badly managed.

What can go wrong with the oil money?

Oil revenues can have a good or a bad impact on the economy. The oil production itself will create very few jobs for São Tomé and Príncipe. All it creates is a flow of money to the government, which we must use wisely to get the things we want. Countries that discover oil have often suffered from conflicts over who will get the oil money, and sometimes governments have used the oil to borrow and spend even more money than the oil is worth, so that the countries ended up in debt. Also, some countries have found that when they discover oil, outsiders only want to buy their oil and are less interested in buying other things, like cocoa and coffee. If that happens here, this could make things more difficult for farmers in São Tomé and Príncipe.

In any case, the money must be spent slowly to be useful. If we are careful, we can build roads, schools, clinics, and develop the country, so that people can have good jobs. If we try to spend it all at once, the money will quickly flow overseas and will not create good jobs and a strong economy in São Tomé and Príncipe.

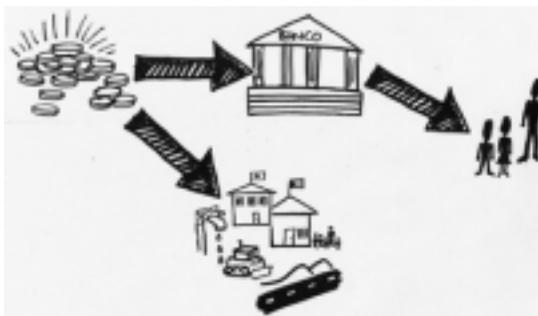
What will the oil law do?

The new law will protect the interests of all the people of São Tomé and Príncipe, by ensuring that no one group can take control of the oil money. It will specify how decisions about the oil money are to be made, and ensures that every citizen of São Tomé and Príncipe can observe what is being done with it.

How can the oil money be managed correctly?

All the oil money will be put into a single bank account. The place where the money goes will be called São Tomé and Príncipe's **National Oil Account**. At any moment anyone in São Tomé and Príncipe has the right to know how much money is in this account. Each year money from the national account will be used for three things:

- for **savings**,
- for **stabilization** and
- for **spending**

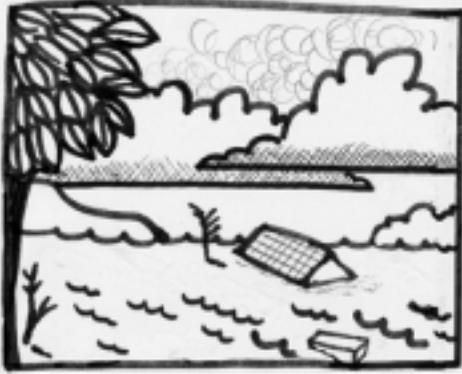


Why is some money used for stabilization?

Unfortunately oil prices can change very quickly, even more quickly than the price of cocoa. This means that one year they may be very high but the next year they may be very low. If we depend on earnings from oil, this can cause a lot of problems for our economy. To help with this we should save money when prices are high and use it later when prices are low.

Why do we save some of the money each year?

Even if we find oil, the oil will not last forever. At some point, the oil wells run dry. That's why we need to manage the money over time. We don't want to be in a bad economic condition when the oil dries up. So we need to plant seeds for the future, so that our children and grandchildren can have some of the money, too. If we take less money now, this gives us more money in the future. The law makes sure that enough money will be saved so that São Tomé e Príncipe will always be able to benefit from the oil, long after there is no oil left in the sea. The money that is saved for the future is called the **Permanent Fund**.



Why does the oil law limit the oil money spent each year?

São Tomé and Príncipe is a small country. Imagine what would happen if there were a big flood that hit us unprepared. It would wash over the land, then dry up as quickly as it arrived, and leave the country devastated. The water would be useless to us. If we knew the country were to be flooded, we would build dams to contain the water and channel it so that it would be used for our benefit. Oil money is similar. Other countries have seen a lot of oil money arrive suddenly, tear up old ways of doing things, then suddenly disappear and leave the countries worse off than they were before the oil. The oil law creates a dam to turn the possible flood of oil money into a useful flow of real resources. It puts the money away in the National Oil Account, and only lets it out in time to buy useful things.



How can we know what the government is doing with the money?

The law says that if there is oil, any money we earn from it must be managed under a principle of **transparency**. Transparency means that everyone will be able to see how the oil money is being managed. Under the new law, every citizen has the right to find out what the government does with the people's money. Every citizen can go to an office in São Tomé town that will probably be called the **Public Registry** and ask for the records of all the oil transactions. You can find out how much money was earned each year and where that money was spent.

How can we be sure that the money is used wisely?

Also, the new law says that a group of citizens will watch the government to always make sure the money is spent in a productive and effective way. This group will be called the **Petroleum Control Commission**. These are people from civil society groups working alongside people from all parts of government. If you think money from the oil is not being spent correctly then you can complain to this group. They have the power to investigate and find out what the problem is.

How can the Oil Law help use oil money wisely in the future?

If they find oil near São Tomé e Príncipe, the oil law says that the oil money will go to projects to make things better for all the people of the country—to build roads, schools, or meet other local needs. It can be used to create new jobs in new parts of the economy. And it can be used to improve people's lives. Right now too many children are dying from disease and young people do not have enough education opportunities. Some of this money can be used to buy essential vaccines and drugs to fight malaria, for instance, and upgrading schools and books, are important objectives. The money will be spent in all parts of the country according to a “development plan.” And each year at least 10% of the oil money that is spent will be used to help develop the island of Príncipe.

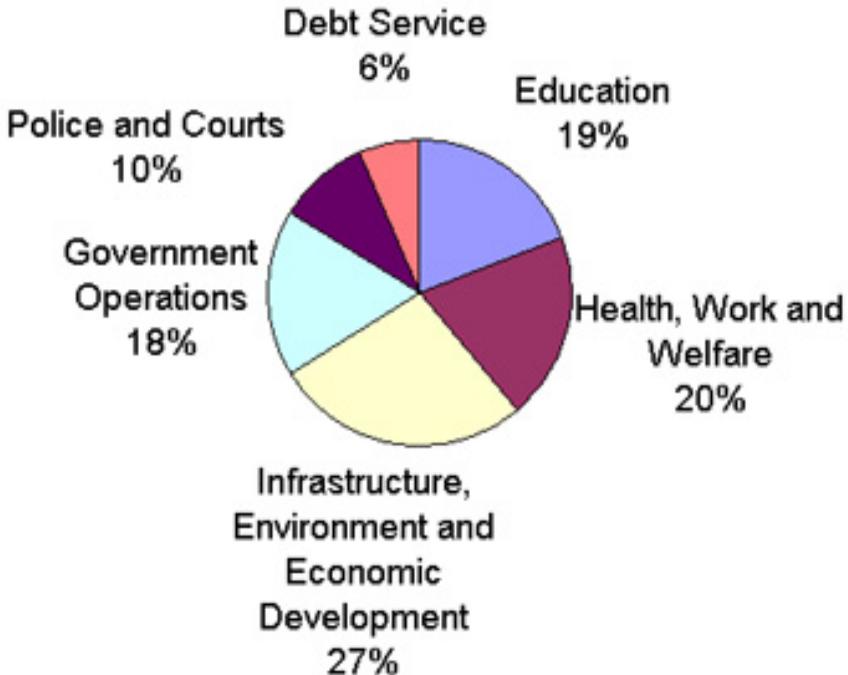
III National Expenditures

How much money does the government have right now?

This year, the government of São Tomé and Príncipe plans to spend around 617 billion Dobras. The amount of money spent each year and the way that the money is spent is called the **budget**.

What is this money being used for right now?

In 2004, the main spending priorities of the budget are education, health services, and transportation and communications. The government has also significantly increased the wages of state workers.



2004 Government Budget Expenditures

Does the money in our current budget meet our needs?

Unfortunately, São Tomé and Príncipe's current budget does not contain enough money to make significant improvements in the lives of the nation's people. We have so little money that most of it comes from loans and gifts from other countries. Since we have been very poor for very long, we owe a lot of money to others and we still cannot meet all of our expenses on our own.

For example, we will spend a portion of our budget on health and education, but it will take much more money than we currently have to make major improvements to what we can offer our children.

The money we will spend on healthcare is not enough to address serious health problems such as malaria. Malaria afflicts everyone, and much of the population does not have access to the drugs that could help them fight the disease. Also, one out of every 20 newborns dies before reaching the age of one, because of a lack of drugs and clean water.

The money in our current budget cannot provide our children with good education either. Only 45 percent of our teachers are qualified, the more and more children are not completing school, and there is a lack of classrooms and textbooks.

How much do the goods and services that the government provides cost?

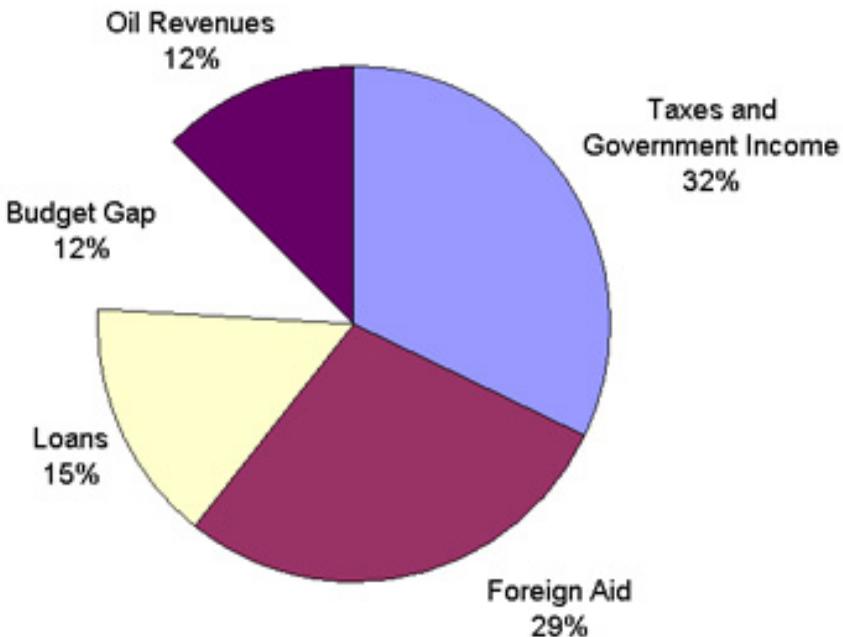
When we think about how the government spends money in the budget, it is very important to be aware of how expensive these things are. Here are some examples of the amount the government has to pay for some of the things that it does:

- build 5 km of paved roads: approximately Dbs. 20 billion
- reduce public health threat of malaria: approximately Dbs. 50 billion
- extend the electricity grid to all people in Sao Tome e Principe: approximately Dbs. 30 billion
- increase the salaries of government employees by 50%: approximately Dbs. 27 million

Where does the money in the budget come from?

Today most of the money for the budget comes from taxes and from aid from other countries. The budget is going to use Dbs. 76 billion from oil money and must find another Dbs. 71 billion. São Tomé and Príncipe's income from cocoa is not enough to meet our basic needs. We have become very reliant on loans and gifts from foreign countries and international banks just to meet our basic needs. As of 2003, the amount that São Tomé and Príncipe owes to other countries is five times as much as the government has to spend in the budget each year.

The countries and banks to which we owe this money have said they may cancel some of it — in other words, they may not require us to repay the full amount. But they will only agree to this if we convince them that we can manage our economy responsibly.



2004 Government Sources of Revenue

Will the oil money help us solve all these problems right away?

No. It will take time before we can hope to get much money from oil. Right now, the only revenue we can expect from oil is the signature bonus from the first of the nine blocks. The companies have agreed to pay Dbs.1230 billion to look for oil in block 1, but only some of this comes to São Tomé and Príncipe. First the Joint Development Authority must cover its expenses, and then São Tomé and Príncipe gets 40% of the rest. So perhaps we will get Dbs. 400 billion, and then we must spend money on this year's budget and on paying back some of the money we owe.

Because we are not sure if there will be any more money for the next few years, we will spend only some of the money we get this year and save the rest. We will try to rent more blocks within the next few years. If the companies exploring block one find signs of oil, we can expect much larger bonuses from the next blocks – that is one reason why we did not want to rent all the blocks at once. Another reason is that we are only now learning how to deal with the oil companies. We got a good price for the first block, and will use that experience to get the best possible price for the other blocks. But for now, the money we are certain to get will only last a few years. As you can see in the chart above, it will not increase the budget by much.

If we do find a lot of oil and the money is managed well, then this will become one of the most important parts of the budget in the future. By that point, we will have the oil management law in place to ensure the transparency and effectiveness of these funds.

IV The Future of Our Country

If we find oil, will the money change our lives and solve our problems?

We hope so, but it is difficult. Oil revenue can be a curse as well as a blessing. It is up to us, the people of São Tomé and Príncipe, to spend the money on useful things.

How can oil be a blessing for us?

If we learn from the bad experiences of others and manage our oil revenues well, then they can become a blessing for our people. We can spend oil revenues on vaccines, drugs and sanitation, to reduce infant mortality and the damaging effects of malaria. We can spend them on schools, teachers and books to provide our children with the education they need to have better lives than us. We can build better roads to make it easier to get goods to market, and we can try to give every São Toméan running water and electricity. In this way, we could try to reach the Millennium Development Goals of reducing poverty around the world. These goals have been agreed to by all the countries in the world. If we manage to spend the oil money in this way, we will become an example to other countries around the world.

What happens next?

We know that oil can be a blessing or a curse and that what it brings depends on careful planning for the future. We do not know if we have any oil, and we do not know how much there is if we do. Even though it will take time before we know, we must begin planning now so that we are prepared for what comes. Preparing how best to use this money is a decision that everyone must make together. It is a decision about our future, and that is why we have this booklet and the national forum.

Credits