



# Sao tome business fact sheet



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ISCG

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## **BUSINESS OPPORTUNITIES**

Agriculture is the dominant sector in the São Tomean economy, at least as far as employment is concerned (perhaps 70%), although it accounts for less than 20% of the GDP. Foreign investors can play a critical role in helping farmers improve cocoa yields through better varieties; better harvesting, fermentation and drying techniques; and superior marketing. They can also help smallholders diversify into high-income produce such as fruits and flowers.

Despite all this, fisheries play a small role in the STP economy. As the World Bank study mentioned above points out, foreign (mainly European) fishing fleets extract valuable catches from STP waters (for very limited compensation). The artisanal sector lands catches of low-quality pelagic fish, though on many days demand exceeds catch.

Tourism is a growing business in STP, although the growth is slow. The majority of the tourists are European, although there is a small African minority. STP has considerable advantages as a tourist location. There are a finite number of tropical island paradises, most of which are already overbuilt, polluted, short of fresh water, or full of package tourists.

### **General introduction**

Discovered and claimed by Portugal in the late 15th century, the islands' sugar-based economy gave way to coffee and cocoa in the 19th century - all grown with plantation slave labor, a form of which lingered into the 20th century. While independence was achieved in 1975, democratic reforms were not instituted until the late 1980s. The country held its first free elections in 1991, but frequent internal wrangling between the various political parties' precipitated repeated changes in leadership and two failed coup attempts in 1995 and 2003. The recent discovery of oil in the Gulf of Guinea promises to attract increased attention to the small island nation.

## Country facts

Area	Total	964 sq km
	Land	964 sq km
	Water	0 sq km
Coastline	209 km	
Terrain	volcanic, mountainous	
Land use	arable land: 8.33% permanent crops: 48.96% other: 42.71% (2005)	
Irrigated land	100 sq km (2003)	
Population	212,679 (July 2009 est.)	
Population growth rate	3.093% (2009 est.)	

## Economic facts

Subject	Unit	2004	2005	2006	2007	2008	2009	2010	2014
GDP Constant Price	Annual percentage change	6.6	5.7	6.7	6.0	5.8	4.0	4.5	7.0
GDP Current Price	Billion US dollars	0.108	0.115	0.125	0.145	0.176	0.189	0.204	-
GDP per Capita, current price	US dollars	717.65	752.003	808.162	921.96	1,100.87	1,158.33	1,234.23	-
Inflation rate, consumer price	Annual percentage change	12.8	17.2	23.1	18.5	26.0	17.1	11.9	5.0
Current account balance	Billion US dollars	0.008	0.0315	0.020	0.0244	0.055	0.068	-	-
Current account balance	Percentage of GDP	-16.8	-10.3	-28.8	-29.9	-29.0	-31.1	-28.0	-30.4

## Economic situation

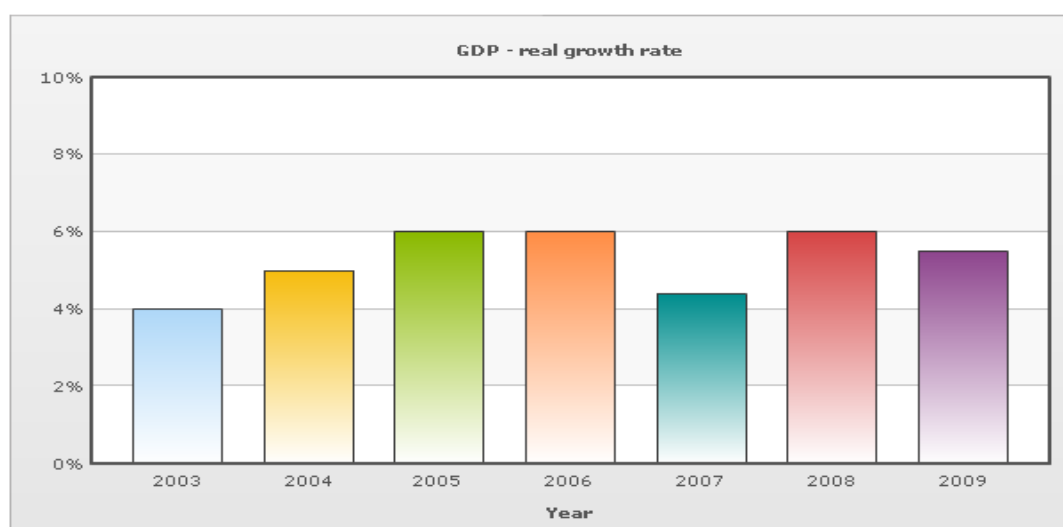
Since the 1800s, plantation agriculture dominated the economy of Sao Tome and Principe. The dominant crop on Sao Tome is cocoa, representing about 95% of exports. Other export crops include copra, palm kernels, and coffee.

Other than agriculture, the main economic activities are fishing and a small industrial sector engaged in processing local agricultural products and producing a few basic consumer goods. The scenic islands have potential for tourism, and the government is attempting to improve its rudimentary tourist industry infrastructure. The government sector accounts for about 11% of employment.

The Sao Tomean Government has traditionally been reliant on foreign assistance from various donors, including the UN Development Program, the World Bank, the European Union (EU), Portugal, Taiwan, and the African Development Bank. Sao Tome qualified for debt relief when it reached decision point under the IMF's Heavily Indebted Poor Countries Initiative (HIPC) in December 2000, but went off track on its poverty reduction program in early 2001. After 4 years and satisfactory performance on an interim staff-monitored program, the IMF approved a 3-year \$4.3 million Poverty Reduction and Growth Facility (PRGF) program for Sao Tome in September 2005. The ambitious program aimed to reduce inflation to a single-digit number, address the country's macroeconomic imbalances, and substantially reduce poverty. Another 3-year PRGF arrangement was approved in March 2009.

Portugal remains one of Sao Tome's major trading partners, particularly as a source of imports. Food, manufactured articles, machinery, and transportation equipment are imported primarily from the EU.

## GDP growth annual percentage change



## **Political situation**

In July 2003, the political scene was disrupted by a bloodless military coup, but widespread international pressure, coupled with foreign mediation, resulted in it being reversed, peacefully, a week later.

## **Foreign aid**

To date, the World Bank has approved fourteen IDA credits for São Tomé and Príncipe for a total amount of approximately US\$83.3 million. Current IDA commitments for the two ongoing projects amount to US\$19.5 million with US\$2.3 million undisbursed as of Today. The Social Sector Support Project of US\$6.5 million assists the country in achieving the human development goals as defined at the UN Millennium Summit. The Governance Capacity Building Project, in an amount of US\$5 million equivalent, supports São Tomé's public finance management and helps build the institutional framework of the nascent petroleum sector. A Development Policy operation of US\$6 million providing budgetary support was approved June 2008, with supplemental financing of US\$2 M approved in July 2009.

## **Foreign investment**

STP's size, combined with its lack of human and financial resources, has made it difficult for the country to attract foreign direct investment (FDI). When cocoa plantations were first privatized in the late 1980s, the government owned fifteen *empresas* (state farms). Between 1986 and 1990, management of five of these plantations was transferred to foreign investors (Agua Izé, Uba- Budo, Santa Margarida, Bela Vista, and Monte Café) and two (Agostinho Neto and Diogo Vaz) were transferred to local investors. The other eight *empresas agrícolas* did not attract private investors and remained in government hands. It was only in 1993 that the government started to distribute state-owned land to plantation workers, and only in 1996, after the failure of all but one of the seven privately-owned state farms (Bela Vista) to make a profit, that the World

Bank recommended that the government increase the area of privately-owned land for distribution to smallholders (Seibert, 1999). According to the United Nations Conference on Trade and Development (UNCTAD), FDI flows averaged USD 4 million a year in the 1990s and declined thereafter, turning negative in 2004 and 2005 (Country fact sheet, 2007). UNCTAD estimated total FDI stock in the country in 2006 at USD 16 million.

## **Investment climate**

An IMF report in July 2007 (IMF Country Report No. 07/267) noted that the Government had made substantial progress in reforming economic governance, although not as rapidly as might have been hoped. A new organic budget law (SAFE), introducing greater transparency, was adopted in early 2007. The Government plans

to build upon the recent progress in macroeconomic stabilization and to further reduce inflation, which is now at 17%, down from 24% a year earlier.











A tax reform package has been submitted to parliament which includes a new corporate income tax law, a new personal income tax code and a new urban property tax code. A new customs code is also in the works. The reform agenda focuses on strengthening public resource management (of special importance in the context of the expected oil revenues – see box I.1 below) and improving the business climate. The Government is aware that the cost of investing in STP, in both time and money, needs to be reduced. One step towards such reduction is a new law, as yet in draft form, that will create a ‘one-stop shop’ for business registration and related administration. The objective is to reduce the time needed for starting a business from over 140 days to below 4 days!

## Trade

STP’s exports are small in value, estimated at USD 4.4 million for 2007 by the Economist Intelligence Unit (EIU, October 2007). Cocoa continues to earn pretty much the only foreign exchange there is, outside of loans and grants from international donors. Imports on the other hand are substantial, leading to an estimated current account deficit of nearly USD 58 million in 2007 (EIU, October 2007). The leading import items are food, petroleum products, and machinery and equipment. The substantial current account deficit is covered mainly by aid from bilateral and multilateral donors.

The exported cocoa goes to The Netherlands and Belgium, while small quantities of other agricultural products go to Gabon and Angola. More than half of all imports come from Portugal. The remainders are divided among Belgium, France, Angola, and Japan (rice).

### Export partner

Global Exports by Sao Tome and Principe		Market Value: 11 (millions)	
Exports To	Trade Value	Share	Growth
	(thousands)	(%)	(% 5yr)
 Portugal	3,886	36.39	35.04
 Netherlands	3,132	29.33	(65.15)
 Belgium	1,668	15.62	(14.61)
 France	1,101	10.31	838.54
 Bahamas	327	3.06	NA
 Angola	181	1.70	(42.68)
 Cameroon	169	1.58	NA
 Nigeria	111	1.04	NA
 French Polynesia	51	0.48	NA
 Gabon	44	0.41	(50.52)

## Exported products

Top Products Exported by Sao Tome and Principe		Market Value: 51 (millions)		
Product	Trade Value	Share	Growth	
	(thousands)	(%)	(% 5yr)	
1801 - Cocoa	6,797	13.32	28.22	
8711 - Motorcycles	5,682	11.13	101,357.13	
8471 - Computers, Printers & Storage Units	1,830	3.59	5,352.31	
8407 - Piston Engines	669	1.31	NA	
8482 - Ball & Roller Bearings & Parts	358	0.70	4,373.65	
3304 - Beauty & Make-up Preparations	232	0.46	NA	
8457 - Machining Centers - Metal Working	199	0.39	NA	
8521 - Video Recording Equipment	193	0.38	NA	
8541 - Transister & Semiconductor Devices	189	0.37	5,100.69	
7616 - Articles of Aluminum	165	0.32	NA	

## Import partners

Global Imports by Sao Tome and Principe		Market Value: 211 (millions)		
Imports From	Trade Value	Share	Growth	
	(thousands)	(%)	(% 5yr)	
 Portugal	137,914	65.51	147.42	
 Angola	42,564	20.22	309.04	
 Belgium	9,344	4.44	(32.39)	
 Vietnam	1,870	0.89	NA	
 Netherlands	1,675	0.80	520.55	
 Nigeria	1,644	0.78	198.19	
 France	1,587	0.75	125.97	
 United States	1,574	0.75	427.79	
 Japan	1,477	0.70	(77.27)	
 Denmark	1,477	0.70	NA	

## Imported products

Top Products Imported by Sao Tome and Principe		Market Value: 202 (millions)		
Product	Trade Value	Share	Growth	
	(thousands)	(%)	(% 5yr)	
2710 - Non Crude Oil	14,473	7.16	3,428.76	
2204 - Wine	2,334	1.16	57.44	
1701 - Cane Sugar	2,299	1.14	334.03	
1101 - Wheat & Meslin Flour	1,802	0.89	4.66	
8703 - Passenger Vehicles	1,616	0.80	0.81	
1507 - Soybean Oil	1,363	0.67	38.46	
4911 - Pictures & Photos	1,345	0.67	1,441.21	
0402 - Concentrated Milk & Cream	1,268	0.63	93.44	
7308 - Structures & Parts of Iron or Steel	1,198	0.59	679.20	
7210 - Iron & Steel > 600 mm Wide - Clad	1,135	0.56	1,238.76	

## Agriculture

Agriculture is the dominant sector in the São Tomean economy, at least as far as employment is concerned (perhaps 70%), although it accounts for less than 20% of the GDP.

Since the redistribution of the large cocoa plantations in the early 1990s, smallholders have carried out most agricultural production. Since cocoa alone does not guarantee a livelihood, many find supplementary work growing vegetables, fruit, vanilla and pepper for export. Though cocoa looms large in the STP economy, the country's share of the world market is estimated at only 0.11% (2000-2005) by the International Cocoa Organization (ICCO). Nevertheless, São Tomean cocoa is prized for its high quality, and is often blended with lower quality cocoas to improve the overall product. There is also a growing "organic" cocoa sector.

Foreign investors can play a critical role in helping farmers improve cocoa yields through better varieties; better harvesting, fermentation and drying techniques; and superior marketing. They can also help smallholders diversify into high-income produce such as fruits and flowers. As has been shown in other African countries, both parties gain when the investor supplies expertise, credit and access to foreign markets, while the smallholder supplies land and labor, greatly expanding the volume of the investor's exports. Even in STP, the model is already working, according to a recent World Bank study (World Bank, 2006). Diogo Vaz, which has 600 ha of cocoa, buys three times as much cocoa from out-growers as it produces directly. The flower exporter Flora Speciosa intends to expand further its cadre of selected outgrowers, whom it supplies with technical assistance.

The potential for high-income agricultural produce in STP is considerable, given the soil and the rainfall. Markets for such products can be found along the coast of West Africa as well as abroad. Green bananas, for example, are currently produced to be sold in Gabon. The World Bank study mentioned above has suggested that the exploitation of niche markets for crops such as exotic flowers, medicinal herbs and aromatics, pepper and vanilla, as well as other tropical fruits and vegetables *contre-saison* may have serious potential to generate export revenues.

Tropical fruits abound in the STP islands. Local farmers say that anyone who stands too long for a chat with a wooden cane posed on São Tomean soil will soon see roots sprouting. There are numerous kinds of banana, papaya, mango, melon, breadfruit, limes and lemons. There are also vegetables in great variety, including tomatoes, cucumbers, lettuce, cabbage, hot peppers, pumpkins, sweet potatoes, corn, and manioc.

Oil palm is another crop with potential in STP, with large spreads of oil palm already available, which could yield cooking oil, animal fodder and raw material for the manufacture of cosmetics, detergents and pharmaceuticals. A formerly state-owned oil palm plantation, Emolve (Empresa de Óleos Vegetais) is available for rehabilitation. Palm oil is already being exported, along with cassava meal, to the Portuguese ethnic market.

## **Fishing**

STP's historic focus on agriculture and land-based economic activity is surprising given the size of the nation's waters, spanning 130,000 sq. km. or well over 100 times the nation's land area. Biodiversity surveys indicate that the country's waters include 185 species of fish from 67 families. Other marine resources include nesting sea turtles, seabirds and marine mammals, with São Tomean waters serving as a main breeding ground for the humpback whales that migrate between Antarctica and the Gulf of Guinea. Studies indicate a potential fisheries biomass of 12,000 tonnes annually with 8,500 tonnes pelagics and 3,500 tonnes demersal. The most abundant fish species are seabreams, flying gurnards, squid, cornet fish, snappers, groupers, and grunts.

Despite all this, fisheries play a small role in the STP economy. As the World Bank study mentioned above points out, foreign (mainly European) fishing fleets extract valuable catches from STP waters (for very limited compensation). The artisanal sector lands catches of low-quality pelagic fish, though on many days demand exceeds catch. The catch is mostly sold locally but some is exported. The local fishery's contribution to STP's GDP is very small (2-4% in the 1990s) but the estimated annual catch of 3,000 tonnes represents 70% of the animal protein consumption in STP.

Opportunities in this sector can be found in improving fishing know-how and fishing equipment, supplying cold storage units, and creating processing plants that can undertake export on a significant scale.

## **Tourism**

Tourism is a growing business in STP, although the growth is slow. The majority of the tourists are European, although there is a small African minority. It is not clear how many of the international arrivals.

STP has considerable advantages as a tourist location. There are a finite number of tropical island paradises, most of which are already overbuilt, polluted, short of fresh water, or full of package tourists. STP is quite possibly the last of its kind: a small tropical island with palm-fringed beaches, turquoise seas, waterfalls, rivers, unique species of birds and plants, and, perhaps most important in an African context, no violence and little crime.

An example to illustrate STP's attractions can be furnished by its bird-watching potential. There are 27 endemic bird species in an area of 1,000 sq. km. Furthermore, any responsible guide service in the country can guarantee that a tourist will be able to see 25 or 26 of the endemic species within a few days, a degree of 'saturation' of rare species almost unknown elsewhere in the world. One can also scuba dive or snorkel with schools of unique tropical fish and view from one's hotel window (in season) passing dolphins and humpback whales. Leatherback turtles lay their eggs at various sites along the coast.

Since STP is so little known, most tourists in the past have come from Portugal, because of the colonial links. However, there is a huge untapped European market beyond Portugal. There is also a large untouched market in continental West Africa. Many among the thousands of expatriates often confined to their compounds in dangerous locations would welcome such a destination for a weekend or longer of 'R & R' if they only knew about it — and could actually get there.

Hotel capacity in STP is growing rapidly. Portugal's Grupo Pestana has built a 5-star hotel with a casino in the capital city. This joins a resort it already manages on the southern tip of São Tomé Island. It plans to build a golf resort on the north coast. There are various initiatives that are starting to offer training to the hospitality industry. The Government projects an increase of 15,000 in international arrivals by 2010 which, if realized, should create a substantial number of direct and indirect jobs in the country.

The main challenges for tourism in STP are limited infrastructure — including water, sanitation, roads and emergency health services, including evacuation services — lack of trained personnel, and rainfall, particularly during the rainy season.

## Incentives for investors

The Investment Code of 1992 created a three-incentive scheme: the Simplified Scheme, the General Scheme and the Contractual Scheme. Of these, only the Contractual Scheme is available to foreign investors, irrespective of the amount of their investment.

The new investment code, approved by the National Assembly and now awaiting official publication, would nullify the investment code of 1992 and consequently the three-incentive scheme used to date. Article 1 of the new investment code sets forth a new legal framework under which only investments above USD 250,000 are eligible for benefits and guarantees. Investments under USD 250,000 would not be eligible for incentives and benefits, but would be protected against expropriation. Under the current Contractual Scheme, investors receive all incentives granted under the General Scheme, which are as follows:

- 75% reduction in property transfer tax (SISA) payable for the acquisition or establishment of ownership rights for the investment project;
- 50% reduction in corporate income tax for the first seven years of the project, including the first year;
- Exemption from all customs fees on capital goods imported for the project's implementation and execution;
- Permission to amortize, over a period of three years, expenses incurred in the training and professional development of domestic personnel involved in the investment project;
- Use of property owned by the State and suited to the project, for the project's duration, so long as such use does not have harmful social or ecological impact; and
- Access to special lines of credit, to be determined by the competent authority, up to a maximum of fifty percent of the total investment amount. (This last incentive exists only in theory, as STP has no funds to set up such credit lines.)
- The government may establish, by means of a contractual agreement, terms or rates exceeding those just mentioned, whenever the investment project is of exceptional interest to the national economy.

In addition, foreign investors enjoy:

- An exemption from corporate income tax on after-tax profits which, having been authorized for transfer abroad, are kept as company reserves;
- The right to transfer after-tax profits abroad, up to an annual percentage of 15% of the foreign capital invested; and
- An exemption from taxes on bank transactions involving the entry of foreign capital for the project.

Applications for investment incentives may take the form of a prior consultation or an actual application process, and must be submitted in six copies to the Economic Planning Authority (*DPE: Direcção de Planificação Económica*) of the Ministry of Planning and Finance.

## **Conditions to be fulfilled**

In order to be eligible for the incentives listed above, investors must:

- Submit a report including an analysis of the project's macro-economic implications and other economic and financial indicators normally used in project analysis;
- Submit an administrative agreement proposal, stating the project's goals, purposes, obligations, guarantees and anticipated benefits, for evaluation by the competent authority; and
- Indicate the governing law for resolving conflicts. The new investment code mentioned above may entail changes in the incentives described here. Investors may wish to check the provisions of the new code before investing.

## **Appendix**

### **Ease in doing business**

#### **Useful contacts**

São Tomé and Príncipe Chamber of  
Commerce, Industry, and Agriculture  
Caixa Postal 527,  
Av. 12 de Julho,  
São Tomé  
Tel: + 239 222 723  
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