

Sao Tome and Principe



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Brief History:

The tiny volcanic islands of São Tomé and Príncipe lie in the Gulf of Guinea about 150 mi (240 km) off West Africa. São Tomé (about 330 sq mi; 859 sq km) is covered by a dense mountainous jungle, out of which have been carved large plantations. Príncipe (about 40 sq mi; 142 sq km) consists of jagged mountains. Other islands in the republic are Pedras Tinhosas and Rolas. About 95% of the population lives on São Tomé.

São Tomé and Príncipe, believed to have been originally uninhabited, were explored by Portuguese navigators in 1471 and settled by the end of the century. Intensive cultivation by slave labor made the islands a major producer of sugar during the 17th century, but output declined until the introduction of coffee and cocoa in the 19th century brought new prosperity. The island of São Tomé was the world's largest producer of cocoa in 1908, and the crop is still its most important. Working conditions for laborers, however, were horrendous, and in 1909 British and German chocolate manufacturers boycotted São Tomé cocoa in protest. An exile liberation movement was formed in 1953 after Portuguese landowners quelled labor riots by killing several hundred African workers.

The Portuguese revolution of 1974 brought the end of the overseas empire, and on July 12, 1975, Lisbon granted São Tomé independence. Manuel Pinto da Costa, leader of the only legal political party (Movement for the Liberation of São Tomé and Príncipe [MLSTP]), became president and Miguel Trovoada served as prime minister. After a 1978 coup attempt failed, Trovoada was accused of participating in the conspiracy and exiled. In 1990 a new constitution instituted multiparty rule. Trovoada returned and in March 1991 was voted president in the country's first free elections. Príncipe became autonomous in 1995.

Protests and unrest erupted throughout the 1990s over unemployment and soaring inflation. One of Africa's poorest countries, São Tomé has what are believed to be enormous untapped off-shore oil reserves—an estimated 6 billion barrels that are expected to begin flowing by 2007 or 2008. Businessman Fradique de Menezes won the presidential election in 2001. In July 2003, a military coup deposed Menezes while he was out of the country. International pressure resulted in Menezes's restoration to the presidency a week later. In 2006, Menezes won reelection with 60% of the vote, but the governing MDFM-PCD coalition did not win a majority of votes in parliamentary elections. In February 2008, the coalition agreed to a power-sharing deal with the opposition Independent Democratic Action (ADI) party. The party's leader, Patrice Trovoada, was appointed prime minister.

São Tomé and Príncipe has a population of 199,579 (2007 est.) and its labor force of approximately 35,050 (1991 est.) is mainly engaged in subsistence agriculture and fishing and there is a shortage of skilled workers.

Economy:

This small, poor island economy has become increasingly dependent on cocoa since independence in 1975. Cocoa production has substantially declined in recent years because of drought and mismanagement. Sao Tome has to import all fuels, most manufactured goods, consumer goods, and a substantial amount of food. Over the years, it has had difficulty servicing its external debt and has relied heavily on concessional aid and debt rescheduling. Sao Tome benefited from \$200 million in debt relief in December 2000 under the Highly Indebted Poor Countries (HIPC) program, which helped bring down the country's \$300 million debt burden. In August 2005, Sao Tome signed on to a new 3-year IMF Poverty Reduction and Growth Facility (PRGF) program worth \$4.3 million. Considerable potential exists for development of a tourist industry, and the government has taken steps to expand facilities in recent years. The government also has attempted to reduce price controls and subsidies. Sao Tome is optimistic about the development of petroleum resources in its territorial waters in the oil-rich Gulf of Guinea, which are being jointly developed in a 60-40 split with Nigeria. The first production licenses were sold in 2004, though a dispute over licensing with Nigeria delayed Sao Tome's receipt of more than \$20 million in signing bonuses for almost a year.

Real GDP growth exceeded 6% in 2007 and 5% in 2008. 2008 estimated GDP was \$278.4 million, GDP per capita was \$1,400, and annual inflation was 27%.

Banking System:

The financial system is small and underdeveloped. There are seven private commercial banks, five of which were opened between 2005 and 2007. The largest and oldest bank is Banco Internacional de Sao Tome e Principe, which is a subsidiary of Portugal's government-owned Caixa General de Depósitos. It had a monopoly on commercial banking until a change in the banking law in 2003 led to the entry of the other banks. Four of the private commercial banks are foreign owned, such as Cameroonian subsidiary bank, Afriland First Bank Sao Tome e Principe. Table 1 below shows the capital held by the various banks. The focus of economic reform since the early 1990s has been widespread privatization. The government invites private participation in the management of para-statal and banks.

Bank	Capital
Afriland First Bank STP	\$ 1,800,000
Banco Equador	\$ 5,016,130
Banco Internacional STP	\$ 1,800,000
Commercial Bank STP	\$ 3,000,000
EcoBank STP	\$ 2,300,000
Island Bank	\$ 2,700,000

Oceanic Bank STP	\$ 5,000,000
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Table 1 - Banco Central de Sao Tomé e Príncipe

Credit facilities for businesses are very limited. Medium and longer-term financing is difficult to obtain from commercial banks in Sao Tome and Principe. Interested investors generally try to locate offshore sources of funding as local interest rates are very high. There is no stock exchange and no government and corporate bond markets. The currency, the dobra, operates under a freely floating regime. It declined by 2.0 percent against the dollar in the year to date period ending August 28, 2008.

Insurance Companies and Other Financial Institutions:

No insurance or other financial institutions have been reported to exist.

São Tomé and Príncipe’s legal system is weak and subject to corruption. There is no separate commercial court system, and backlogs of civil cases cause long delays. International donor assistance projects aim to improve the judiciary by training staff and expanding physical capacity.

A large portion of the population lacks access to formal banking services, and overall, domestic credit to the private sector remains limited and expensive, although it is available to both foreign and local investors without discrimination.

Central Bank and its Role in the economy:

São Tomé and Príncipe’s small financial system is supervised by its central bank, Banco Central de São Tomé e Príncipe. The country’s staggering government debt, amounting to about 600 percent of GDP, puts considerable pressure on the financial system, and is mainly due to the country’s undiversified and volatile economy. The debt is historical, and is not in anticipation of the oil revenues, but rather tied to the collapse of the cocoa exports. Heavy reliance on foreign assistance from various donors, including the UN Development Program, the European Union, Portugal, Taiwan, and the African Development Bank resulted in the country becoming a Heavily Indebted Poor Country, as mentioned above.

São Tomé e Príncipe 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 four years and satisfactory performance on an interim staff-monitored program, the IMF approved a new three-year \$4.3 million Poverty Reduction and Growth Facility (PRGF) program for Sao Tome in September 2005. São Tomé e Príncipe has initiated discussions on debt cancellation with Angola and Portugal. Table 2 below shows the breakdown of outstanding external debt as of the end of 2007.

Outstanding of External Debt (as of end 2007)	
Multilateral creditors	\$ 35,500,000
IDA	\$ 9,700,000
African Development Bank	\$ 2,200,000
Arab Development Bank	\$ 2,500,000
IMF	\$ 2,000,000
Others	\$ 19,000,000
Bilateral creditors	\$ 114,200,000
Portugal	\$ 24,800,000
Angola	\$ 25,400,000
Others	\$ 54,000,000
Total	\$ 149,700,000

Table 2 - Joint IMF-World Bank Debt Sustainability Analysis

Stock Market:

São Tomé and Príncipe do not have a stock market.

Fixed Income Markets:

São Tomé and Príncipe do not have a fixed income market.

Foreign Investment:

Detailed statistics are unavailable, but Foreign Direct Investment (FDI) appears to be increasing due to structural macroeconomic reforms that have increased investor confidence, as well as recent developments in the petroleum sector and the process of privatization being undertaken in STP. The share of FDI in the country's gross fixed capital has increased recently after having been stable at 14-18% for several years. This mainly reflects investment in the petroleum sector.

The country is also very heavily dependent upon foreign aid to sustain its economy and budget. In 2005, foreign development assistance totaled \$31.9 million and was equivalent to 45.2 percent of GDP. Only the Solomon Islands, Timor-Leste and Burundi had a higher ratio. The IMF is projecting that foreign assistance will account for 29.5 percent of total government revenue this year and oil signature bonuses will supply a further 33.9 percent. Tax revenue meanwhile will represent a mere 4.8 percent of budgetary receipts. With regard to spending, personnel

costs account for 45.8 percent of total current expenditures. The huge inflows of foreign aid will enable the budget to register a projected surplus of 11.7 percent this year.

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