

# SÃO TOMÉ AND PRÍNCIPE

## Islands in a Strategic Sun

Long an overlooked dot in the Atlantic Ocean, the tiny archipelago nation of São Tomé and Príncipe is planning a bright future based on tourism, logistics and oil. Seeking to become what one businessman calls an “aircraft carrier for Africa,” the government is sprucing up the economy and the tax system. Foreign investment is arriving for hotels, infrastructure and offshore petroleum.



Introduction



**JOAQUIM RAFAEL BRANCO**  
Prime Minister

“Governments are normally proud of major construction projects, but I’m proudest of the reforms we’re doing in fiscal policy and transparency, to reduce risks for investors.”

Formerly minister of foreign affairs and then public works, the 57-year-old Rafael Branco sees his country’s modernization as a long-term task: “We had many dreams when we became independent. We thought life would get better. But then people’s needs were not met, and dissatisfaction increased. “In the medium and long term, society will gain if the country is fiscally healthy, if decisions are taken in daylight, particularly where the economy is concerned, and when the judicial system works like it should. This isn’t something we can do in a couple of years; we need ongoing policies for at least a decade. “It might be politically inconvenient to say this, but we have to be honest and live within our means.”

# From Colonial Poverty To 21st Century Player

After centuries in the doldrums, this island nation is looking for niche markets and development strategies that make the most of its key location as a gateway to equatorial West Africa.



**A**mazingly, the Atlantic Ocean islands now known as the Democratic Republic of São Tomé and Príncipe were uninhabited when they were discovered by Portuguese sailors around 1472 – amazing because the archipelago just 150 miles off the West African coast offered verdant forests, teeming wildlife and some rich farmland.

Many of those natural advantages still exist. However, they have yet to bring prosperity to the 175,000 São Toméans, mainly descendants of Portuguese colonists and slaves, who are only now coming to grips with building a modern micro-economy in a globalized world. For more than five centuries,

the two main islands – together no bigger than Tahiti or Grand Bahama – served as a slave-trade entrepôt and plantation cash cow for absentee Portuguese landlords. Sugar, and later coffee and cocoa, padded profits in Lisbon but brought precious little progress to the colony. When Portugal finally threw in the towel in 1975, the immediate response was a one-party socialist government – not uncommon in post-colonial Africa during the Cold War. But within a decade, the impoverished country started opening and liberalizing its economy. Multiparty democracy arrived in 1990.

Political stability has been more of a challenge. A dozen

Tourism is a natural development option, leveraging fine tropical beaches and a rich colonial history. But local leaders seek a more diversified economy that includes off-shore services, petroleum and fishing.

governments have come and gone since independence, not to mention a few coup d’états. Now the government is pushing forward with economic and institutional reforms, and there are high hopes that the turmoil is over.

“It’s a small population but it’s culturally diverse ... and socially stable,” said Rafael Branco, prime minister since June 2008.

**SAO TOME AND PRINCIPE**  
A STEPPING STONE IN THE MIDDLE OF THE OCEAN

SPONSORS



**ÂNGELA VIEGAS SANTIAGO**  
Finance Minister

“Good governance is essential, and within that so is the proper management of public resources, because it transmits confidence and responsibility.”

Finance Minister Ângela Santiago might handle relatively modest numbers — GDP is around US\$200 million at the official exchange rate, just over one-thousandth of 1 percent of the United States’ — but that doesn’t make her life any easier. An economics graduate of Donetsk University in the Ukraine, Santiago is bringing financial stability and transparency to a country long known for neither. “Right now the state budget is financed 90 percent by external resources. We try hard to raise tax revenues, but the economy is small and we must make it grow,” she said. One key step came in 2008 when São Tomé and Príncipe was admitted to the International Finance Corporation, a branch of the World Bank dedicated to promoting open and competitive markets in developing countries.

Petty corruption remains a problem, according to Transparency International, but within the regional context São Tomé and Príncipe is doing pretty well. It ranks 10th best out of 53 African nations in the Ibrahim Index of good governance, scoring in the top dozen for safety and rule of law, participation and human rights, and human development. Where it slips badly, into the bottom half of the table, is sustainable economic opportunity.

Civic and business leaders generally know what’s needed, starting as ever with better education. Tax reform has simplified the system for companies, and flat-rate income tax was

replaced with a progressive levy. However, progress is difficult when government spending is heavily dependent on foreign aid and investment must be curbed to keep inflation on its downward track.

Now great hopes are pinned on an integrated, three-pronged development strategy:

- **Infrastructure:** The main airport at São Tomé, the capital, will be modernized under a concession agreement with Sonangol, Angola’s state-run oil and infrastructure company. A deepwater port will be developed under a build-operate-transfer concession with Terminal Link, a subsidiary of French shipping giant CMA CGM, essentially to serve as a

container transshipment hub for west-central Africa.

- **Free zones:** “We are like an aircraft carrier for Africa,” said Arzemiro dos Prazeres, executive director of the Free Zone Authority. So far three free zones are planned: one at the international airport to handle light manufacture, repackaging and so on; one at Príncipe Port for activities like fishing and off-shore oil exploration; and one for offshore financial services. Local added value has been set at 35 percent to qualify for a “Made in São Tomé and Príncipe” sticker.

- **Oil:** This is possibly the biggest unknown. Exploration started with high hopes in 2001 following a deal with Nigeria to

## São Tomé and Príncipe

### STABILITY. TRANSPARENCY.

In the Gulf of Guinea, a quiet transformation is taking place. São Tomé and Príncipe is becoming the prime services platform for Western and Central Africa and a regional market of over 200 million customers. Through establishing a dobra-euro currency peg, extensive customs reforms and streamlining business practices, the Ministry of Planning and Finance is proud to be leading this effort.





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**Tourism**



divvy up disputed offshore areas on a 60:40 basis (60 percent for Nigeria). ChevronTexaco, ExxonMobil and Anglo-Norwegian firm Equity Energy Resources bought licenses, but initial results were disappointing. Nevertheless, companies remain interested because the region is a continuation of the same geological formation that helps make Nigeria a petroleum powerhouse, so a new round of license auctions is under way. João Gomes, president of the local HB Group, sees great prospects for São Toméan companies in supplying rig support services: “We aren’t going to drill for oil, but we’ll support the companies that do,” he said.

**A Nice Niche on the Equator**

São Tomé and Príncipe has great hopes for tourism, and the

strategy is to pitch the islands slightly above the mass market for tropical destinations by offering a mixture of high-class hotels, resorts and ecotourism.

Portugal’s Pestana Group is leading the international inflow with three hotels on the islands — one five-star and two four-star, including a resort-hotel — plus a luxury condominium.

“Tourism can prompt sustainable development, and I think it can grow a lot in the next 10 years,” said Pestana Group’s Pedro Martins. “We have two new projects ready to move ahead just as soon as we feel that the market will give a return.”

Right now 70 percent of Pestana’s business in São Tomé and Príncipe comes from Portugal, mainly via tour operators. But Martins also sees potential from Spain and Italy. Much

depends on the flights — currently, the only scheduled direct European link is from Lisbon, but ongoing negotiations with Spain could add another key route. Ease of travel is essential in the short vacations market.

However, São Tomé and Príncipe’s central position in the Gulf of Guinea puts it less than a couple of hours from a vast emerging market of some 200 million consumers. Small but affluent professional classes in countries like Nigeria, Angola, Equatorial Guinea and Gabon will increasingly consume high-quality leisure services. “We see these countries as a great opportunity,” Martins said.

Luis Beirão, a local entrepreneur, sees potential in ecotourism, rural tourism and especially trekking. Such is Beirão’s enthusiasm for the islands’ flora

and fauna that he is considering divesting his Navetur-Equatour company of its other activities to concentrate on trekking.

“I even joke that Charles Darwin lost his way when he went to the Galapagos; he should have come here,” Beirão said, pointing to 28 endemic bird species and 120 kinds of orchids, 30 of which are endemic. Target customers are higher-income northern Europeans, and he’s on the lookout for like-minded companies to work with, possibly in Scandinavia.

Prime Minister Branco is another who sees the potential in niche tourism: “We’re not a country of sun, sea and sex. Here the tourists will be interested in seeing the reality of country life and perhaps buying pesticide-free coffee produced by the local community.” ■

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