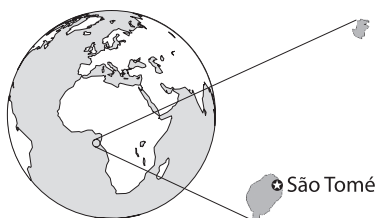


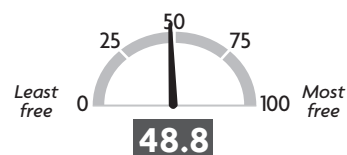
SÃO TOMÉ AND PRÍNCIPE



World Rank: **149**

Regional Rank: **30**

Economic Freedom Score



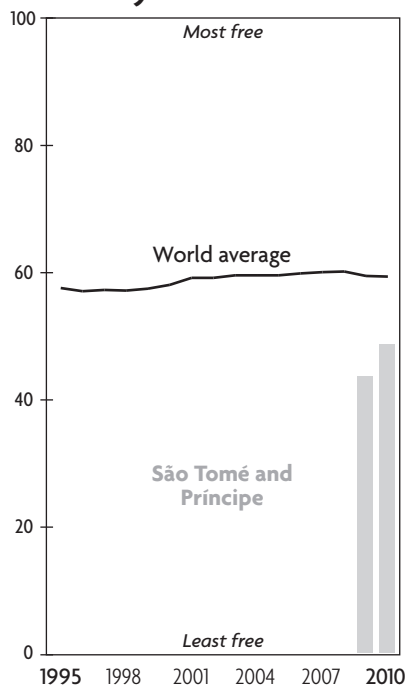
São Tomé and Príncipe's economic freedom score is 48.8, making its economy the 149th freest in the 2010 *Index*. Its score has increased by 5.0 points from last year, reflecting notable improvements in trade freedom, fiscal freedom, government spending, and investment freedom. São Tomé and Príncipe is ranked 30th out of 46 countries in the Sub-Saharan Africa region, and its overall score remains below the world average.

São Tomé and Príncipe's economy has a narrow productive base and poor regulatory and legal frameworks. Heavy public debt and the large presence of the government in the economy have tended to crowd out private investment. The overall institutional environment, characterized by onerous bureaucracy, is not conducive to private-sector development. Corruption is considered pervasive.

In recent years, however, a number of reforms have been implemented. The corporate tax rate has been significantly reduced, and some progress has been made in achieving sounder management of public finance. The country's trade and investment regime has become more open and liberal, albeit at a slow pace. Through implementation of these reforms, São Tomé and Príncipe has achieved the second highest gain in economic freedom of any economy ranked in the 2010 *Index*.

BACKGROUND: The population of São Tomé and Príncipe, a two-island republic in the Gulf of Guinea, is heavily concentrated on São Tomé. International mediation in 2003 restored democratic governance after a week-long military coup. President Fradique de Menezes, first elected in 2001, was re-elected in 2006. Plantation agriculture, particularly cocoa and coffee, dominates the economy, although only about 15 percent of the workforce is engaged in agricultural activity. Cocoa represented 66 percent of exports in 2006. Offshore oil fields that São Tomé and Príncipe shares with Nigeria are thought to hold billions of barrels of oil but have not yet been exploited.

Country's Score Over Time



Quick Facts

Population: 0.2 million

GDP (PPP): \$0.3 billion

5.8% growth in 2008

6.0% 5-year compound annual growth

\$1,738 per capita

Unemployment: n/a

Inflation (CPI): 26.1%

FDI Inflow: \$33 million

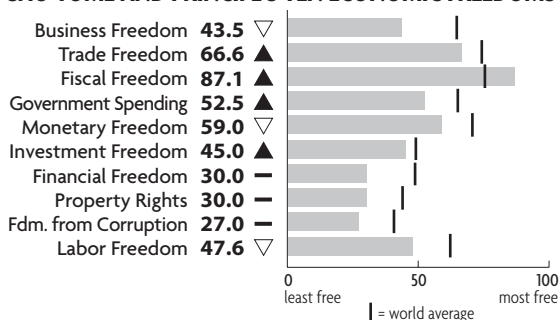
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

SÃO TOMÉ AND PRÍNCIPE'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 43.5

The overall freedom to start, operate, and close a business is constrained under São Tomé and Príncipe's regulatory environment. Starting a business takes an average of 144 days, compared to the world average of 35 days. The entry cost of launching a business is also high. Obtaining a business license takes more than the world average of 218 days.

TRADE FREEDOM — 66.6

São Tomé and Príncipe's weighted average tariff rate was 11.7 percent in 2007. Some high tariffs, services market access barriers, import restrictions, import taxes and fees, and limitations on regulatory and trade capacity add to the cost of trade. Ten points were deducted from São Tomé and Príncipe's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 87.1

São Tomé and Príncipe has implemented a significant tax reform package. A new tiered income tax scheme subjects five income brackets to rates ranging from 0 percent to a top rate of 20 percent. The top corporate tax was lowered to 25 percent from 45 percent. Taxpayer understanding of the changes is poor, and tax revenue could suffer in the coming year as a result. The reforms should boost compliance over time. In the most recent year, overall tax revenue as a percentage of GDP was 16.3 percent.

GOVERNMENT SPENDING — 52.5

Total government expenditures, including consumption and transfer payments, are relatively high. In the most recent year, government spending equaled 39.8 percent of GDP. Despite some improvements in recent years, poor control of public expenditures threatens fiscal stability. Transportation and telecommunication infrastructure is at least partially privatized (jointly held by the state and private entities), mostly as a result of the failures of national companies.

MONETARY FREEDOM — 59

Inflation has been extremely high, averaging 23.9 percent between 2006 and 2008. Ten points were deducted from São Tomé and Príncipe's monetary freedom score to adjust for measures that distort domestic prices.

INVESTMENT FREEDOM — 45

Foreign and domestic firms are treated equally under the law, and nearly all sectors of the economy are open to some degree to foreign investment. Investment-related laws and regulations can be burdensome, and bureaucracy can be cumbersome and prone to corruption. Other deterrents to investment include lax regulatory enforcement, inadequate infrastructure, underdeveloped markets, security concerns, and political unrest. Foreign exchange and capital transactions are subject to some restrictions, approvals, and controls.

FINANCIAL FREEDOM — 30

São Tomé and Príncipe's small and underdeveloped financial system is supervised by the central bank. Heavy external debt amounting to over 100 percent of GDP puts considerable pressure on the financial system. A large portion of the population lacks access to formal banking services. Although it is still dominated by one foreign government-owned bank, the banking system has undergone significant development in recent years as more private commercial banks have entered the sector. There are eight commercial banks, and the foreign presence in their ownership and management is considerable. In July 2007, an African banking group, Ecobank, also opened its first branch in São Tomé and Príncipe. Overall, domestic credit to the private sector remains limited and expensive, although it is available to both foreign and local investors without discrimination.

PROPERTY RIGHTS — 30

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.

FREEDOM FROM CORRUPTION — 27

Corruption is perceived as widespread. São Tomé and Príncipe ranks 121st out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Corruption has been increasing and can involve bribery, embezzlement, and mismanagement of public funds. Analysts attribute the recent rise in corruption to low wages for government workers and officials, the absence of appropriate regulations, and the lack of strong leadership. Signs of corruption are particularly obvious during election campaigns, when voters receive money to favor certain candidates or political parties.

LABOR FREEDOM — 47.6

São Tomé and Príncipe's labor regulations are inflexible. The non-salary cost of employing a worker is high, and dismissing an employee is relatively costly.