

São Tomé and Príncipe

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Overview

São Tomé and Príncipe (STP) is a lower middle income archipelago off the west coast of Africa sharing maritime borders with Equatorial Guinea, Gabon, Cameroon and Nigeria. It is located in the Gulf of Guinea and is Sub-Saharan Africa's smallest country by land surface (less than 1 000km²) and second smallest by population with 201 784 people, according to the country's National Statistical Institute.¹ The country has a gross domestic product (GDP) per capita of Db41 525 (US\$ 1 922) and Db73 699 (US\$3 412) GPD per capita at purchasing power parity rates, respectively.²

The International Monetary fund (IMF) describes STP as having the defining characteristics of micro-states, including remoteness, fragility, limited resources, susceptibility to climate and external shocks, and aid dependency.³ STP also faces serious fiscal problems – having recorded Government budget deficits in nine out of the last 10 years. The domestic primary deficit stood at an estimated 2.3 percent of GDP in 2018, despite major budget cuts, due to the low domestic revenue levels (12.5 percent of GDP).⁴ The Government has therefore been forced to increase external and domestic borrowing, with current total Government debt as much as 100 percent of GDP. The country has received considerable support from the IMF to restructure this debt, the last intervention in 2018.⁵ STP has a low sovereign credit rating below 15 or “extremely speculative”⁶ and has had its debts rescheduled with its lenders.⁷

On the upside there is positive GDP growth forecast, at 2.2 percent for the financial year 2019/20.⁸ The country has also had decelerating inflation over the past few years, from highs of more than 25 percent in 2007. During the 2013-2017 period, inflation averaged a more reasonable 5.4 percent, just above the five percent target. Inflation, however, grew, to nine percent in 2018, and was slightly lower at 8.2 percent in the second quarter of 2019.⁹

The economy is based on natural resources (fish, hydropower, and yet to be exploited oil reserves) and agriculture production, the latter mostly for subsistence but also for export. Most export incomes come from agriculture (of which cocoa is 80 percent and also includes coffee and palm oil). The country also has a significant tourism industry.¹⁰ Of particular risk to the country is building up resilience to climate change. Most of the country's imports have traditionally been from Portugal (over 80 percent), but a growing Chinese presence in the economy is visible, with the former now constituting as much as eight percent of trade. Exports are mainly to Europe and Nigeria.

KEY FIGURES

Main urban centres	Sao Tome
Exchange rate: 1 US\$ = [a] 1 July 2019	21.61 Dobra (STD)
1 PPP\$ = [b]	12.17 Dobra (STD)
Inflation 2018 [c] Inflation 2019 [c]	7.9 7.1
Population [b]	211 028
Population growth rate [b] Urbanisation rate [b]	1.9% 3.0%
Percentage of the total population below National Poverty Line (2017) [d]	39.1%
Unemployment rate (% of total labour force, national estimate) (2017) [d]	13.4%
Proportion of the adult population that borrowed formally	n/a
GDP (Current US\$) (2018) [b]	US\$422 million
GDP growth rate annual [b]	2.700%
GDP per capita (Current US\$) (2018) [b]	US\$2 001
Gini co-efficient (2017) [b]	30.80
HDI global ranking (2017)[d] HD country index score (2017) [d]	143 0.589
Lending interest rate (2017) [b]	19.9%
Yield on 2-year government bonds	n/a
Number of mortgages outstanding	n/a
Value of residential mortgages outstanding (US\$)	n/a
Number of mortgage providers [f] Prevailing mortgage rate [f]	116.5%
Average mortgage term in years [f] Downpayment [f]	20 50%
Ratio of mortgages to GDP	n/a
What form is the deeds registry? [e]	n/a
Total number of residential properties with a title deed	n/a
Number of houses completed	n/a
Number of formal private developers/contractors	n/a
Number of formal estate agents	n/a
Cost of a standard 50kg bag of cement [g]	220 STD (US\$10.18)
Price of the cheapest, newly built house by a formal developer or contractor in an urban area (local currency units) [h]	814 000 STD
Size of cheapest, newly built house by a formal developer or contractor in an urban area	n/a
Average rental price for this unit in an urban area (local currency units)	9 400 STD
Number of microfinance loans outstanding	n/a
Number of microfinance providers [f]	1
Number of housing construction loans outstanding	n/a
Number of providers of construction finance	n/a
World Bank Ease of Doing Business Rank [e]	170
Number of procedures to register property [e]	8
Time (in days) from application to completion for residential units in the main urban city	n/a

NB: Figures are for 2019 unless stated otherwise.

[a] Coinmill	[e] World Bank Doing Business 2018
[b] World Bank World Development Indicators	[f] Banco Internacional de São Tomé e Príncipe
[c] IMF World Economic Outlook Database	[g] NOUR LDA
[d] UNDP: Human Development Reports	[h] Colema Imobiliária

The country imports most of its consumption goods and has a negligible manufacturing sector.¹¹ A key strategic thrust by the STP Government has been to develop its tourism sector. Tourism receipts have risen almost fivefold since 2010, from Db238 million (US\$11 million) to approximately Db1.425 billion (US\$66 million) in 2017 (or from Db1 296 – US\$60 – per capita to slightly over Db6 480 – US\$300). There is also considerable room for growth.¹² The country has high hopes of exploiting its oil reserves, though there are major risks to this. The country's weak legal and regulatory frameworks and the poor capacity of its public administration could jeopardise the transparent and efficient utilisation of this resource. The STP public financial system is also weak.¹³ Many of these governance issues are the focus of reforms with support from multilaterals such as the African Development Bank (AfDB), the IMF and the World Bank.

The economy of STP, while having faced considerable challenges, is on a recovery path to greater stability. This should auger well for investment in the housing development and finance sectors.

Access to finance

The STP Central Bank (Banco Central Sao Tome e Principe) serves in a supervisory role over the national financial system and defines monetary and exchange rate policies in the country. It has licensed seven commercial banks. These are Energy Bank, BISTP Bank (Banco Internacional de São Tomé e Príncipe), Eco Bank, Afriland Bank, Sao Tome and Principe Private Bank, BGFI Bank and International Bank of Sao Tome. The sector is highly concentrated with the largest three banks in possession of almost 75 percent of total assets.¹⁴ Most of the banks are regional players headquartered in Cameroon, Togo, Nigeria, and Gabon, and only have branches in STP. This poses a risk, if these banks decide to move their investments abroad given scarce investment opportunities or low profitability in STP.¹⁵

Versatility and portfolio variance is lacking on the banks' books, which increases their vulnerability to sector shocks as well as limiting accessibility of finance.¹⁶ Credit to the construction sector is provided mainly by one bank, and to a large degree the same is true for lending to tourism and manufacturing. The majority of loans are to individuals (97 percent), although by value loans to firms represent 71 percent.¹⁷ The banks are faced with limited capital to lend and a lack of feasible projects, exacerbated by a dwindling availability of reserves of foreign currency.¹⁸ The AfDB has extended a lending window to explore options to provide direct support to businesses that have potential to engage in transformational productive activities. It includes lines of credit to financial institutions for on-lending to micro- and small-sized enterprises headed by young people and women.¹⁹

STP is not yet a mature lending market with only approximately 10 800 loans in total as of the end of 2017.²⁰ The lending market for housing developers and retail lenders is consequently also largely poorly developed. Further, only 48 percent of people have a savings account, only seven percent of small and medium-sized enterprises have a bank loan, and less than five percent have access to consumer loans.²¹ The lending interest rate as of 2018 was 20 percent.²² Lenders seek to price in the risk of wholesale borrowing in hard currency, and loans can be denominated in local as well as foreign currency; local loan interest rates are significantly higher than those denominated in foreign currency (20 percent versus 11 percent). In addition, maturities are shorter for local currency denominated loans compared to foreign currency loans. Approximately 80 percent of the loans have a fixed rate. There are also significant variations in loan lengths (from one year to 37 years). Interest rates earned on deposit accounts are relatively low, at below four percent, pointing at significant spreads.²³ The Central Bank interest rate was nine percent, as of the end of 2018.²⁴

STP's global rankings on the ability of businesses and citizens to get credit are mixed. It has a relatively strong score on credit registry coverage at 17 (seven is the Sub-Saharan average, and 21.8 for OECD countries). A poor score of zero on strength of legal rights (for example, there is no collateral registry nor priority for secured collateral holders in case of insolvency). The country scores a reasonable five on depth of information (3.3 Sub-Saharan Africa, and 6.7 OECD), but a poor zero on credit bureau coverage.²⁵ All indications are that little has been done to provide innovation to allow greater access to finance for poorer citizens, and access to credit is generally considered as low. The World Bank has embarked on a detailed assessment of this issue.²⁶

Growth in credit to the private sector has been muted over time, growing by only 0.3 percent to June 2017 from the previous year, reflecting mainly the concerns and risk aversion of commercial banks as a result of the high level of Non-Performing Loans (NPLs).²⁷ The high level of NPLs is probably driven by a small number of high-value NPLs.²⁸ The precise figure on NPLs relating to mortgage lending is not available.

As part of a comprehensive strategy to address the high NPL ratio, a central credit registry has been operational since March 2011, collecting information on the characteristics and status of loan exposures on a monthly basis. The coverage of the credit registry has increased from approximately 50 percent in the initial stages to 96 percent recently.²⁹

There are no statistics on the total number of mortgages available. However, all indications are that most of the total lending is short-term consumer loans and not mortgages. For example, the median domestic currency loan value is

Availability of data on housing finance

Information on the mortgage products available is difficult to source, as well as greater detail on the way most households develop and finance their own housing.

The role of regulatory authorities in monitoring the finance and housing sectors is weak. As a result, key statistical data is not available. This is something that can be solved only through reforming the state institutions under question, including the land registry and cadastre, town planning departments in cities, and the banking regulatory authorities. It has been noted that some of these are undergoing reform, and hopefully this should result in greater data availability.

A unique challenge of countries like STP, where banks are mainly foreign run, is obtaining detailed disaggregated financial data on their businesses, within the host country itself. As a rule, they report on their total activities in their financials, and not country level. This requires regulatory intervention.

Db37 800 (approximately US\$1 750), with only 10 percent of the loans being above Db140 400 (approximately US\$6 500).³⁰ This gives a fair indication that people are generally not borrowing for mortgage loans, which would be for larger amounts. For instance, a typical three-bedroom house costs Db820 800 (US\$38 000), much higher than these median loan numbers.³¹ A typical consumer credit in BGFI Bank carries a 19 percent interest rate for 48 months.³²

Information on a mortgage product from BISTP Bank is now available. This is for new construction, improvement, and land acquisition. It has a term of 20 years, and a Loan-to-Value (LTV) between 50 percent and 100 percent, according to BISTP Bank's website.³³ The collateral used is the home. The interest rate is low, at eight percent, and can be as low as five percent per annum "with additional collateral".³⁴ These are surprisingly low interest rates, and may point to stringent mortgage origination terms, and require further investigation. It could also be, for example, that the loans are in foreign currency allowing for better interest rates for the borrower.

The microfinance sector is described as "miniscule" with a single operator: There is no tally available on the number or value of microfinance loans.³⁵ STP does not have a strategy or regulation in place to support and regulate microfinance institutions.

Affordability

The country is ranked 143 out of 187 countries in the United Nations Development Programme's Human Development Index.³⁶ Two-thirds of the population (71 percent of them women) live in poverty. In rural areas, 68 percent of the population live below the poverty line (US\$2 per day) and 29 percent in extreme poverty. Few people can therefore afford a formally developed house without considerable Government assistance. According to the National Statistical Institute, the unemployment rate remains relatively high (13.6 percent). Joblessness mainly affects youth aged between 15 and 24 years (23 percent), which has a bearing on social stability and general economic productivity.³⁷ Given the restricted diversity of the economy, the Government is the main formal employer.

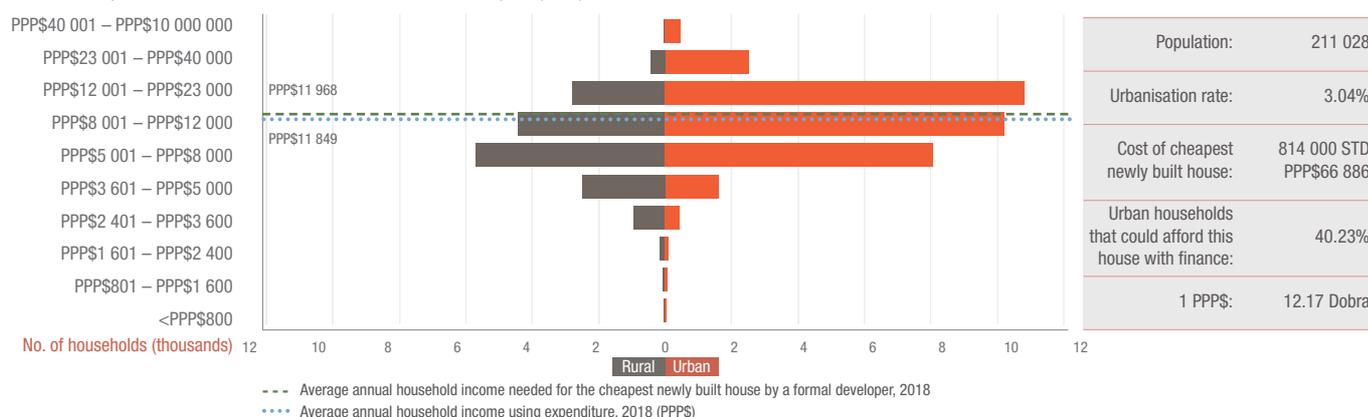
Using the BISTP Bank mortgage product previously mentioned,³⁸ and a three-bedroom house in the capital Sao Tome,³⁹ it would require a monthly instalment of Db12 300 (US\$571) and, assuming that one-third of income can be used for housing, an annual income of Db444 000 (US\$20 555).⁴⁰ The STP median per capita income is around half this amount.⁴¹

Housing supply

The 1975 Constitution of STP provides under article 49 that "all have the right to housing and to an environment of human life and the duty to defend it" and "it is incumbent upon the State to plan and execute a housing policy".⁴² With the help of multilaterals, there have been efforts by the Government to meet its obligation and assist citizens achieve this right. For example, there are efforts at creating a housing promotion fund, developing low-cost social housing, developing a Strategic

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Annual income profile for rural and urban households based on consumption (PPP\$)



Population:	211 028
Urbanisation rate:	3.04%
Cost of cheapest newly built house:	814 000 STD PPP\$66 886
Urban households that could afford this house with finance:	40.23%
1 PPP\$:	12.17 Dobra

Source <https://www.cgidd.com/C-GIDD, 2019>

Housing and Real Estate Plan, and giving the residential housing institute properly qualified staff.⁴³

However, the results of these efforts are yet to have an impact. The IMF estimates that the country has a “housing deficit of 60 percent” although there is no detail of a segment breakdown of this.⁴⁴ More than 70 percent of Sao Tomeans live in urban areas, and most of them live in slums. In the capital city of Sao Tome, a startlingly high 86.6 percent live in slum areas.⁴⁵

According to the most recent census in 2012, most Sao Tomeans own their homes. Sixty-eight percent of homes were occupied by their owners, with only 14.6 percent renting, and 16.3 percent living in free accommodation.⁴⁶ There were 29 182 urban dwellings and 14 846 rural dwellings with an average household size of 5.2 persons. Of the housing stock, 43 percent were one-bedroomed units, 37.8 percent were two-bedroomed units, 14 percent three-bedroomed, 3.9 percent four-bedroomed and the remainder five-bedroomed or more. According to the 2012 census, most housing is basic, and mainly informal; 76.4 percent of the units have no water on site and 57 percent have no form of sanitation facilities.⁴⁷ Houses are primarily made from wood, with 64.8 percent using wood for construction and 15.3 percent using reclaimed or salvaged wood.

Like in many other African countries, there has been much Chinese involvement in the broader economy and even the housing sector. A deep-water harbour and airport are being built by the Chinese. Also, a first batch of 60 “social apartments” of 200 to be built over the next four years with Chinese funding, will be built in 2019.⁴⁸ It is not clear what price range these will be, and what market segment they are targeted at.

Property markets

The World Bank’s Doing Business rates STP at 170 out of 190, down from 168 in 2018. The individual rankings that make up this aggregated ranking show why. STP has a deeds and title registry, and it takes 52 days to register property in the country. This is slightly lower than the Sub-Saharan average of 53.9 days, but significantly worse than the OECD benchmark of 20 days.⁴⁹ It costs 10.2 percent of the property value to register title (Sub-Saharan average is 7.6 percent, and OECD is 4.2 percent). The quality of the land administration index is low at 4.5, when compared to the 8.8 Sub-Saharan average, and a benchmark of 23 in OECD countries.⁵⁰

There is some ongoing reform. According to the World Bank, STP has made registering property less costly by lowering property transfer taxes.⁵¹ Nevertheless there is much to be done – the registry is not digitised, it is not up to date, and there is poor inter-agency connectivity (for example, between deeds registry and cadastre).⁵² Transparency of data is also hindered by a lack of online access. A significant challenge has also been obtaining accurate data on activity in the property market, as the registry does not track transactions or have universal

coverage across the country.⁵³ The land administrative system is also severely fragmented among several departments.⁵⁴

Sao Tome has a land tenure system that is a mixture of private land ownership and usufruct (usufruct is a right to use the land without holding formal title). Eighty-six percent of the land is state-owned.⁵⁵ Responsibility for the administration of urban land rests with the Ministry of Infrastructure, Natural Resources and Environment. Private property, that is title, is granted on the existence of infrastructure – or the intention to construct – over the land. The legal framework on property allows for ownership by foreigners through land leases for investment projects authorised by the state, although there are calls for further liberalisation of this regime to enhance economic activity.

Policy and regulation

STP has an ongoing relationship with multilaterals to initiate policy and legislative reform to stimulate economic growth and reduce poverty. These are largely market reforms targeting the financial system, with elements of poverty reduction. Further, work is underway to reform the land administrative system. While these will all have an influence on the housing markets should they succeed, none directly addresses state housing policy or legislation.

Some important areas of reforms targeted by this support include public finance management reforms (for example, establishing an integrated financial management information system, disclosure of government budget information to the public, and implementing a medium-term fiscal framework), legal and regulatory reforms to remove market entry barriers and crowd in private sector operators, land reforms, and implementing financial sector reforms to improve access to credit.⁵⁶

There is also significant work on land and tenure holding. There are reforms targeting greater certainty for foreign investment and development of land, to develop greater detail on what land is applicable for leases, and greater certainty on the length of concessions.⁵⁷ Two legal initiatives are being introduced to clarify this, including Bills updating the property ownership and cadastre laws, as well to create greater certainty on incentives for social and environmentally responsible investments (Law No.3 of 1991 on Property Ownership Art. 29 and Decree-Law No. 19 of 2016 Investment Code).⁵⁸ Government has established a National Land Use Planning and Cartography Directorate, mainly responsible for managing and allocating land, managing natural and protected areas, ensuring sector land distribution, and planning major infrastructure by zone.⁵⁹ STP is also tackling the lack of digitised information by implementing a digital Registry and Notary Information System.⁶⁰ The lack of inter-operability of information systems between the cadastre, tax administration and transport directorate is also the subject of system reform, to avoid data duplication and support policy decisions.⁶¹ Finally, some outdated legal frameworks are undergoing reform. These include among

others, the Land Registry and Notary Codes. Much more needs to be done, however, including strengthening the governance framework, greater interagency co-ordination and alignment and reforming the framework for ownership, particularly for foreigners to encourage greater foreign investment.

Opportunities

Conditions for growth for small, vulnerable and island-based economies like STP are based on macroeconomic stability, political continuity, and good governance, including strengthening of key institutions of governance, and revenue enhancement.⁶² As shown, much of this reform is ongoing, and should lead to greater economic growth for the country if it is sustained.

Economic opportunities, especially in the tourism sector, have been identified by the Government and can be further exploited; the sector has already grown fivefold. Further growth in the sector can be stimulated through state promotion of greater infrastructure and logistics development.⁶³

The reach of financial services is generally low, including banking and microfinance, and is the subject of a dedicated study and support by the World Bank through the financial sector development plan. In addition, there is little in the way of innovative products to tap the market at lower income levels – formal financial products are mainly unaffordable except for the middle class. The need for innovation is even greater in housing finance, as there is clear evidence that little formal housing lending happens. Given that seemingly most housing in the

economy is developed by individual households, there is space to explore opportunities in the market for smaller, incremental housing development loans, targeting lower income people with unpredictable incomes, who build their own homes.

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