

**SUSTAINABLE DEVELOPMENT IN SMALL ISLANDS
DEVELOPING STATES: PUBLIC/PRIVATE COOPERATION IN
THE CASE OF PRÍNCIPE ISLAND**

Francisco Luís de Figueiredo Alves dos Reis Poças

Project submitted as partial requirement for the conferral of

Master in International Business

Supervisor:

Prof. José Paulo Esperança, Prof. Catedrático, ISCTE Business School, Departamento de
Finanças,
UNIDE-IUL Unidade de Investigação em Desenvolvimento Empresarial

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Professor Dr. Jürgen Volkert, Hochschule Pforzheim

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Acknowledgments

Family and Carolina for love, support, for believing that it was possible and patience.

Luís Amado, who drove me to Príncipe Island.

HBD for all support, information and cooperation. Especial thanks to Nuno Madeira, Teresa Pires and General Buster Howes.

Mr. Secretary of Regional Economy Silvino Palmer for all information and cooperation.

President Cassandra and the Príncipe's regional government for all information and support.

To all decision makers who choose sustainable development, so we can still enjoy our planet as well as our future generations.

Abstract

The thesis offers a general overview of the recent developments observed in terms of sustainable development in Príncipe Island, autonomous region from São Tomé and Príncipe, mainly promoted by foreign direct investment aligned with Príncipe's regional governance. Then it describes the most important players in the regional economy and their role on it - mainly multinationals that are investing in touristic and agriculture projects in the region, with focus on Here Be Dragons (HBD) company, which employs more people than the regional government. The research evaluates the public and private governance towards sustainability. Finally this research suggests good strategies for corporate governance towards sustainable development held by local regional government, central government of São Tomé and Príncipe and multinationals, over Tourism sector, mainly.

Keywords: Sustainable Development; SIDS; Tourism; Príncipe Island; Foreign Direct Investment

Resumo

O projecto de dissertação reúne informação geral do desenvolvimento sustentável que se observa na ilha do Príncipe, região autónoma de São Tomé e Príncipe, principalmente promovido por investimento directo estrangeiro alinhado com o governo local, regional. O documento descreve o desenvolvimento do ambiente económico e social na região, dos intervenientes mais importantes na sociedade e o seu papel - nomeadamente empresas internacionais que pretendem investir em projectos turísticos e agrícolas. Destaque para a Here Be Dragons (HBD), que é já a empresa privada maior empregadora de São Tomé e Príncipe. O estudo avalia a governança, regional estatal e privada, no sentido da gestão do sustentabilidade. Finalmente, o estudo sugere estratégias governamentais para a gestão do desenvolvimento sustentável, apoiado no investimento directo estrangeiro por parte de multinacionais com interesses no sector do turismo, principalmente.

Palavras-chave: Desenvolvimento sustentável, Pequenos Estados Insulares Emergentes, ilha do Príncipe; Investimento directo estrangeiro

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List of Abbreviations

EDP - Energia de Portugal

ISCTE-IUL - Instituto Superior Ciências do Trabalho e da Empresa - Instituto Universitário de Lisboa

STP - São Tomé and Príncipe

UN - United Nations

SIDS - Small Island Developing States

LDC - Least Developed Countries

WCED - World Commission on Environment and Development

UNCED - United Nations Conference on Environment and Development

UNWTO - World Tourism Organization

FDI - Foreign Direct Investment

CSC - Cross-sector collaboration

HBD - Here Be Dragons

UNESCO - United Nations Educational, Scientific and Cultural Organization

UNCSD - Conference on Sustainable Development

IHDC - International Hotels Development Corporation, Ltd.

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The following project is the final work of the Master in international Management at ISCTE-IUL and it is about Príncipe Island, from São Tomé and Príncipe.

São Tomé and Príncipe is a country composed by two main islands in the Atlantic, by the equator line. It is a former colony of Portugal, and it was once the biggest exporter of cocoa. Preceding its independence in 1975 - right after Portuguese revolution and the end of the Portuguese colonial world - the farms were nationalized and later the cultures of cocoa started declining till they finally becoming almost completely abandoned. The population is very poor and vulnerable, and the country became dependent of international aid. Recently a South African company - Here Be Dragons (HBD) - set up a plan, along with the government, to develop a big sustainable project, pretending to become a reference, globally wise, in terms of sustainable practices and sustainability management. Príncipe Island was recently targeted as an interesting region for investments, after HDB performed Greenfield and Acquisition ventures on the touristic and real estate sectors. This large scale investment (relatively large, due to the small size economy) pushed several developments within the economy of the region. The thesis will cover the observed phenomenon of the last years' development as well as the predictable future developments and structural improvements. The idea is to give an accurate picture of Príncipe Island and its strategy towards sustainability.

The work will start with literature review a country and region analysis and its development in the recent time. Furthermore it will give an insight of the current state of the region concerning recent multinational entries in the market, recent infrastructure investments and recent developments on the national strategy.

Finally it will conclude with findings on which extent the sustainable way is, effectively, a good strategy for attracting foreign direct investment and with a recommendation over what can, both the public and private sector, do for a better development of Príncipe Island sustainable management process.

Object of Study

The aim of the thesis is to study the recent developments of Príncipe Island, from a sustainability perspective, and how the sustainable development in Small Islands Development States (SIDS) is closely related with the Tourism sector and, in the case of Príncipe Island, with Foreign Direct Investment (FDI). The relation between the private sector and the government and their role in the management of sustainability for the Island will be the focus of study - it will explore how governance, held by the government and

multinationals, is performing in terms of sustainable goals and how the FDI, mainly on Tourism and Agriculture, is the most important driver towards sustainability in Príncipe Island.

Research Questions

In this study I address this questions:

1. To what extent has the Príncipe's business and investment climate improved after being an approved candidate for UNESCO Biosphere Reserve?
2. What are realistic strategies for attracting FDI into Príncipe region?

Part I

Chapter 2 - Literature review

This chapter will be the basis on which the case study will be build on. It will provide information regarding Tourism, Sustainability and Small Island Developing States (SIDS), Governance and Foreign Direct Investment (FDI). Furthermore it will give an insight on the outcomes of sustainable developments on SIDS, as well as Foreign Direct Investment as economic drivers. Finally it will explain shortly which questions will be explored along the case study. It will help the reader to understand the current socio-economic situation of Príncipe Island and give, along with the information about the recent developments on sustainability, a solid basis for understanding the case.

2.1 Sustainability

One way to understand the concept of sustainable development is to consider sustainability, in business and governance, as a strategy that can be used to achieve different goals. Governments, organizations and corporations also embrace the concept and utilize it according to their understanding of it and for public relations purposes. Institutions are needed to facilitate development and should be included in developmental policy but the institutional interventions cannot be universal or have a “one-size fits all” approach (Rodríguez-Pose, 2013).

For the tourism sector, mainly for SIDS, sustainability is the only way forward. Their special geographical situation and immense natural and cultural richness makes them unique for visitors. The strategy of investing in sustainable tourism in the SIDS is the only path to ensure that the sector continues to advance socio-economic welfare while protecting fragile ecosystems. (UNWTO publication - Tourism in SIDS, 2014) The concept of sustainable development arose from two main sources: increasingly worrisome evidence of ecological degradation and other biophysical damage. The United Nations and associated agencies worried about these matters separately for some decades before appointing the World Commission on Environment and Development (WCED) to address them jointly (Kemp, R., Parto, S. and Gibson, R.B., 2005). The result was a final report named *Our Common Future*. Since the Brundtland Commission published its landmark report, in 1987, the world have come long way in its reflexions on sustainable development. Its fundamental principles: that our actions must take into account effects on the environment, economy and society, and that what we do today should not compromise the well-being of future generations. Sustainable

Development is development that meets the needs of the present without compromising the ability of future generation to meet their own needs. (Our Common Future - “Brundtland report”)

Over the more than two decades since publication of *Our Common Future*, the idea of sustainable development has been widely, if ambiguously, embraced by a great variety of institutions around the world. The debate about and experimenting with sustainable development has been renewed after the publication and subsequent adoption of Agenda 21, the Rio Declaration on Environment and Development, and the Statement of principles for the Sustainable Management of Forests by more than 178 governments at the United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro, Brazil, in June 1992.

2.2 Small Island Developing Countries

São Tomé and Príncipe takes part on the list of the Least Developed Countries (LDCs) as well as on Small Island Developing States (SIDS), from United Nations Millennium Development Indicators Lists (3). Although the condition of being listed as LDC gives, itself, the idea of difficulties being faced by the country’s population, this study gives more focus on the SIDS’s condition, a distinct group with specific vulnerabilities. SIDS were recognized as a distinct group of developing countries facing specific social, economic and environmental vulnerabilities at the United Nations Conference on Environment and Development (UNCED), also known as the Earth Summit, held in Rio de Janeiro, in Brazil, in 1992. SIDS tend to face common constraints in their sustainable development with a tendency to have fairly narrow economic bases deprived from the benefits of economies of scale, limited product and market diversification, small domestic markets, high dependency on international trade mainly on a few external and remote markets. SIDS also have high costs for energy as well as for transportation, infrastructures, communication and servicing. Long distance from export markets and import resources make products cost and delivery time increase. (UNSTATS)

Though, there is potential for SIDS to pursue sustainable economic development through steadily raising economic productivity, generating income and employment by fully utilizing their own endowments and resources in a sustainable manner, paying particular attention to the sustainable management of their environmental assets as well as human resources. For SIDS it is crucial to adopt integrated planning for economic activities that

unpeg economic development from environmental degradation. This is especially important in the context of its small surface island area and the fragility of its coastal ecosystem and future dependence on tourism. If not properly planned and managed, the tourism industry can lead to significant environmental degradation and irreversible damages to the fragile ecosystems and endemic species on which Principe's Island rely.

The challenges and needs faced by SIDS in pursuing sustainable development has been in the international agenda since the early 1990s, beginning with the United Nations Conference on Environment and Development or the Earth Summit at Rio de Janeiro in 1992. The first UN Global Conference on sustainable development of SIDS was held in Barbados, in 1994. The main outcome of the conference was a framework for planning and implementing sustainable development in SIDS, the Barbados Program of Action (BPOA), taking into consideration the special characteristics and constraints faced by these islands. (<http://unohrrls.org/about-sids/>)

2.3 Sustainable Tourism in SIDS

Tourism is, according to UNWTO, a world social and economic phenomenon which takes ten percent stake in the world economy and counts one job in each eleven existing jobs in the world (UNWTO). In this perspective, we can assume that Tourism opens possibilities for countries' development and it can play a strategic role in the way that can be the driver for the restructuring of territories which lost their competitive advantages (Soukiaziz & Proença, 2008 apud Cordeiro, 2008).

	International tourist arrivals (million)						Market share (%)	Change (%)				Average a year (%)
	1990	1995	2000	2005	2010	2014		2015*	13/12	14/13	15*/14	
World	435	527	674	809	950	1,134	1,186	100	4.6	4.2	4.6	3.9
Advanced economies ¹	299	339	424	470	516	622	653	55.0	4.6	5.7	5.0	3.3
Emerging economies ¹	136	188	250	339	434	512	533	45.0	4.6	2.4	4.1	4.6
By UNWTO regions:												
Europe	261.5	304.5	386.6	453.2	489.4	580.2	607.7	51.2	4.8	2.3	4.7	3.0
Northern Europe	28.7	36.4	44.8	59.9	62.8	70.8	75.9	6.4	2.4	5.3	7.3	2.4
Western Europe	108.6	112.2	139.7	141.7	154.4	174.4	180.0	15.2	2.8	2.1	3.2	2.4
Central/Eastern Europe	33.9	57.9	69.6	95.3	98.9	120.2	126.6	10.7	7.7	-6.2	5.3	2.9
Southern/Medit. Europe	90.3	98.0	132.6	156.4	173.3	214.8	225.2	19.0	5.6	6.9	4.8	3.7
-of which EU-28	230.1	268.0	330.5	367.9	384.3	454.1	478.4	40.3	3.9	4.8	5.4	2.7
Asia and the Pacific	55.9	82.1	110.4	154.0	205.5	264.3	279.2	23.5	6.9	5.7	5.6	6.1
North-East Asia	26.4	41.3	58.3	85.9	111.5	136.3	142.1	12.0	3.4	7.3	4.3	5.2
South-East Asia	21.2	28.5	36.3	49.0	70.5	97.3	104.6	8.8	11.3	3.0	7.6	7.9
Oceania	5.2	8.1	9.6	10.9	11.4	13.3	14.2	1.2	4.6	6.1	7.4	2.7
South Asia	3.2	4.2	6.1	8.2	12.1	17.5	18.3	1.5	12.1	9.6	4.4	8.4
Americas	92.8	108.9	128.2	133.3	150.2	181.9	192.6	16.2	3.0	8.5	5.9	3.7
North America	71.8	80.5	91.5	89.9	99.5	120.9	127.6	10.8	3.6	9.7	5.5	3.6
Caribbean	11.4	14.0	17.1	18.8	19.5	22.3	23.9	2.0	2.7	5.5	7.4	2.4
Central America	1.9	2.6	4.3	6.3	7.9	9.6	10.3	0.9	2.6	5.6	7.1	5.0
South America	7.7	11.7	15.3	18.3	23.2	29.1	30.8	2.6	1.4	7.1	5.8	5.3
Africa	14.8	18.7	26.2	34.8	50.4	55.3	53.5	4.5	4.4	1.1	-3.3	4.4
North Africa	8.4	7.3	10.2	13.9	19.7	20.4	18.0	1.5	5.8	-1.4	-11.7	2.6
Subsaharan Africa	6.4	11.5	16.0	20.9	30.7	34.9	35.4	3.0	3.6	2.7	1.6	5.4
Middle East	9.6	12.7	22.4	33.7	54.7	52.4	53.3	4.5	-2.9	6.7	1.7	4.7

FIGURE 1 - INTERNATIONAL TOURISTS ARRIVALS (IN UNWTO, JULY 2016)

According to figure 1 world tourism has a steady growth pattern of more than four percent per year in the last years. It also shows that the number of international tourists more than doubled in the last twenty years. According to UNWTO forecasts, international arrivals are expected to continue to grow at a sustained rate of 4% worldwide, based on current trends, economic prospects and the outlook of experts. Although with larger degree of uncertainty and volatility, the projections for Africa are also positive (+2% to +5%). (UNWTO, Tourism Highlights, 2016).

Tourism ranks the third position, as world wide exporter sector, after fuel and chemical sector and before food and automotive industries. Regarding developing countries it is even more important, where tourism ranks as the first exporter sector.

Regarding Small Islands Developing States (SIDS), tourism is one of the fastest economic activities, creating much needed job opportunities as well as important income and foreign exchange earnings. (UNWTO), Tourism is Small Island Developing States (SIDS) building a more sustainable future for the people of the islands). The rapid growth of international tourism in the latter half of the 20th century, in many cases, resulted in significant economic dependence of SIDS on tourism as well as related environmental and social-cultural impacts (Sharpley, R. and Ussi, M., 2014). It is not surprising, therefore, that the issue of dependency and consequential questions regarding the sustainability of tourism development are common themes within the now substantial island tourism literature (Scheyvens and Momsen, 2008). In particular, it has long been argued that the characteristics of islands that contribute to their attraction to tourists also enhance their susceptibility to dependency on the tourism sector (Ghina, F, 2003). Isolation is often considered a drawback to those trading products around the globe, but for tourism, it may be a benefit in that it tends to make the destination more attractive and exotic, especially in the case of small islands (Scheyvens, R. and Momsen, J., 2008). Most islands host unique terrestrial flora and fauna with a large number of endemic species, exotic coral reefs and marine ecosystems, plus special geological features and attractive landscapes. In many islands, communities preserve traditions and living cultures that are also of great interest for sensitive and educated visitors (FOTIOU, S; BUHALIS, D; VERECZI, G., 2002).

2.4 Governance

The role of governance is to build and promote sustained and sustainable, inclusive and equitable economic growth with decent work for all. Government must take the lead, in doing

so it must work in partnership with other levels of government, host communities and the tourism industry. The presence of private sector entities, such as hotel groups or sector' associations are strengths for governance. (Sharma, A., & Kearins, K., 2011) mentioned that "through collaborating, members can develop a better understanding of the economic, social, and environmental issues affecting their region's sustainability and challenging their organizations' legitimacy", so Cross-sector collaboration (CSC) emerged as an appropriate way to respond to challenges that were too complex for a single organization or single sector, private or public, to respond to effectively. CSCs were used to address multifaceted social and environmental problems (Kirby, 2014; apud Selsky & Parker, 2005), to increased to a level of necessity (Kirby, 2014; apud Bryson et al., 2006), and also used to respond to complex social and ecological problems too big for any one organization (Kirby, 2014, apud Clark & Fuller, 2010). Crosby studied how public sector and private sector leaders might lead their organizations to create sustainability, and pointed out that the problems public sector executive leaders faced had many contributors and the resources necessary to address the problems required a collaborative effort. Many of the contributors to the existing problem also have the potential to be a part of the solution; however, no single entity possesses the authority and resources to achieve a solution (Crosby, 2010).

One important policy local regional governments have to have on the agenda is how to manage Foreign Direct Investment (FDI) and how be attractive for multinational's investment. FDI is one of the most prominent ways of transferring wealth and technology from developed to developing countries. Through FDI multinational corporations are able to drastically improve the welfare and promote prosperity of a society from developing regions (Milgroom, 2013). The local government role in FDI is crucial because the most important and determinant aspect of FDI is the degree of legal protection afforded by outside investor by the country (Moosa, 2002). The most important determinant of FDI inflow or outflow for a country is the degree of legal protection afforded outside investors by the country.

2.5 Governance of Sustainable Tourism

Environmental degradation and climate change are major global challenges for the world agenda. Environmental preservation and conservation have become a contemporary common concern. Sustainable development calls for the design and implementation of different kinds of measures to ensure a greener future (HOPPSTADIUS, F. DAHLSTRÖM, M, 2015).

On 2012 the UN Conference on Sustainable Development (UNCSD) in Rio de Janeiro, commonly referred to as “Rio+20” or “Earth Summit 2012”, addressed the “institutional framework for a sustainable development”. This framework refers to the governance of sustainable development, the role of institutions, processes, structures, guiding principles, integration, coordination and communication in providing an enabling framework for implementing commitments to sustainable development. Implement policies and travel plans is the responsibility of both the administration and the private sector entrepreneurs. The public sector is responsible for policy formulation, research and planning, development of basic infrastructure, the development of certain landmarks, establishing and managing service delivery standards, establishing management measures and recovery planning and environmental protection, setting standards for training and maintaining public health and safety. The private sector is responsible for development of accommodation services, travel agency, the specific activity of commercial enterprises with tourism development and promotion of tourist attractions through specific marketing activities, based on existing infrastructure provided by government public (Ionel, B. 2014). A well-designed and functioning development strategy would need two dimensions which would be linked with proper dynamics: a back institutional dimension with efficient formal and informal institutions propelling the socio-economic factors forward and a front development strategy idea, tailor-made to match the institutional environment in which the development intervention takes place (Rodríguez-Pose, 2013). One possible path towards achieving real sustainable development that is flexible and place-specific is to understand the processes of sustainable development in biosphere reserves (Hoppstadius, F. and Dahlström, M, 2015).

II Part

Chapter 3 - Research methods

3.1 The Case Study as a research strategy

The following dissertation provides a case study over recent and remarkable sustainable developments observed in Príncipe Island, mainly promoted by new entrances of FDI, especially by one company - HBD.

According to Yin (1994) case studies are a good strategy for research on public policies and its administration, as well as regional planning research. Furthermore descriptive case study traces the subsequence of interpersonal events over time with a contemporary approach. The author mentions that the case study research strategy “comprises an all encompassing method with the logic of design incorporating specific approaches to data collection and to data analysis. In this sense, the case study is not either data collection tactic or merely a design feature alone but a comprehensive research strategy. The option of a case study type of research is considered the best option for the proposed study, since it copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence with data needing to converge, as another result benefits from the prior developments of theoretical propositions, from the literature review, to guide analysis.

The core part of this study is compound by subjects from different research fields which are priorly analyzed from a variety of disciplines. The study integrates quantitative data (e.g. economic data), qualitative data (e.g. quality of given facilities) and even subjective (e.g. interviews interpretation and cross data). FDI is complex and the decision to move forward with a Tourism venture is socially complex process, as well as the process of decision making in the public policies. “Case studies are (...) found in economics, in which the structure of a given industry, or the economy of a city or a region, may be investigated by using a case study design. In all of these situations, the distinctive need for case studies arises out of the desire to understand complex social phenomena” (Yin, 1994: 3). Moreover, the case study design allows the use of distinctive data, from direct observation of phenomenons to information from interviews. Most of the relevant data from the case study is based of information collected from experienced field work, at Príncipe Island.

3.2 Primary data sources

Case-based research has a long and honorable history in governance-related research. In order to answer research questions over the evolution of the business and economic environment, the recent sustainable development and its attractiveness to FDI, and to meet research objectives it was used the semi-directive interview technique. This technique consists in a flexible interaction with the researcher. The researcher let the flow of the interview go, in such way that it performs similar to a conversation, allowing the researcher to collect rich data in terms of holistic comprehension of the context. Semi-directive interviews can be usefully supplemented by participant observation, field visits with resource people to determine local culture and discuss the actors involved and major changes observed. Interviews with resources people who have particular knowledge of the subject and intervention field are often very enlightening even though their views may not be representative. (Jackson an Ingles, 1998).

This method and techniques allows the collection of data that shows the real concerning and opinions of the actors, which are not expressed on written documents. It drives to a less representative data due to subjectivity inherent to the interview and the subjectivity of the interpretation and analysis of the interviews and the field observation.

III Part

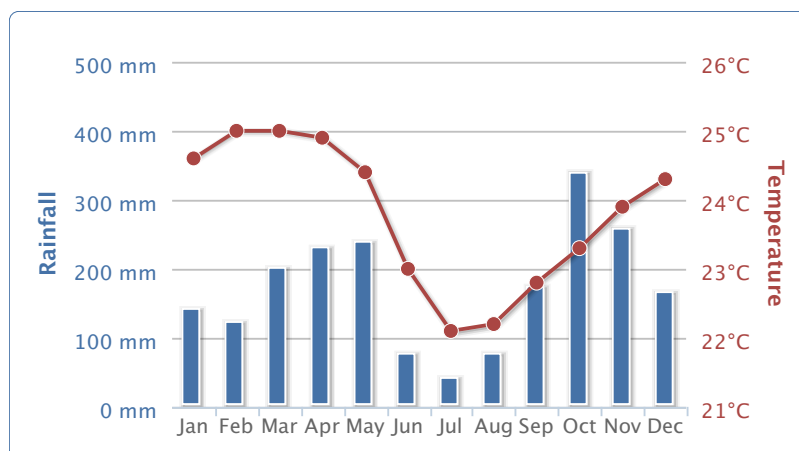
Chapter 4 - São Tomé and Príncipe

4.1 Country analysis

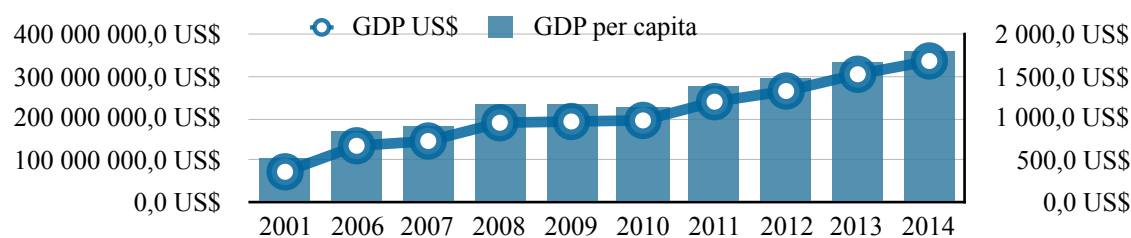
Democratic Republic of São Tomé and Príncipe is a small islands African' country, geographically located in the Atlantic Ocean, by the equator line, in the Gulf of Guinea. Its land area is distributed by two main islands - the island of São Tomé and the island of Príncipe. Its climate is tropical with a dried season during the months of July and August, and the rain season with its peak in March.



FIGURE 2 - MAP OF SÃO TOMÉ AND PRÍNCIPE



GRAPHIC 1 - Average Monthly temperatures and rainfall, in São Tomé and Príncipe



GRAPHIC 2 - GDP of São Tomé and Príncipe

For some 500 years, until independence came in 1975, it was a Portuguese colony, run for much of that period as a slave economy, producing sugar at first and then cocoa. Cocoa is still the primary export crop, grown on what were once large Portuguese estates and are now small holdings of a couple of hectares apiece or medium size land properties which national and regional governments have made concessions to private owners, mainly international private companies who want to invest in cocoa.

Starting with little at independence in 1975, the country has slowly evolved from a single-party socialist state into a vibrant multi-party democracy. STP has a free press, no serious human rights abuses and one of the highest literacy rates in Africa. Unlike many African countries, it is free of ethnic tensions and violent crime.

It is a small market, divide by two islands, the last demographic Censos was in 2012 and points to 178.739 people in both islands. Projections say that there was a demographic growth in the last years and the forecast points to a population of 187.602 in 2014. It is a poor country where the economy of subsistence - on farming and fishing, plays a major role in the economy of the majority of its families. Poverty remains a scourge that afflicts a large segment of our population, with economic, social, political, institutional, and cultural implications. In 2011, half of STP's population live below the poverty line and 62% of the population is poor. The GNI per capita stood at US\$ 1,200 (2010), life expectancy at 66.3 years and the adult literacy rate at 88.8%. The African Development Bank considers STP as a 'Fragile State' since 2010, mainly due to persisting poverty, economic vulnerability to external shocks, weak Government capacity and inadequate provision of basic social services to the population. The country's fragility is compounded by its insularity, as well as an embryonic entrepreneurial base that suffers from a weak business environment and lack of infrastructure, notably as regards ports and transport, thereby impeding competitiveness. Furthermore, the country is highly dependent on external aid (African Development bank group, Country strategy paper 2012-2016). It was the 7th country in Africa getting

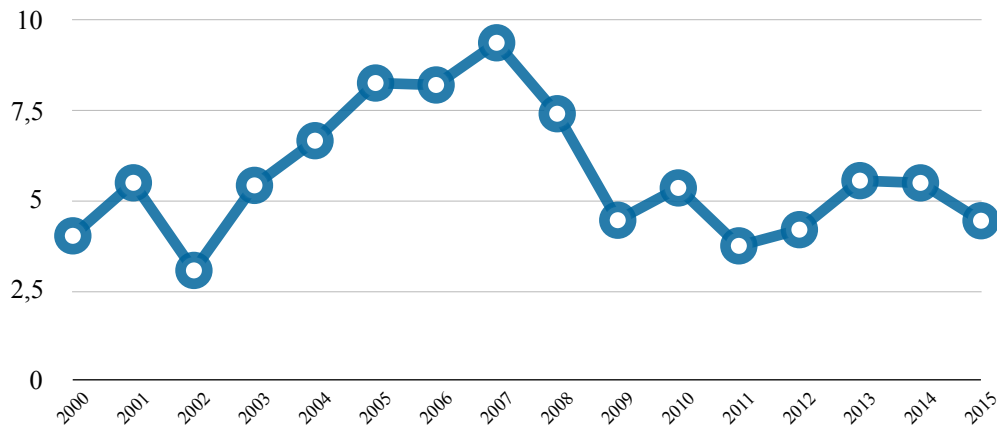
remittances in percentage with GDP (8,93% of GDP, 143,33 USD per capita), about USD \$30 Million, in 2015.

It is one of the african countries with less cars per capita. Only 2,2% of people has car in São Tomé and Príncipe. The only country with less cars per capita is the Central African Republic, with only 0,31% of the population having a car. (AfdB, OECD, UNPD 2016)

	GDP US\$	GDP PER CAPITA
2001	72 200 000,0 US\$	516,0 US\$
2006	134 441 116,9 US\$	858,6 US\$
2007	145 827 429,6 US\$	911,1 US\$
2008	189 595 284,4 US\$	1 158,9 US\$
2009	192 558 289,7 US\$	1 151,7 US\$
2010	195 176 113,4 US\$	1 142,0 US\$
2011	239 986 643,5 US\$	1 374,0 US\$
2012	265 592 759,8 US\$	1 488,0 US\$
2013	305 632 896,2 US\$	1 675,0 US\$
2014	337 413 477,2 US\$	1 810,0 US\$

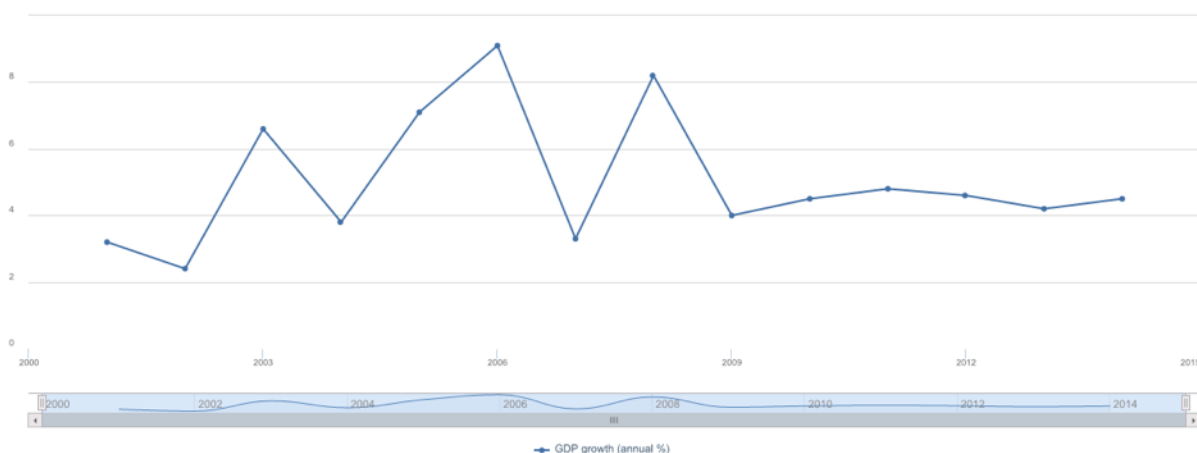
TABLE 1 - GDP of São Tomé and Príncipe

The economy of São Tomé and Príncipe has been growing in a fast pace. In 2001 the GDP was US\$72,200,000 and in 2014 US\$ 337,400,000 (world bank). Its growth pattern followed, ruffly, the one from the Least Developed Countries (LDC), with a maximum growth rate close to 10% per year between the 2005 and 2008. After 2009, the growth stayed steady close to 5% per year, just as the average of the LDC. In 2014 the growth was approximately 4,5% and, as we can see on the on the graphic 1, in 2015 there was a small decrease on growth, to 4%. This figure happened because of the late approval of the national annual budget for the São Tomé and Príncipe which lead to a non-disbursement of international donatives for investment projects and national budget support. Regarding the following year, in 2016, there is a prediction of growth rate bigger than 5%, and the same for 2017 (AfdB, OECD, UNPD 2016). The depicted cause for this increase on growth rate is related with the increase of FDI on Construction projects, Agriculture projects and Tourism. Most of this projects are being developed in the autonomous region of Príncipe island.



GRAPHIC 3 - GDP growth rate, São Tomé and Príncipe

The inflation rate in São Tomé has been decreasing for the last years, since its currency was pegged to Euro, in 2010, the result of a cooperation protocol with Portugal. Before 2010, given the weakness of local currency, Dobra, and the country's exposure to the export of basic goods such as rice or oil, the prices of the goods started to grow to unaffordable levels.



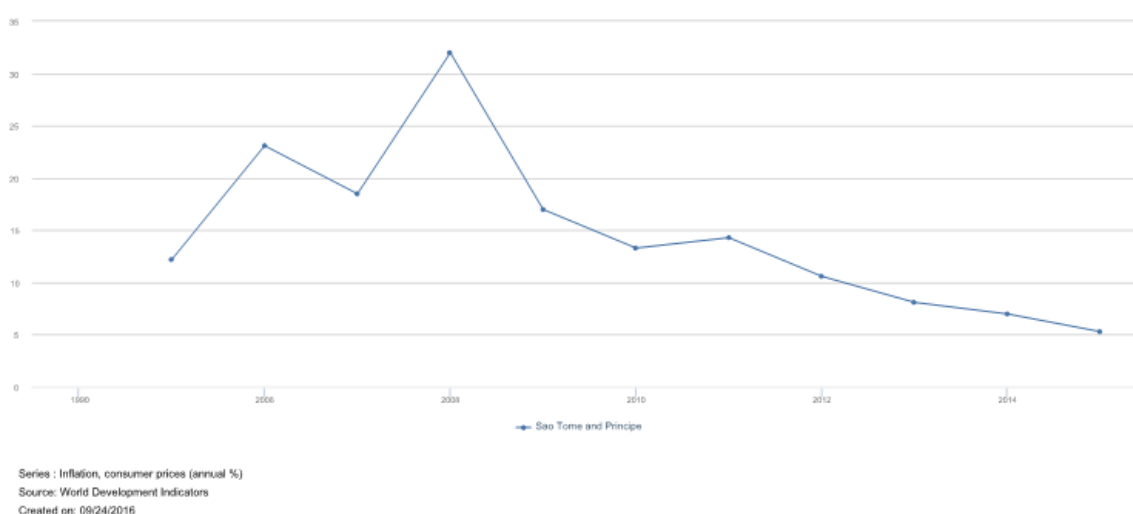
Country : Sao Tome and Principe
 Source: World Development Indicators
 Created on: 08/25/2016

GRAPHIC 4 - Least Developed Countries - GDP growth rates (annual %)

São Tomé and Príncipe is extremely vulnerable to exogenous. After the peg on euro, the prices stabilized and the currency offers now much more liability and safeness to foreign investors. The inflation rate, which was over 35% in 2010, is predicted to fall to less than 5% in 2016.

A key event in STP's recent history was the discovery of commercially exploitable offshore oil reserves. While the country entered into oil exploration agreements in 1997, large-scale oil production was expected to come on stream in 2016. This might not only bring

along unprecedented opportunities for STP's overall socio-economic development but also involve significant risks and challenges to the transparent management and effective and efficient utilization of public financial resources. The country hopes to reduce its dependence on donors and cocoa exports by exploiting offshore oil. Although, in recent years, we assist to a decrease in importance of the “oil’s agenda” in the political speeches. The people of STP are receptive to oil developments, but since there is little done since the beginning, more than 10 years ago, they are now heading their strategy to what they can better control. Agriculture, Fisheries, Tourism and Sustainable Development have overtaken the oil agenda on the political strategy (Prime-minister Manuel Trovoadá - STeP in London Conference). The government of the major island of the country - São Tomé, is now shifting its regional strategy towards sustainability, tourism and sustainable development - following Príncipe's region prior strategy, along with the development of core strategic infra-structures such as harbor and logistic sites, due to its geographical position in the Atlantic Ocean, and other FDI attractions such as financial services hub and the re-qualification of São Tomé city's promenade.



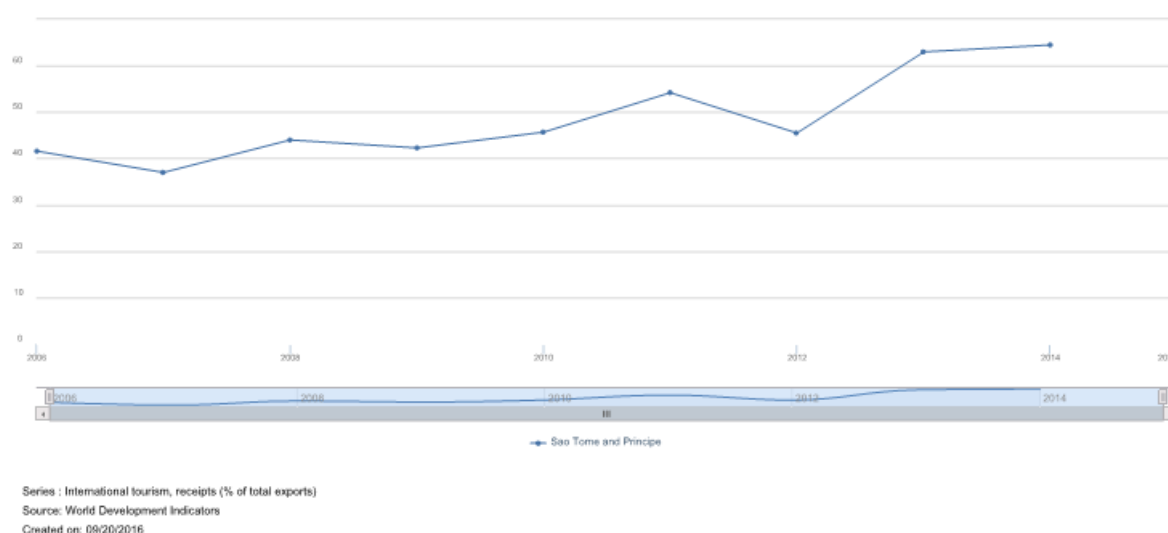
GRAPHIC 5 - The inflation rate in São Tomé and Príncipe

4.2 Príncipe Island

The island of Príncipe is one of three existing oceanic volcanic islands of the Gulf of Guinea and is geologically the oldest of the group, formed 31 million years ago. Príncipe is the smaller, northern major island of the country of São Tomé and Príncipe. It has an area of 136 square kilometers and a population of approximately 7,300, in 2012. According to

President Jose Cassandra and Economy Regional Secretary Silvino Palmer, the population has been growing and it should be now more than 9,000.

Príncipe has a very basic touristic infrastructure although it is changing due to huge investments by Mark Shuttleworth, a south african billionaire and owner of HBD - the biggest private own company in São Tomé and Príncipe. São Tomé and Príncipe has experienced significantly faster growth in tourism than most tourism dependent small states. Growth in tourist arrivals since 1995 averaged 7.5 percent annually, and, by 2009, had more than doubled. The crisis in Europe, home of the vast majority of tourists to São Tomé and Príncipe, led to a significant cutback in the number of arrivals in 2010. However there was already a rebound in 2011, stronger than the case with other countries with high dependencies on tourism sector (IMF June 2016). This rebound in 2011 is due to Príncipe region performance after the entrance of HBD in the market with the acquisition of two resorts - one in island of Príncipe and the other one in São Tomé.



GRAPHIC 6 - Tourism receipts as a percentage of exports

Although the local economy of Príncipe based on agriculture and fishery, the central government's vision for this small region is to transform the region in a high-end, long-stay, tourism product, with different typologies of hotels and small and medium size businesses around the tourism sector. The Prime Minister Patrice Trovoada has been on a road show in several major cities (e.g. New York, Singapore, London, Moscow, Lisbon) since 2015, promoting São Tomé and Príncipe, attracting investors to the country's economy and giving Príncipe region the Touristic onus. The cocoa production' role on the economy will work as a promotion tool, as a prime-gourmet product that also defines the region and the high-end

expectations. Though, Príncipe island's economy is, still, very dependent from São Tomé Island. The only way to get to Príncipe is by a small plane with two dozens seats that does the transfer between São Tomé and Príncipe or by a 12 hour Boat transfer from São Tomé too. Within these transfers several commodities are transported, such as cereals that Príncipe economy doesn't produce. The port harbor is very small, with capacity to receive small quantities of products and small size vessels. The transport sector is very poor. There is no "legal" taxi service or organized BUS. The road network is dramatically lacking of maintenance, being very difficult to ride those roads without an all terrain vehicle. Although, in recent years, the regional government, along with Mota-Engil company, have been renovating the major roads, and there is even a plan to give the city of Santo António new asphalt streets till the end of the year. The unemployment rate is dramatic, with the majority of the population having no activity. The population doesn't die starved because the soil and weather is so rich, that everywhere there are growing veggies, fruits, and the local villages dedicate their lives to cattle. Nevertheless most of plantations and cattle are not well organized. In some parts of the Island, locals are fishermen, trading their sea food products directly for other commodities. Direct trading market, product per product is common in the region.

Social standards are very low. The populations living in the abandoned "Roças" live without the basic sanitary needs. Diseases are abundant and not well treated. Families are not well structured having a lot of alcoholic problems both in the male and female gender and a lot of teenage mothers. Some people from "Roças" is now joining tourism companies such as HBD and Belo Monte and even Mota-Engil, in construction projects located close to their homes. Still, there is a long way till the optimum employment rate. Nevertheless, besides all these structural problems, which go far deep into the basic human needs, the Island is blessed with impressive natural resources and beautiful beaches and equatorial forests that provide the starting point to the development of luxury tourism and nature tourism.

Sao Tome and Principe has been recognized by many international conservation organizations for its wealth of endemic wildlife including birds, amphibians, higher plants, bats, reptiles, butterflies and mollusks distributed in different ecosystems and habitats throughout the two islands. Príncipe region is one of the most important regions of the planet in terms of number of endemic species.

Employer	Number of workers	%
HBD	482	54,8%
MOTA-ENGIL	106	12,0%
BELO MONTE	112	12,7%
EGECON	48	5,5%
CCS (Cláudio Corrallo)	49	5,6%
GRUPO SALVADOR	21	2,4%
JOVENS CONSTRUTORES	17	1,9%
AIRPORT MANAGEMENT	11	1,3%
CONSTEP	10	1,1%
TEMPLA SECU	7	0,8%
BISTP	10	1,1%
AFRILAND	7	0,8%
Total	880	

TABLE 2 - Employers in Principe Island. Distributed by its employees

The region is so rich in endemic species that it is, probably, the most important asset that attracts people to go there. It is recognized that the islands are an Endemic Bird Area and one of most Important Bird Areas. The World Wildlife Fund recognize the islands as one of the most important eco-regions for biodiversity and as one of the 10 most important hotspots. The southern end of Principe Island is a designated National Park, and it is part of UNESCO Biosphere Reserve.



FIGURE 3 - Map of the land area of UNESCO Biosphere Reserve

4.3 UNESCO Biosphere Reserve

The candidature for Príncipe as Biosphere Reserve from UNESCO was headed by the regional government and its president José Cassandra, and conducted by Dr. António Abreu, a Portuguese biologist, expert in Biosphere Reserves, in 2011. Later, in 2012, it was designated by UNESCO, has a Biosphere Reserve. The candidature placed Príncipe's region as a model for promoting integrated eco-tourism development in similar islands and serving as the basis for a larger marine and terrestrial buffer zone.

By reaching the island by plane it is easy to observe the substantial difference between the north and the south part of the island. The northern half of the island has its land characterized by gentle ups and downs and on the southern half by mountain range composed of several phonologic peaks with altitudes between 500 and 948 meters, where there is a patch of primary rainforest.



FIGURE 4 - The view from the north shore. The southern' mountain range with peaks, on the back

The difference in geomorphology and terrain results in differentiated bioclimatology, has influence in the distribution of major types of ecosystems of the island.

The biosphere reserve is home to great biodiversity in terrestrial as well as in marine ecosystems, with high rates of endemism in many groups of organisms, especially vascular plants, mollusks, insects, birds, reptiles and bats. It is part of the biodiversity hotspot of tropical forests of West Africa, containing a wide range of plant communities and habitats of high international importance such as primary tropical forests, forest shade, palm trees and

lowland riparian habitats. Considering the importance that this area has for the reproduction of sea turtles, seabirds and cetaceans, as well as coral reefs, on the international scene, it's an area of great interest for the conservation of global biological diversity. (UNESCO biosphere reserve)

Biosphere reserves have three interrelated zones that aim to fulfill three complementary and mutually reinforcing functions: the core area, where the ecosystem is strictly protected, in the south half of the island. The buffer zone, surrounds the core areas, which works as a natural fence. And the transition area, where activity is allowed, and where developments are being made fostering economic and human development, with socio-cultural and ecological sustainability, along with economic sustainable growth - here is where the resorts and hotels and the city will be located.



FIGURE 5 - Biosphere Reserve with three differentiated areas: core, buffer zone and transition area

4.3.1 Candidature and its political reasons

The main impact of the distinction of Príncipe as a Biosphere Reserve is still to come, says Mr. Nuno Madeira Rodrigues. “It is obvious that there are already some outputs coming after the UNESCO’s distinction, mainly media hype and consequent increase in visitors and although Príncipe does not have, currently, access conditions for more sustainable growth in tourism sector. Moreover, the Biosphere Reserve status clearly has brought several

international entities, such as the World Bank, UNDP, the IMF, ADB and EU Commission that are keen to partake in the future development of the island, notably in areas such as renewable energies, infrastructures, urban mapping and development, etc.” Within this argument it can be depicted that the UNESCO candidature might serve as a driver to attract visitors as well as institutional investment from supranational entities under the sustainable development umbrella, provided and guaranteed by UNESCO. “No government will risk to lose that label, in the future”, Mr. Luís Amado says, giving the idea that the governmental commitment to the UNESCO program is on the top agenda of regional governance’ priorities.

The distinction of Príncipe as a Biosphere Reserve is a major non financial asset for Príncipe region’, says Mr. Silvino Palmer, the regional secretary of economy. He says that it helps promoting the island all over the world, spreading the word of uniqueness and unviolated ecosystem but also gives a signal of trust to those who want to invest in the region, by saying that the ecosystem is protected and the people and the government are committed with the sustainable development of the island. This sense of sustainability badge that UNESCO Biosphere Reserve distinction gives to Príncipe is a very powerful guarantee, to potential investors, that policies on environment protection are sustainable. The main investments being implemented in Príncipe’s region would not be possible without the label of guarantee that the UNESCO distinction gives to investors, Mr. Luís Amado says. Many small and medium size business will come along with the resorts and bigger touristic projects. The main asset a resort can have, in the region, is the uniqueness of the surrounding. In this sense, the guarantee that Mr. Amado and Mr. Palmer mentioned is vital for the investor to decide to move in, so, the UNESCO candidature and distinction will work as a tool to promote and to attract foreign direct investment, along with the commitment to follow sustainable developments and growth.

4.4 Agripalma and the beginning of sustainable development path

Agripalma is a Belgium company that started its investment venture in São Tomé and Príncipe in 2009. On October of this year, Agripalma and the central government of São Tomé and Príncipe signed a concession contract for about 5000 hectares of land, for plantation of palm trees to produce palm tree oil. From those 5000 hectares of land, about 1272 hectares would be located in the north part of Príncipe Island, at Roça Sundry. The commitment was to invest 40 million euros on the whole project, and to create around 1000 new employers. By the time the central government of São Tomé and Príncipe was dealing

with Agripalma, the regional government of Príncipe was also negotiating with Mark Shuttleworth, a South African investor who discovered the island in 2009 and decided to create here a large and ambitious touristic project, under the umbrella of sustainable development. Of course, the Agripalma business of intensive palm tree production is completely not sustainable in an environmental perspective and so not compatible with the sustainable tourism master plan. If the intensive palm tree agro-business would go forward, it would damage the soil and the whole environment and ecosystem of the island and the sustainable touristic project would derail. In the terms of total amount of investment, the touristic one was also many times superior than the Agripalma one, for Príncipe's economy. The number of new employers for Príncipe's economy, only for HBD, is around 500 and growing along with the development of new facilities and new resorts, which is much more people than the previous agro-project. Due to these facts, in the following years we assisted to a political dispute between Príncipe's regional government and Agripalma and the central government of São Tomé and Príncipe. The autonomous region's government organized a public auscultation and the people of Príncipe's island decided that they choose to keep their ecosystem intact without projects from Agripalma. So, in the end, Agripalma was "kicked-off" Príncipe island and the region made its best effort to protect the island from this kind of investment projects with the candidature to Biosphere Reserve of UNESCO, and celebrating concession contracts with investors who aim for sustainable tourism and development. Between 2009 and 2013 Príncipe Island government had a major role on the future of the island choosing the sustainable path instead of a less sustainable but also economically good alternative. The dividends are starting to happen, with growing economy, built on touristic and also bio-agriculture projects, although there still is a long way ahead for the economy to grow.

Chapter 5 - HBD and Mark Shuttleworth

HBD is a private owned company, part of an emerging market investment group established by Mark Shuttleworth, a South African entrepreneur. It was created with the express purpose of developing sustainable ecotourism developments in São Tomé and Príncipe and was established in Portugal given its historical and language ties and its easiness on doing business from Portugal with the host Country.

Mr. Shuttleworth decided to invest in a agro and eco-touristic venture after his space trip, when he realized how connected we are on the planet Earth and how big is the human footprint in contemporary times. That made him start thinking about ideas to give the world a better place and a role model in terms of sustainability and best practices. He, then, decided to invest in São Tomé and Príncipe, but mainly in Príncipe island, after spending some time in the country in 2009 and seeing its potential as a tourism destination considering its strategic location between South Africa and Europe, and its proximity to the Gulf of Guinea with a large expatriate staff working in the oil market.

Mr. Nuno Madeira Rodrigues said that it would be way easier for Mr. Shuttleworth to buy an abandoned and empty island in Greece or in a Caribbean island and then build the environmental sustainable touristic project but it would not serve as a role model to the world since it would be a greenfield venture in an empty area, without people. The vision of Mr. Shuttleworth was to create wealth and welfare without compromise the environment and ecosystem of Príncipe region - on the contrariwise even adding value to the unique ecosystem, and showing the world a model of sustainable development and Nature protection. Mr. Nuno Madeira, said there are no models to follow, for the project HBD is working on. The field of operation of HBD is very wide - considering Tourism and hospitality and Agriculture as the major sectors, HBD is acting on a global intervention project base. For instance, since the region is very poor in infrastructures, the demand for basic infrastructures is crucial for development, and HBD is promoting this development, so, it is intervening in the infrastructures of the island, too.

Between 2011 and 2012, HBD acquired the two existing hotels, one in Sao Tome and the other in Principe, and obtained concessions within the regional government for the greenfield developments. The master plan involves an ecotourism development that includes the refurbishment of two hotels, the development of three new hotels, the construction and operation of a carpentry center, the construction of a new runway at the Principe airport and an institute to take care of cultural, environmental and educational issues, HBD Trust

foundation. Through the project, HBD intends to turn Príncipe island into the high-end eco-tourism destination of choice in West Africa.

5.1 Príncipe TRUST by HBD

Príncipe Trust foundation promoted by HBD is an important player in Príncipe island sustainable development since it is the cultural, environmental and educational arm of HBD in the field. It is the Príncipe Trust foundation where academic production, and scientific research takes place and where the strategy for the educational development and cultural preservation is worked along with the regional and central Governments. Príncipe Trust foundation is working towards the sustainable development of Príncipe and conservation of its amazing biodiversity, by promoting nature conservation tourism and raising awareness for the essence of the island. It aims to improve the livelihoods of its people, by working with them and educating them about their natural resources, and how to use them efficiently and sustainably. The ultimate goal is to empower the Government and other relevant sectors with the necessary “know-how” to pursue our endeavor. The foundation achieves its goals through research into nature conservation and tropical agriculture, practical conservation of its biodiversity, and environmental education of local communities. The ultimate goal is to promote the sustainable development of Principe island, promoting tourism through nature conservation and help local communities understand and appreciate the outstanding beauty of their island, and live off their natural resources in a sustainable way.

5.2 HBD Tourism

Sustainable development has three pillars on its foundation: social, environmental and economic development. At Príncipe all these pillars are strictly connected and related since it is a very small and undeveloped region and economy. To develop economic development at Príncipe there are two main ways: agriculture, the engine of São Tomé and Príncipe on the last centuries but obsolete nowadays, and Tourism - a new approach. HBD as its interests in both sectors, but mainly in Tourism. Agriculture is mainly to promote sustainability in a socio perspective, to promote the region’s culture, to research and innovate in order to create new products out of it and to promote the island as a prime product, since its cocoa is considered the best in the world from many individuals.

The master plan for tourism developments by HBD involves the the several stages starting with the purchase of two hotels, one in São Tomé and the other one in Príncipe. The

first one is Omali Lodge, a 30 key hotel located in São Tomé, catering mainly to the business market and to used as a base for tourists traveling on to Príncipe. HBD took over the concession in May 2012 from International Hotels Development Corporation, Ltd. (IHDC), a client based in Turks and Caicos and owned by Rombout Swanborn, a Dutch businessman that currently owns another hotel in Príncipe. The new concession period is 27 years, renewable for two more 10-year periods. Renovations on the 20-year old hotel started in September 2013 and the hotel is now performing excellent figures. The second hotel is Bom Bom Island Resort, 19 key beach hotel in the northern tip of Príncipe catering to the leisure market. HBD took over the concession in July 2011 from IHDC, too. The new concession period is 30 years, renewable for two more 30 year periods. Renovations on the 20-year old hotel started in mid-2012 and the hotel is now working with 80% occupancy rate. The renovations on the hotel took in consideration all the requirements for the Biosphere Responsible Tourism certificate under the auspices of UNESCO member of UNWTO.

The next resort unit from HBD is a high-end luxury tent hotel located in the northwest coast of Príncipe, belonging to the Sundry Estate, that was once the second larger cocoa farm on the island. The resort has 15 villas with spacious indoor and outdoor areas. The three bigger villas even have their own private plunge pool and wide terrace. It is aimed to become the first carbon neutral hotel in Africa. HBD entered into the concession agreement directly with the Príncipe Regional Government in February 2011 for a period of 30 years, renewable for two more 30-year periods. The project will be started in the first quarter of 2017. HBD holds the property concession' rights for the farm site of Sundry, with buildings from the times when Sundry Estate was a large producer of cocoa, and where HBD might build another hotel, still without known concept.

Paciência eco-hotel 20 key with restaurant and spa, located close to Sundry State, in the northern part of the island. The hotel concept is an ecological spa retreat, which a focus on yoga, meditation and treatments. HBD entered into the concession agreement directly with the Príncipe Regional Government in February 2011 for a period of 30 years, renewable for two more 30-year periods. The project started in 2014 with agricultural production, and it also works as construction workers formation site, with slow pace refurbishments of the buildings which will turn into the hotel, in the future.

Macaco beach is located in north east coast of the island, and it has some ruins from a Portuguese entrepreneur from the 90's who attempt to build there a resort which never opened doors, mainly because it was a lonely venture in a isolated island. The 54-key beach

resort will cater to the leisure market, but it is, still, in the conceptualization process. As in the new Bom Bom concept, the idea will be for the hotel to blend into its surroundings. The resort amenities will include a restaurant, bar, swimming pool, tennis court, conference room, art studio and gallery, and a destination spa. HBD took over the concession in February 2011 from Praia Macaco Unipessoal, Lda., the Portuguese client. The new concession period is 30 years, renewable for two more 30-year periods. The project will start in 2017.

Bom Bom Island Resort: The plan is to partially renovate and operate the existing hotel for another four years, then change the lodging concept to 5-6 large villas. One villa is currently being built and depending on its success, and the progress in the construction of the other resorts, HBD will tear down the existing rooms to build the new villas. The idea is to integrate the villas more with the surrounding vegetation, where they will not interrupt the natural landscape, while offering privacy and upscale services. Coverage is being sought for the villa under construction, but not for the other villas since this plan is not definitive.

Boi Beach, Uba Beach, and Santana/Fortaleza: HBD holds concessions for these properties, but there are currently no definitive plans for their development.

Chapter 6 - Other reference projects

Last chapter describes how HBD is positioning itself as a major player for the Tourism sector. Since its entrance in the region, we keep assisting to more and more interest from different investors to create businesses mainly in the tourism sector, but also in the agricultural sector. Other than major tourism ventures there are also complementary businesses like restaurants, supermarkets or entertainment which are also growing in the region, due to increase of demand. Construction sector is also moving to Príncipe, to meet the increasing demand.

HBD created its own Carpentry Center which is a wood working center in Santo Antonio, Principe, established to build the bungalows and other woodworks for the hotels. HBD has a 20-year lease agreement signed in February 2012 for the land with the Príncipe Regional Government and has already built the workshop. They are currently importing the timber from Bali but plan to help establish a sustainable supply in Principe.



Figure 6 - HBD Carpentry at city of Santo António

To build asphalt roads all over the city and the main routes of the island, there is Mota-Engil, which is also building hotel facilities for HBD and there is, still, no date to move out of the island. In the same sector, CONSTEP, a civil construction company based in São Tomé which had its first project in Príncipe a few decades ago, never built a subsidiary in the region. Nevertheless, due to recent developments, it is now working more than ever and it has now a tools shop and a warehouse for its bigger tools and a house for its workers stay while working on projects.

The company from Rombot Swanborn, IHDC, is owner of Belo Monte resort, located in the north coast of the island, with the famous Banana beach included in the concession area. The concession period is 30-years, renewable for two more 30 years period and it was signed with Príncipe Regional Government in November 2012. The 13-keys hotel is already opened with restaurant, swimming pool and direct access to banana beach, which also has a beach bar and boat trip programs.



FIGURE 7 - Belo Monte, Banana Beach

In the East side of the island, there is a Terreiro Velho, where is located the cocoa farm and cocoa driers that Claudio Corallo uses to get its fine feedstock to produce fine chocolate. It has around 50 employers working all year and it is the most famous chocolate producer in São Tomé and Príncipe.

Next to Corallo's concession, there will be a new resort, located at Abelha beach, east coast of the island. MCA group, a Portuguese entrepreneur owner of Angolan based company owns the concession of the abelha beach, for 30-years period, renewable for two more 30 years periods, signed with the Principe Regional Government in the mid-2016 to built a 7-keys high-end beach resort. The resort should be completed and operating in the end of 2017.

At Campanha beach, there is Makaira lodge located on the north coast of the island. Maker lodge is a 6-keys beach tent lodge, with a restaurant and bar, and a fishing boat for sportfishing. This unit is already working, having some refurbishing works in 2016.



FIGURE 8 - Makaira Lodge at Campanha beach

In the east side of the island there is a small rural hotel close to Abade beach. This 6-keys rural hotel is own by a local entrepreneur. This is an example of local entrepreneurship development, rising to meet the growing demand for accommodation.

There are some small guest houses in the city of Santo António, “Palhota”, “D&D” and “Arca de Noé” from local entrepreneurs, but there is, still, no reliable accommodation for a 1 or 2 nights for the business traveler. These guest houses have been fully booked for many days due to the prices of the resorts and increase of business traveler demand.

The city of Santo António, received, in 2015, a free internet access point, at the plaza gardens just in front of the Regional Government building.

The Príncipe Regional Government signed three more concessions for tourism projects with 30-years period, renewable for two more 30-years periods. Two of these concessions are contracted with Grupo Ferreira, a Portuguese group, for two farms in the west side of the island, to develop Tourism resort but also traditional biological agriculture, mainly cocoa. The other concession was contracted by Grupo HB, a group from São Tomé. It is located in the east side of the island, close to the city of Santo António. Plans for a eco-resort are being made.

On the west side of Príncipe island there is a Portuguese group with a concession of Fundão, an old cocoa farm, signed with the Príncipe regional Government for 30-years period renewable for two more 30-years periods. It is a agro project, mainly to produce cocoa.

Chapter 7 - Economic development

7.1 Infrastructures

HBD has have a major role in the development of the island. It also recognizes that its 6 touristic and agro-touristic sites will need proper infrastructures to work properly. One of the major contributes to the economic development and for sure one of the most visible one was the 70 million euros investment on a new airport runway. Airport Management STP, Lda., a joint venture between HBD and IHDC, entered into an investment agreement in October 2012 with the Príncipe Regional Government to renovate the airport buildings, build a new runway to allow bigger 60-seater planes to land on the island, and manage the airport. Although the party to the investment agreement is the joint venture, in practice each partner is in charge of different activities: IHDC is in charge of renovating the airport buildings and managing the airport, while HBD's work is limited to the construction of the new runway which is already underway. Airport Management STP, Lda., will manage the operations of the airport once it has been renovated. The buildings are still waiting for IHDC investment to start its renovation. The new routes to São Tomé and Príncipe are about to be announced. It is known that the Regional Government of Príncipe is working along with HDB to find a new airline comercial companies to fly to Principe island, other than the small airplane from Africa Connection that flies one time per day, except on Sundays.

Another major infrastructural project for Príncipe island is the construction of new roads all over the island, and, mainly in the city of Santo António. The island's asphalt' roads were made during colonial times, which means they have more than 40 years old and they lack of maintenance all these years till today' times. Which means the roads were undriven by a normal car, only 4 wheel drive car could manage to use them. All the roads are being refurbished by Mota-Engil, a Portuguese conglomerate with subsidiary in São Tomé and Príncipe. Some of the roads are sponsored by HBD, the ones that reach its resorts, but many others are Regional Government's responsibility. The Government expects that the investors in touristic projects will take care of the roads to their sites, so, the whole island will be covered with reliable roads.

Regarding digital communications, there was a substancial effort to increase the internet capacity in Príncipe island. The investment was also sponsored in 50% by HBD, based on the

sense that the island needs reliable internet connection to provide to its visitors as well as to its expatriated employees, used to good internet services. The other 50% was invested by the local communications provider and beneficiary of the investment on innovation - CST. With this upgrade on digital communications, allows the installation of optical fibre technology which enables, for instance, online video conferences.

With respect to energy sector, Príncipe island already did some substancial efforts mainly 1 million euros invested in electricity generator, powered by diesel. This investment increased the energy supply from 900kVA from only one production unit to 3.600 kVA from four generators. This was an improvement in the quality living of the island, since the electricity used to shut down between 15:00 and 16:00 and at 22:00 to only switch on at 7 a.m., to a better cycle of shutting down at 24:00 and switch on at 6 a.m.. Still, there is a long way to the main objective which is to find a suitable and sustainable energy mix, with diesel and renewable energy systems, that would provide 24 hours of energy per day, at a reasonable cost, with less harm to the environment. Energia de Portugal (EDP) working with the Regional Government, and also with HBD and other investors, as submitted an application for funding to the African Development Bank, for the investment on an new upgrade and reconfiguration of the island of Príncipe power system, on September, 2016. The project totalizes 8 millions of euros in capital expenditure and an average operational expenditure of 2 million euros per year.

There are also plans and designs for important infrastructural development which are considered fundamental for the future of the island, although the projects did not start, yet. The city hospital is obsolete and lacks of refurbishment and improvement. There is some work being done with this matter, still it is not enough to supply international visitors, high-end costumers. Due to this facts, there is a plan for a private medical clinic with the basic set-up for an urgency. Another fundamental project is the new harbor. Due to the fact that Príncipe island harbor is, nowadays, faulty and short for what the island development is demanding nowadays, and even more for the next future, there is a crucial need for a new harbor. There are already some plans, but it still lacks of funding.

Speaking in a country perspective, other than only regional, Mr. Patrice Trovoadá, São Tomé and Príncipe Prime-Minister announced, on a recent road-show conference to attract investors, two of the main mega-projects for the country. An international airport for São Tomé, where it is aimed to build an african international hub for the aviation sector and a deep water harbor, to attract mega-ships from Americas and Asia, and create air and sea cargo

services with a mega-logistics handling and storage system to keep and ship cargo from far off to closer destinations.

The country's Government strategy is to capitalize its geostrategic location. The motto is “the hub for the Gulf of Guinea”, taking advantage of shorter distance from main geographies, to then, distribute to the sub-region of Africa.



FIGURE 9 - Direct shipping times (source Prime-Minister conference, September 2016, Lisbon)



FIGURE 10 - Map of the Gulf of Guinea and the Geostrategic location of STP - São Tomé and Príncipe

7.2 Transports

Given the condition of double insularity, transportation of people and goods in and out of Príncipe is a fundamental issue for the success of further developments in the island. Thus, maritime and air transportation is focus of huge reforms, to meet future demands along with economic development of the island. For these reasons, HBD invested 70 million euros in airport expansion of the landing strip, in order to enable the reception of 50/60 seats airplanes, which will bring the visitors for the future touristic facilities in the island, as well as the business and academic people interested in Príncipe. The same way HBD found air transportation fundamental, also came upon with maritime business as well, contributing with 400 thousand euros for the acquisition of AMFITRITI, a 50 meters long vessel, an investment of almost 2 million euros to improve the transportation of people and goods from São Tomé to Príncipe and backwards. Although there was a significant improvement with the arrive of the new vessel there is still much to improve, regarding maritime transportation, with the construction of the new harbor, that will allow container vessels to park in Príncipe, which is no possible now.



FIGURE 11 - AMFITRITI vessel at Príncipe island harbor, Santo António.

In-land transportation is also fundamental, for the well functioning of the society. In 2016, half a dozen cars were provided to the society, by a leasing plan given by the regional government to local entrepreneurs, to create what is the first taxis services of the island. Before that it was very difficult to move around the island, unless you were accommodated in

one of the two existing luxury resorts. Nowadays, every time a plane arrives, there are taxis serving at the airport.

8. Governance of sustainability

8.1 Reforms

In the first decade of the XXI century, São Tomé and Príncipe national strategy was focused on the idea that oil production on offshore sites on the maritime exclusive economic zone would be the future of the country's economy. Though, in 2010, given low developments in the oil industry, along with new investors coming in the economy and due to high interest rates and economy's very high exposition to international commodities market, the Government of São Tomé and Príncipe started reforming the economy. From 2010/2011 onwards the country has been seeking to reform the business regulation, aiming an increase on reliability and the set up of European standards for the business sector.

In 2010, the local currency adopted a peg to Euro currency. This way, interest rates stabilized around 5% and lowered dramatically the exposition to commodities' price fluctuation. This currency reform gives essential confidence to foreign investors to invest, even more now a days given the price of oil in the international markets, and its influence in important economies in the sub-region of Guinea Gulf. For instance Portuguese entrepreneurs, from small and medium size construction companies, which are struggling to transfer money from Angolan, local currency, to Euros are considering São Tomé and Príncipe a good alternative to invest given its development and easiness to take the money out to their home country.

In 2011 São Tomé and Príncipe introduced the minimum capital requirement for limited liability companies and in the same year introduced the corporate income tax rate to a standard 25%, approaching to OECD standards (24,85%).

In 2012 São Tomé and Príncipe made starting a business easier by establishing a one-stop shop, eliminating the requirement for an operating license for general commercial companies and simplifying publication requirements. It also made trading across borders faster by adopting legislative, administrative and technological improvements. Concerning construction permits, it made the deals easier by reducing the time required to process building permit applications, though it made it more expensive in the next year, and lowered property transfer taxes so properties acquisitions cost less.

In 2015 São Tomé and Príncipe made starting a business easier by eliminating the minimum capital requirement for business entities with no need to obtain a commercial license (Doing Business 2016), and they overruled the VISA for European Union and U.S. American visitors when visiting the country for less than 15 days.

Mr. Prime Minister Patrice Trovoada announced, in September 2016, the development of a one-shop, for the citizen, that aggregates all the public services for the population. Along with it a new electronic citizen card and strategies for the spread out of this citizenship card. The government, already considered one of the most transparent in the world, is developing technological platforms to build e-governance systems. It also announced the creation of

Agencies for Policy Implementation which will decentralize the power on governance, create middle management and empower a bigger margin of society, resulting in a shortening of country's power distance.

8.1 Past, present and trends for the future

The Mo Ibrahim Index of African Governance ranked São Tomé and Príncipe 11th out of 53 countries in 2015. The index provides a quantifiable tool to measure and monitor governance performance in African countries. (Mo Ibrahim Index 2016)

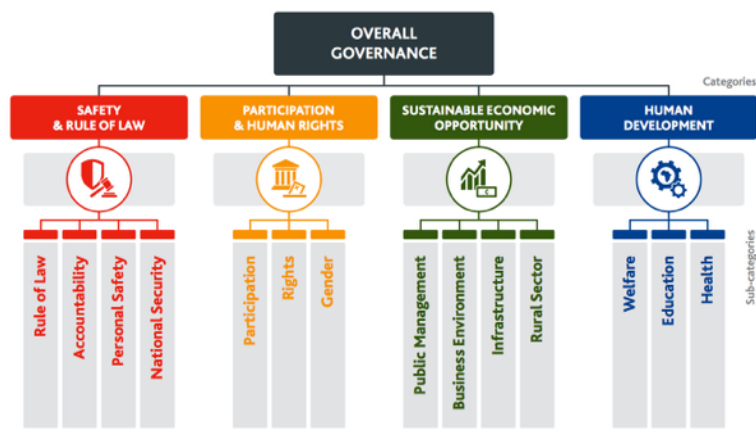


FIGURE 12 - Diagram of the structure of Mo Ibrahim's Index.

São Tomé and Príncipe's ranks 14th out of 53 in the Safety and Rule of Law category although it has a decreasing trend between 2006 and 2016 . The highest scores were in 'national security', and it also ranks 1st of Africa in Personal Safety, scoring 68.4.

On Participation and Human Rights category São Tomé and Príncipe ranks the 12th position, although its score has been downgrading between 2006 and 2015.

The index proves that São Tomé and Príncipe is growing its Sustainable Economic Opportunity ranking the country in the 23rd position with 46 points score. It also mentions the trend of +6,5 points increase for the category. This trend has foundations in the development of infrastructures, where the country is now ranked in the 12th position.

For Human Development category, São Tomé and Príncipe is increasing its 9th position in the Africa's ranking, mainly supported on the impressive 5th position on Education, with 68,9 points and a positive +17,3 points trend, and also a 9th place on Health and 14th in Welfare, out of 53 countries in Africa. Although the ranking for Human Development relatively to Africa context is good, global wise São Tomé and Príncipe has a low Human Development ranking the 143th. (UNDP - United Nations Development Program)

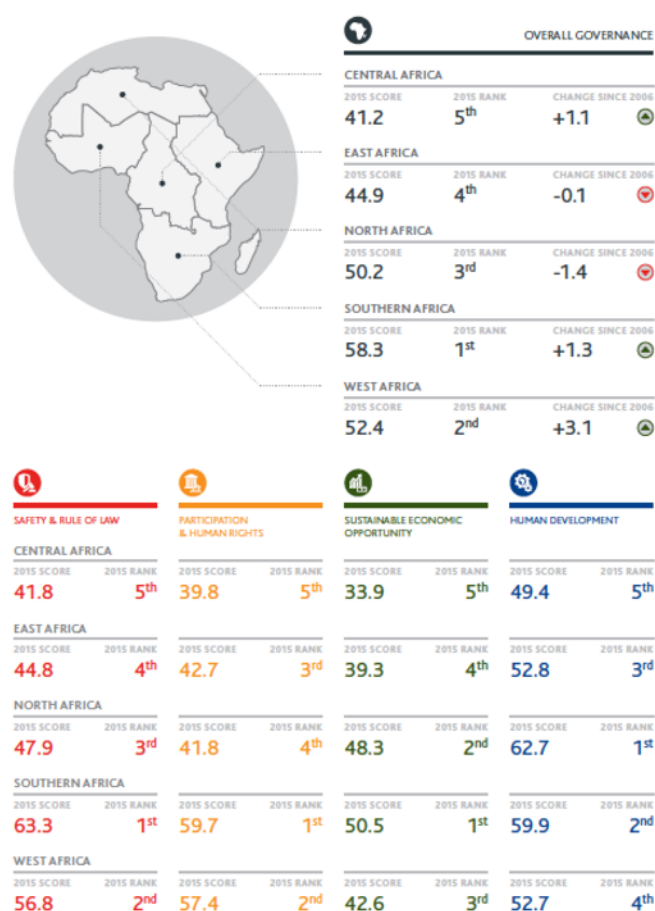


FIGURE 13 - Regional overall Performance. Mo Ibrahim's index of Africa's Governance

Comparing São Tomé and Príncipe with West and Central Africa, which are the least and the second least developed regions in Africa, in terms of governance performance, we assume that São Tomé and Príncipe is performing way over the region average, and even better than the Southern African region, the best performer. São Tomé and Príncipe has an

overall score of 60,5 points and ranks the 11th position out of 53 and tends to increase its performance. São Tomé and Príncipe also scores better than Central and West Africa average in every categories.

8.2 National and regional strategies

Mr. Prime Minister Patrice Trovoada, in his presentation of the vision for São Tomé and Príncipe and its strategies for the future, mentioned the intention to build a “pivot country” for the Gulf of Guinea, an international Hub. The key is to be the services provider for the sub-region of Africa. To seek for that vision the country need two strategic mega infrastructures and frontier parks that will outline and allow the positioning of the hub, assuring its functionality: The deep waters port, and the modernization and expansion of international airport. The deep waters harbor would provide vessel services shipyard, and tank farm and bunkering, but also would be the foundation for a distribution hub in São Tomé. For instance, in a simulation for a re-organization of Brazil’s trade with the sub-region of Gulf of Guinea using a dedicated distribution hub in São Tomé, allowing bigger vessels to come in to the sub-region, decreasing shipping time in more than 50% for destinations such as Douala - Cameroon, Lagos - Nigeria, Luanda and Lobito - Angola, Cotonou - Benin.

The frontier park located in the north of São Tomé, close to the deep waters port and international airport, will be a zone orientated to economic activity for business trade and industries. The point is to create an environment to raise competitiveness and modernization and serve the market requirements. It will be assisted by a one-stop facilitator serving businesses needs for both new and existing companies. The south of São Tomé, with less concentration of people, will be located the agriculture sites, eco-resorts and renewable energy generation stations.

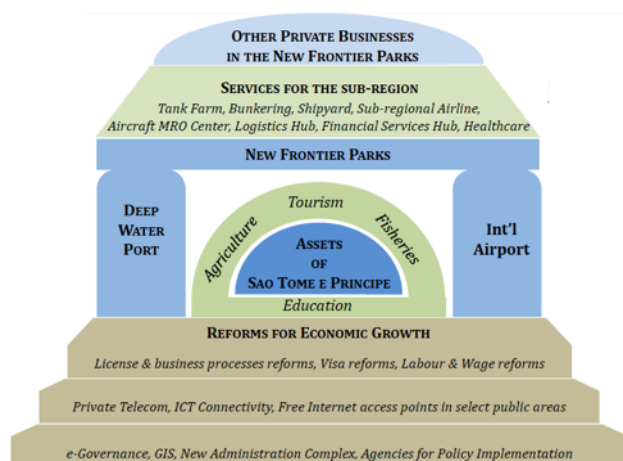


FIGURE 14 - The transformation Agenda for São Tomé and Príncipe

8.3 Príncipe Island

Prime Minister Patrice Trovoada spent less than 5% of his presentation time on the region of Príncipe island. The strategy for it is similar to the south of São Tomé island park, where agriculture, eco-resorts and renewable energy will be implemented. Although for the Príncipe's region the strategy should be wider, since it has its own infrastructure layouts, even if Mr. Patrice Trovoada did not mention it. According to Mr. Regional Economy Secretary, Silvino Palmer, the strategy for Príncipe Region is to build the basic infrastructure by the regional government (e.g. roads, local harbor, airport, power system, etc.) and an improvement on the health sector supply services. Moreover in terms of regional strategy, Mr. Luís Amado points out the importance and vitality of sustained connections in terms of communications and transport, via airplane, between Príncipe and São Tomé, but also with cities along the Gulf of Guinea and Southern Africa, part of the potencial markets for tourism visitors in São Tomé and Príncipe. Príncipe best asset is its high-end sustainable tourism which demands high quality of service, in the future. That demands a focus on professional training on hospitality and a policy on education and human resources compatible with that goal, Mr. Luís Amado says. Mr. Regional Economy secretary Silvino Palmer also mentioned education and professional training as key development for a long run strategy for Príncipe Island, to attract and keep foreign direct investment and achieve sustainable economic development.

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