

Sao Tome and Principe

RISK & COMPLIANCE REPORT

DATE: March 2018

| Executive Summary – Sao Tome | |
|---|---|
| Sanctions: | None |
| FAFT list of AML Deficient Countries | No |
| Higher Risk Areas: | Compliance with FATF 40 + 9 Recommendations Weakness in Government Legislation to combat Money Laundering Not on EU White list equivalent jurisdictions World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score) |
| Medium Risk Areas: | Corruption Index (Transparency International & W.G.I.) |
| <p>Major Investment Areas:</p> <p>Agriculture - products: cocoa, coconuts, palm kernels, copra, cinnamon, pepper, coffee, bananas, papayas, beans; poultry; fish</p> <p>Industries: light construction, textiles, soap, beer, fish processing, timber</p> <p>Exports - commodities: cocoa 80%, copra, coffee, palm oil</p> <p>Exports - partners: Netherlands 32.7%, Belgium 21.4%, Spain 10.8%, Nigeria 5.7%, US 5% (2012)</p> <p>Imports - commodities: machinery and electrical equipment, food products, petroleum products</p> <p>Imports - partners: Portugal 63%, Gabon 6% (2012)</p> | |

Investment Restrictions:

The Investment Code of 2007 provides for both public and mixed capital investments, allowing foreign investment in every sector of economic activity except limited areas reserved to the State (activities related to the military and paramilitary sectors and the operations of the Central Bank). Areas open to foreign investment include agriculture, fisheries, tourism, construction, port and airport infrastructures and services, transportation, telecommunications, financial services, electricity, water and sanitation services, production of basic consumer goods, and natural resources (oil and gas). The 2007 investment code sets forth a legal framework under which only investments above US\$250,000 are eligible for benefits and guarantees.

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Section 1 - Background

Discovered and claimed by Portugal in the late 15th century, the islands' sugar-based economy gave way to coffee and cocoa in the 19th century - all grown with African plantation slave labor, a form of which lingered into the 20th century. While independence was achieved in 1975, democratic reforms were not instituted until the late 1980s. The country held its first free elections in 1991, but frequent internal wrangling between the various political parties precipitated repeated changes in leadership and two failed coup attempts in 1995 and 2003. In 2012, three opposition parties combined in a no confidence vote to bring down the majority government of former Prime Minister Patrice TROVOADA. The new government of Prime Minister Gabriel Arcanjo Ferreira DA COSTA is entirely composed of opposition party members with limited experience in governance. The recent discovery of oil in the Gulf of Guinea promises to attract increased attention to the small island nation.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

FATF Statement re AML Strategic Deficiencies:

Date: 18 October 2013

São Tomé and Príncipe was earlier identified in the FATF's Public Statement. While São Tomé and Príncipe has made recent progress, its AML/CFT framework still contains a number of strategic deficiencies. Given the small size of this country's financial sector and its low impact on the international financial system, however, the FATF decided that São Tomé and Príncipe should continue to work closely with GIABA to address its remaining AML/CFT deficiencies.

Compliance with FATF Recommendations

The initial Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Sao Tome was undertaken in 2013. According to that Evaluation, Sao Tome was deemed Compliant for 0 and Largely Compliant for 2 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for all 6 of the Core Recommendations.

GIABA Annual Report 2013

Prevalence of Predicate Crimes

The projected expansion of the economy of STP and expected petro-dollar inflow over the next few years attract criminal abuse. The topography of the country, which opens the country to free access from all directions on the high seas, also makes it vulnerable to organized crime.

Currently, STP is not known to be host to serious or organized crimes, though common crimes of theft are reported. The US Overseas Security Advisory Council designates the country as a 'Low' threat crime post. However, the economy is almost completely cash- based and, given the country's geographical location, the growth of organized crime in the Gulf of Guinea, and the imminent inflow of petro-dollars, STP is highly exposed to the possible dangers of serious financial crimes in the near future. Already, the Country Report of STP revealed that drug trafficking, corruption, tax fraud, and smuggling of precious stones and metals are becoming prevalent.

AML/CFT Situation

In February 2007, the FATF placed São Tomé and Príncipe on the list of countries deemed to be vulnerable to ML/TF threats due to the lack of a sufficient AML/CFT regulatory framework and adequate controls. Based on this, a detailed review of STP has been ongoing. However, following the outcome of the mutual evaluation of the country conducted by GIABA, the FATF in October 2013 decided to terminate the review process at its level and handed over the country to GIABA to continue the monitoring process.

STP was evaluated by GIABA in December 2012 and the report adopted in May 2013. The country is expected to submit its first follow-up report to the GIABA Plenary in May 2014. The outcome of the evaluation revealed significant deficiencies in the AML/CFT system of STP with regard to the legal, institutional, regulatory, enforcement and general compliance environment.

GIABA has assisted the country in establishing its AML/CFT regime, which still needs to be further developed. As shown in the 2013 Country Report submitted to GIABA by STP, the system is now functioning. The report indicated that the country's FIU received 79 STRs, four of which are related to ML. The four cases were sent to law enforcement authorities for further investigation, although there is no information on whether the cases were further investigated and prosecuted in the courts. The country identified weak enforcement as the single most critical limitation it faces in the implementation of AML/CFT measures.

Conclusion

São Tomé and Príncipe is a small but growing economy. Its economy is set to expand considerably and the country is likely to rise from a low-income to a medium-income country once it starts benefiting from its vast reserves of petroleum oil in 2016. Foreign direct investment is most likely to pour into the sector, and earnings from oil sales are poised to expand the small country's treasury.

Although democracy is taking deep roots, the emerging oil economy needs to be shielded against the 'resource curse' of poor governance that has plagued most of the region's traditional oil producers, including those surrounding the Gulf of Guinea. The Gulf itself is an emerging theatre of international organized crime, especially piracy. The only bulwark against these threats is for STP to construct and constantly reinforce the architecture of good governance, strengthen law enforcement, and commit to full implementation of acceptable international AML/CFT standards.

IMF Report: First Review Under the Extended Credit Facility Arrangement (2013):

Extract: -

"The government is fully committed to addressing the deficiencies of São Tomé and Príncipe's AML/CFT framework. With LEG TA, it drafted amendments to the AML/CFT law and submitted the revised draft law to the National Assembly in May 2013. Approval of this law will be an important step toward removing São Tomé and Príncipe from the Financial Action Task Force's list of high risk and non-cooperative jurisdictions. In addition, the government will strengthen the operations of the Financial Intelligence Unit (FIU) by providing it with the needed additional staff and equipment, and facilitating the training of its staff. These actions are meant to strengthen the FIU core functions, such as the receipt, analysis, and submission

to the general attorney's office of suspicious transaction reports from financial and non-financial institutions and professions."

US Department of State Money Laundering assessment (INCSR)

Sao Tome and Principe was deemed a 'Monitored' Jurisdiction by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Sao Tome and Principe (STP) has a small banking sector and is not a regional financial center. The economy is almost entirely cash-based, though limited automated teller machine service is available. There is no evidence that significant money laundering or illicit financial activity linked to the drug trade, contraband smuggling, or terrorism occurs in STP. The country's AML/CFT framework contains a number of strategic deficiencies.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List approach
Are legal persons covered: criminally: YES civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES
KYC covered entities: Central bank, commercial banks, and the Public Ministry

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 20 in 2015
Number of CTRs received and time frame: Not applicable
STR covered entities: Central bank, commercial banks, the Public Ministry, insurance companies, casinos, and real estate companies

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 6 in 2015
Convictions: 0 in 2015

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO Other mechanism: NO
With other governments/jurisdictions: YES

Sao Tome and Principe is a member of the Inter Governmental Action Group against Money Laundering in West Africa (GIABA), a FATF-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Sao Tome and Principe's regulatory and supervisory regime is generally lacking in capacity as well as coverage. STP is vulnerable to potential money laundering and terrorism financing activities given its lack of effective, proportionate, and dissuasive sanctions against those who do not comply with national AML/CFT requirements. In 2014, the STP government created a cross border currency declaration system which requires all persons entering or leaving STP with cash valued in excess of 245 million dobras (approximately \$12,430) to declare the amount to customs officials.

The Financial Information Unit (FIU) is designated as the central agency with responsibility for investigating suspect transactions. The number of suspicious transaction reports (STRs) filed dropped dramatically in 2015 in comparison to the previous reporting period. While prosecutions in 2015 matched the number in 2014, there have been no reported convictions for at least the last five years. The full implementation of legal and regulatory requirements remains a challenge given the country's scarce resources and low capacity within the government, national security forces, and the judiciary. There continues to be a significant need for capacity building. STP has limited financial resources to devote to AML/CFT enforcement. Local authorities complain about a lack of international assistance, especially from bilateral and multilateral partners. STP's government does not have enough resources to fully support the FIU. In addition, concerns about the judicial system exist as a number of cases sent by the FIU to the Public Ministry were never prosecuted.

Sao Tome and Principe should continue to work to address the remaining deficiencies in its AML/CFT regime, including by establishing and implementing a framework to freeze terrorist assets in accordance with UNSCRs 1267 and 1373 and ensuring the criminalization of all appropriate predicate crimes to money laundering.

Current Weaknesses in Government Legislation (INCRS Comparative Tables):

According to the US State Department, Sao Tome and Principe does not conform with regard to the following government legislation: -

Record Large Transactions - By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

International Transportation of Currency - By law or regulation, the jurisdiction, in cooperation with banks, controls or monitors the flow of currency and monetary

Ability to freeze assets without delay - The government has an independent national system and mechanism for freezing terrorist assets in a timely manner (including but not limited to bank accounts, other financial assets, airplanes, autos, residences, and/or other property belonging to terrorists or terrorist organizations)

Disclosure Protection - "Safe Harbour" - By law, the jurisdiction provides a "safe harbour" defence to banks or other financial institutions and their employees who provide otherwise confidential banking data to authorities in pursuit of authorized investigations.

EU White list of Equivalent Jurisdictions

Sao Tome and Principe is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Sao Tome and Principe is not considered to be an Offshore Financial Centre

Latest - US State Dept Terrorism Report 2009

Sao Tome and Principe has a lengthy coastline that remained porous and vulnerable to terrorist activities, smuggling, human trafficking, and other illegal activities. While there have been no reports of terrorist activity, the country's capacity to monitor and disrupt terrorist threats was limited due to lack of resources, lack of adequate equipment and infrastructure, and insufficient administrative and financial capacity.

Despite the lack of resources and capabilities, Sao Tome and Principe cooperated with the United States and other partners in its efforts to counter terrorism. Working with the United States, Sao Tome and Principe trained and equipped local security forces in counterterrorism and maritime security to build institutional capacity and knowledge. The government created regulatory and management bodies in an effort to improve control of its border. The Sao Tomean immigration service terminated or refused visas of individuals suspected of money laundering, created a Maritime and Port Security Institute, funded the establishment of a Financial Intelligence Unit at the Central Bank, and supported the establishment of a radar and tracking systems program with the Sao Tomean Coast Guard.

International Sanctions

None Applicable

Bribery & Corruption

| Index | Rating (100-Good / 0-Bad) |
|--|---------------------------|
| Transparency International Corruption Index | 46 |
| World Governance Indicator – Control of Corruption | 55 |

Corruption and Government Transparency - Report by US State Department

STP has made significant progress in recent years combatting corruption. In 2013 STP ranked 72 on Transparency International's 2013 Corruption Index, a marked improvement over its showing in years past. In 2011 STP was ranked 100, and in 2008 it ranked 121. STP's ranking in the 2013 Corruption Index is the best of any Central African country.

STP's positive trajectory on Transparency International's Corruption Index is reflective of the numerous reforms undertaken by the government in recent years. A new anti-corruption law was approved and publicized in 2012. To better control corruption by government agencies and civil servants and to track the flow of money, a new requirement was put in place that requires all payments to government entities over \$5 to be made directly at the Central Bank and all salary payments to civil servants to be paid directly to the employees' accounts at commercial banks. A widely praised oil revenue management law was enacted in 2004 to responsibly manage any future oil revenue. On October 26, 2011, the international Extractive Industries Transparency Initiative (EITI) board approved STP's application for EITI Candidate status. The government has also taken steps to review and update existing contracts with some foreign companies to better support liberalization and free market competition. The government has denounced corruption and pledged to take steps necessary steps to prevent and combat it.

Although corruption in customs was historically an issue for foreign investors, an MCC Threshold Program resulted in a modern customs code and related decrees. The MCC program introduced a modern customs tracking software and eliminated manual procedures to remove the link between the customs agents and cash payments. As a result, customs revenues have significantly increased while incidents of corruption have reportedly declined. This modernization effort represents a fundamental legislative change from colonial-era customs law and processes to internationally recognized and transparent best practices and principles.

On August 15, 2013, the STP Parliament adopted a fully amended and restated anti-money laundering/counter-terrorist financing (AML/CFT) law which complies with international standards. Of note, the law includes a clear description of the crimes involving money laundering and terrorism financing activities, specifies the persons and entities that can be

held criminally responsible, describes the sanctions that can be imposed and the assets that can be confiscated in connection with the criminal activities, and sets forth STP's regulatory structure going forward. A central agency, the Financial Information Unit (UIFr), is designated as the central agency in STP with responsibility for investigating suspect transactions. After appearing on previous versions, STP was removed from the Financial Action Task Force's October 18, 2013 (FATF) list of countries that have strategic deficiencies in their AML/CFT standards and that have not made sufficient progress in addressing the deficiencies. STP is a member of the Inter Governmental Action Group against Money Laundering in West Africa (GIABA), a FATF-style regional body.

Section 3 - Economy

This small, poor island economy has become increasingly dependent on cocoa since independence in 1975. Cocoa production has substantially declined in recent years because of drought and mismanagement. Sao Tome and Principe has to import fuels, most manufactured goods, consumer goods, and food, making it vulnerable to fluctuations in global commodity prices. Maintaining control of inflation, fiscal discipline, and increasing flows of foreign direct investment into the oil sector are major economic problems facing the country. The government also has attempted to reduce price controls and subsidies.

Over the years, Sao Tome and Principe has had difficulty servicing its external debt and has relied heavily on concessional aid and debt rescheduling. It benefited from \$200 million in debt relief in December 2000 under the Highly Indebted Poor Countries program, which helped bring down the country's \$300 million debt burden. In August 2005, the government signed on to a new 3-year IMF Poverty Reduction and Growth Facility program worth \$4.3 million. In April 2011, the country completed a Threshold Country Program with The Millennium Challenge Corporation to help increase tax revenues, reform customs, and improve the business environment.

Considerable potential exists for development of a tourist industry, and the government has taken steps to expand facilities in recent years. Potential also exists for the development of petroleum resources in Sao Tome and Principe's territorial waters in the oil-rich Gulf of Guinea, which are being jointly developed in a 60-40 split with Nigeria, but any actual production is at least several years off.

Agriculture - products:

cocoa, coconuts, palm kernels, copra, cinnamon, pepper, coffee, bananas, papayas, beans; poultry; fish

Industries:

light construction, textiles, soap, beer, fish processing, timber

Exports - commodities:

cocoa 80%, copra, coffee, palm oil (2010 est.)

Exports - partners:

Netherlands 29.2%, Belgium 22.4%, Spain 15.5%, US 6.6%, Nigeria 5.1% (2015)

Imports - commodities:

machinery and electrical equipment, food products, petroleum products

Imports - partners:

Portugal 65.2%, China 8.1%, Gabon 7.3% (2015)

The banking system in STP has expanded significantly in recent years. Until recently, STP had only one commercial bank. Currently, there are seven private commercial banks, six of which were opened in last three years. Portuguese, Angolan, Nigerian, Cameroonian, and Togolese interests (as well as those of Sao Tome and Principe) are represented in the ownership and management of the commercial banks.

Commercial banks offer most corporate banking services, or can procure them from overseas. Local credit to the private sector is limited and expensive, but available to both foreign and local investors on equal terms. The country's main economic actors obtain financing outside STP. Commercial banks have transferred excess liquidity to correspondent banks outside the region. All the commercial banks are supervised by the BCSTP.

Section 4 - Investment Climate

Executive Summary

The island nation of Sao Tome and Principe (STP) is situated in the equatorial Atlantic in the Gulf of Guinea. STP is taking positive steps toward improving its investment climate and making the country a more attractive destination for foreign investment. STP is a stable, multi-party democracy and the government is working to combat corruption and create an open and transparent business environment. An investment code, enacted in 2007, sets forth a modern legal framework for foreign investment. A Millennium Challenge Corporation Country Threshold Program, implemented from 2007 to 2011, modernized STP's customs administration, reformed its tax policies, and made it considerably less burdensome to start a new business. An anti-money laundering / counter-terrorist financing law adopted in 2013 brought STP into compliance with international standards. With limited domestic capital, STP relied heavily on outside investment and as such is committed to taking necessary reforms to improve its investment climate.

The consensus among government authorities and economic analysts is that considerable foreign investment is needed for STP to realize its development goals and potential. Foreign investors, however, face challenges identifying viable investment opportunities due to STP's weak domestic economy, inadequate infrastructure, small market, and physical isolation. STP is one of the poorest countries in the world. The World Bank estimates STP's population at roughly 186,300 and its 2014 gross domestic product at around USD 337.4 million. Due to STP's very limited revenue sources, foreign donors finance roughly 62 percent of its budget. STP's main sources of foreign assistance are Taiwan, Angola, and Nigeria. Tourism, fisheries, infrastructure, and agriculture present the most promising investment opportunities. STP's extensive maritime domain might present opportunities for hydrocarbon production as technology improves, but falling petroleum prices are curbing interest in new exploration. Seeking to capitalize on its strategic location in the Gulf of Guinea, STP's government has long sought to attract investment for a deep-water port. As a former Portuguese colony, STP has strong economic ties with Portugal and other Lusophone countries including Angola and Brazil.

STP is politically stable, and the government and business community appear focused on building consensus to develop the country economically and to improve basic social services for the country's young and growing population. STP has had peaceful demonstrations with a recent history of smooth political transitions. President Manuel Pinto da Costa supports increased foreign investment and welcomes closer U.S. engagement on economic matters. Free and fair legislative and municipal elections held in October 2014 led to a peaceful transition of power to a new government led by the Independent Democratic Action party. Prime Minister Patrice Trovoada, who assumed his position on November 28, 2014, is focused on economic growth and attracting foreign investment.

Table 1

| Measure | Year | Index or Rank | Website Address |
|---------|------|---------------|-----------------|
|---------|------|---------------|-----------------|

| | | | |
|---|------|---------------|--|
| TI Corruption Perceptions index | 2014 | 76 of 175 | transparency.org/cpi2014/results |
| World Bank's Doing Business Report "Ease of Doing Business" | 2015 | 166 of 189 | doingbusiness.org/rankings |
| Global Innovation Index | 2015 | Not ranked | globalinnovationindex.org/content/page/data-analysis |
| U.S. FDI in partner country (\$M USD, stock positions) | N/A | Not Available | N/A |
| World Bank GNI per capita | 2014 | USD 1,670 | data.worldbank.org/indicator/NY.GNP.PCAP.CD |

Millennium Challenge Corporation Country Scorecard

The Millennium Challenge Corporation (MCC), a U.S. government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a per capita gross national income of USD 4,125 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: <http://www.mcc.gov/pages/selection/scorecards>. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: <http://www.mcc.gov/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015>.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

STP is one of the poorest countries in the world with an unclear path to sustained future economic growth. Its economic prospects likely depend on the government's ability to attract international investment. The government is anxious to improve the investment climate in STP to make it a more attractive destination for foreign direct investment. There are no laws discriminating against foreign investors.

Other Investment Policy Reviews

The government has not conducted any investment policy reviews through the Organization for Economic Cooperation and Development (not a member), the World Trade Organization (not a member but an observer government), or the United Nations Conference on Trade and Development (member) in the past three years.

Laws/Regulations on Foreign Direct Investment

The Investment Code of 2007 provides for both public and mixed capital investments, allowing foreign investment in every sector of economic activity except limited areas reserved to the state (activities related to the military and paramilitary sectors and the

operations of the Central Bank). There are no recent reports of government interference in the court system that could affect foreign investors.

The website <http://gue-stp.net/spip.php?article24> (Portuguese language only) provides information on creating and registering companies to operate in STP.

Business Registration

STP has taken steps to facilitate investment and improve the business environment in recent years. The Millennium Challenge Corporation (MCC) worked with STP from 2007 to 2010 on a Threshold Country Program to improve investment opportunities, including creating a “one-stop shop” to help encourage new investments by making it easier and cheaper to import and export goods, reducing the time required to start a new business, and improving STP’s tax and customs administration.

There are no agencies or brokers that provide services to simplify the procedures for establishing an office in STP, but there is now a one-stop window to assist with the process. Some companies prefer to hire a legal office for assistance, but recent progress due to the MCC program has significantly reduced the cost and waiting period to start a new business. It now takes between three to five days and costs about USD 278. Although there is no online business registration processes, companies can easily register their business.

The following is a general description of how a foreign company can establish a local office:

1. Provide full company documentation, translated into Portuguese.
2. Check the uniqueness of the proposed company name and reserve a name.
3. Notarize the company statutes with the Registration Office in the Ministry of Justice.
4. File a company declaration with the Office of Taxation in the Ministry of Planning and Finance.
5. Register with the Social Security Office in the Ministry of Health and Social Affairs.
6. Publish the incorporation notice in the official gazette (Diario da Republica).
7. Publish the incorporation notice in a national newspaper.
8. Register the company with the Commercial Registry in the Ministry of Commerce, Industry and Tourism.
9. Apply for a commercial operations permit (alvara).
10. Apply for a taxpayer identification number with the Office of Taxation in the Ministry of Planning and Finance.
11. Register employees with the Social Security Office.
12. Other documents needed include: 1) copies of the by-laws of the parent company and of the minutes of the meeting of the board of directors in which the opening of the STP branch is approved; 2) a certificate of appointment of the general manager in STP; 3) a copy of any agreement signed with a Sao Tomean company or with the government of STP; 4) two copies of the application to the Court for authorization to operate; and 5) two photographs and a copy of the passport of the General Manager.

For more information contact:

GUE – Guiche Unico para Empresas (Single Window)
Ministerio da Justica, Administracao Publica e Assuntos Parlamentares (Ministry of Justice, Public Administration, and Parliamentary Affairs)

Avenida Amilcar Cabral, Edificio da Sat Insurance 1. Andar
Contacto: (+239) 22-21-040, (+239) 22-22-402, (+239) 99-17-711
Fax: (+239) 22-22-256
E-mail: s_ilma3@hotmail.com

Industrial Promotion

Although it lacks formal programs, STP is anxious to attract investment in sectors including agriculture, fishing, and tourism.

Limits on Foreign Control and Right to Private Ownership and Establishment

There are no limits on foreign ownership or control except for activities customarily reserved for the state (military and paramilitary activities and the operation of the Central Bank).

Foreigners are free to establish and own business enterprises and engage in all forms of business activity in STP, with the exception of the military sector. Prohibitions exist in the ownership of certain types of guns. In addition, the form of public participation (percentage of government ownership in joint ventures) varies with each agreement.

STP is gradually moving towards open competition in all sectors of the economy, and competitive equality is the official standard applied to private enterprises in competition with public enterprises with respect to access to markets, credit, and other business operations. The government has eliminated former public monopolies in farming, banking, insurance, airline services, telecommunications, and trade (export and import).

Privatization Program

STP does not have an active privatization program.

Screening of FDI

Although the appropriate ministry reviews foreign direct investment, there is no concern that such screening mechanisms constitute a barrier to investment. STP is very eager to attract foreign direct investment.

Competition Law

There are no competition laws that interfere with foreign investment.

2. Conversion and Transfer Policies

Foreign Exchange

The Central Bank of STP (BCSTP) supervises the national financial system and defines monetary and exchange rate policies in the country. Among other responsibilities, the BCSTP sells hard currency and establishes indicative interest rates. There is no difficulty in obtaining foreign exchange. The dobra (denoted by the acronym "STD") is the country's national currency. As of April 2016, one U.S. dollar was equivalent to about STD 22,000.

In July 2009, STP and Portugal signed an economic cooperation agreement with the objective of fixing the STD to the Euro rather than a weighted basket of currencies. As a

result, the STD is pegged to the Euro at an exchange rate of 1 Euro equal to STD 24,500.00. This anchorage offers credible parity, minimizes the monetary instability costs, and provides better credibility for the exchange rate and monetary policy.

Remittance Policies

Repatriation of capital is possible with prior authorization. Transfer of profits outside of STP is also allowed after the deductions for legal and statutory reserves and the payment of existing taxes. The government encourages reinvestments with associated reductions in income taxes.

STP is a member of the Inter-Governmental Action Group against Money Laundering in West Africa, an FATF-style regional body.

3. Expropriation and Compensation

The government maintains strong protections over all types of ownership of private property. The law permits expropriation of property only if deemed to be in the national public interest and only with adequate compensation. There is no evidence to suggest that the government would undertake expropriation in a discriminatory manner or in violation of established principles of international law.

Aside from a massive land expropriation from colonial farmers in 1976 – later recognized by the government as detrimental to STP's economy – there have not been any documented cases of expropriation of foreign-owned properties. The government has reportedly considered expropriating land to expand the runway at Sao Tome international airport, but thus far has been reluctant to do so out of concern that any expropriation will be a deterrent to new investment.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Disputes are generally solved amicably without litigation, and there are few known instances of disagreements involving foreign investors reaching international courts. Overall, the legal system is perceived to act independently. Judgments from foreign courts are recognized by STP courts.

Bankruptcy

STP has a bankruptcy law but it is not well developed. In the World Bank's Doing Business Report, STP ranks 158 out of 189 economies on the ease of resolving insolvency.

Investment Disputes

There are no recent instances of investment disputes involving a U.S. person.

International Arbitration

STP does not have a Bilateral Investment Treaty with the United States. The STP legal system recognizes international arbitration as described below.

ICSID Convention and New York Convention

STP is a member state to the International Centre for the Settlement of Investment Disputes (ICSID Convention) and the convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention).

Duration of Dispute Resolution – Local Courts

There are no recent instances of investment disputes involving a U.S. person.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Sao Tome has not notified the WTO of any measures that are inconsistent with Trade Related Investment Measures (TRIMs) requirements.

Investment Incentives

In accordance with the 2007 Investment Code, investments above USD 250,000 are eligible for benefits and guarantees, including fiscal incentives. Examples include the use of state-owned buildings and/or land for the duration of investment projects, and the provision of administrative services to facilitate the process of obtaining access to state-owned buildings and land.

Research and Development

There is no known obstacle to U.S. firm participation in government financed and/or subsidized research and development programs.

Performance Requirements

STP has no specific performance requirements as a condition for establishing, maintaining, or expanding investment. There are no requirements for investors to buy local products, to export a certain percentage of output, or to invest in a specific geographical area. There is no blanket requirement that nationals own shares in foreign investments in STP. The visa application process is straightforward and transparent and visas or work permits are usually easy to obtain. Nevertheless, Sao Tomean Embassies and Consulates worldwide at which such applications can be processed are scarce. STP recently began accepting online visa applications, but the new system does not work smoothly. In 2015, STP lifted visa requirements for U.S. and EU citizens for stays of up to 15 days. For information on submitting an online visa application, see www.smf.st/inicio/html.

Data Storage

There is no known forced localization requirement and no known requirement for foreign IT providers to turn over source code.

6. Protection of Property Rights

Real Property

STP guarantees private property rights, and authorities must provide fair, adequate, and effective payment in advance before expropriating property. U.S. companies have not raised property rights concerns with the Embassy.

Intellectual Property Rights

U.S. companies have not raised intellectual property rights concerns with the Embassy. For additional information about treaty obligations and points of contact at local IP offices, please see the World Intellectual Property Organization's country profiles at <http://www.wipo.int/directory/en/>.

Resources for Rights Holders

Shana Sherry
Economic and Commercial Officer, U.S. Embassy Libreville
+241 0145 7000
SherrySY@state.gov

For a list of local lawyers, see: http://libreville.usembassy.gov/legal_information/attorneys-in-sao-tome--principe.html.

7. Transparency of the Regulatory System

The laws and regulations that affect direct investment, including environmental rules and health and safety regulations, apply equally to foreign and domestic firms. STP tax laws reward Sao Tomeans who return to their home country, while also containing provisions for attracting non-Sao Tomean personnel to live and work in STP.

Labor, health, and safety laws exist but are haphazardly enforced. There are some reports that the process of terminating unsatisfactory employees is cumbersome and that protective labor laws make it very difficult to bring skilled foreign specialists such as pilots, engineers, or architects to work in STP.

The MCC Threshold Program provided a range of assistance to customs and finance departments, including training in auditing, collection registration, returns processing, public affairs, forms development, and information technology. As a result of the MCC program, STP replaced the information technology systems that the Department of Taxation previously used and established a network connecting the primary revenue-producing departments of the government (the Central Bank, the Single Window for Business or one-stop shop, and the Department of the Treasury) to increase revenue collection.

8. Efficient Capital Markets and Portfolio Investment

The STP government is anxious to attract foreign portfolio investment but struggles to attract investors because there are few attractive investment opportunities. While the regulatory system in principle is conducive to foreign portfolio investment, there are currently no known significant U.S. investors active in STP and there is little understanding of the functionality of STP's capital markets.

Money and Banking System, Hostile Takeovers

STP has eight private commercial banks. Portuguese, Angolan, Nigerian, Cameroonian, and Togolese interests (as well as those of STP) are represented in the ownership and management of the commercial banks. The Gabonese Investment Bank opened its Sao Tomean operation in March 2012.

In addition to retail banking, commercial banks offer most corporate banking services, or can procure them from overseas. Local credit to the private sector is limited and expensive, but available to both foreign and local investors on equal terms. The country's main economic actors finance themselves outside STP. Commercial banks have transferred excess liquidity to correspondent banks outside the region.

9. Competition from State-Owned Enterprises

When STP's cocoa plantations were shut down in the late 1990s, most State-Owned Enterprises (SOEs) also closed. SOEs remain in only five industries: BISTP (International Bank of STP), EMAE (Water and Power Supply Company), ENAPORT (Port Authority Company), ENASA (National Company for Airports and Air Safety), and CST (Santomean Telecommunication Company). CST is operating under a joint venture with the Portuguese Telecommunication Company (PT). The government holds 49 percent of CST, while PT owns 51 percent of the company. BISTP is owned by the STP government (48 percent), the Portuguese Caixa Geral de Depositos (27 percent), and the African Investment Bank (25 percent). The other three state-owned companies operate under government management but with some financial autonomy. The Ministry of Finance and the Court of Auditors audit the SOEs on an annual basis. STP is looking at privatizing the remaining SOEs.

OECD Guidelines on Corporate Governance of SOEs

The majority of SOEs operate under government management but largely with financial independence. It is unclear whether SOEs adhere to the Economic Co-operation and Development Guidelines on Corporate Governance for SOEs.

Sovereign Wealth Funds

STP does not have a traditional sovereign wealth fund. It does have a small National Oil Account (NOA). The NOA was previously funded by signing bonuses paid by energy firms to gain rights to conduct exploration and production activities. According to officials from STP's Budget Department, every year the government is permitted by law to withdraw up to 20 percent of the balance of the NOA as calculated on June 30 of the previous year.

10. Responsible Business Conduct

There are no rules or legislation pertaining to responsible business conduct in STP. Companies generally act in accordance with labor and taxation laws, but there is no general awareness of expectations of or standards for responsible business conduct.

11. Political Violence

STP is a vibrant democracy where politicians and the public have a history of accepting government changes resulting from elections. STP is relatively stable, has few ethnic tensions, and has a relaxed lifestyle which locals refer to in Portuguese as *leve-leve* (take it easy). Political violence is rare, as a high premium is placed on consensus in decision-making. Free

and fair legislative and municipal elections held in October 2014 led to a peaceful transition of power to a new government led by the Independent Democratic Action party.

STP has a generally good human rights record and demonstrates a respect for citizens' and workers' rights. Strikes are not the primary means to settle labor disputes and labor strikes have been rare in recent times.

Since independence in 1975, there have been no incidents of politically motivated attacks on projects or installations. Anti-American sentiment is very limited and civil disorder is rare. There is a maritime piracy and terrorism threat in the Gulf of Guinea, but the impact on STP and its territorial waters has been limited. STP has sought to be an active partner in regional maritime security efforts, although its capacity is low due to budget constraints.

12. Corruption

STP's positive trajectory on Transparency International's Corruption Perception Index reflects the reforms the government has undertaken in recent years. The government approved a new anti-corruption law in 2012. To reduce corruption by civil servants and to track the flow of money, authorities put in place a new requirement that all payments to government entities over USD 5 be made directly at the Central Bank and all salary payments to civil servants be paid directly to the employees' accounts at commercial banks. A widely praised oil revenue management law was enacted in 2004 to responsibly manage any future oil revenue. STP is an Extractive Industries Transparency Initiative candidate country. The government has also taken steps to review and update existing contracts with some foreign companies to better support liberalization and free market competition. The government has denounced corruption and pledged to take necessary steps to prevent and combat it.

Although corruption in customs was historically an issue for foreign investors, an MCC Threshold Program resulted in a modern customs code and related decrees. The MCC program introduced modern customs tracking software and eliminated manual procedures, removing the link between the customs agents and cash payments. As a result, customs revenues have increased significantly while incidents of corruption reportedly have declined. This modernization effort represents a fundamental legislative change from colonial-era customs laws and processes to internationally recognized and transparent best practices and principles.

In 2013, the STP Parliament adopted a fully amended and restated anti-money laundering/counter-terrorist financing (AML/CFT) law which complies with international standards. Of note, the law includes a clear description of the crimes involving money laundering and terrorism financing activities, specifies the persons and entities that authorities can hold criminally responsible, describes the sanctions that authorities can impose and the assets they can confiscate in connection with the criminal activities, and sets forth STP's regulatory structure. The law designates the Financial Information Unit (Unidade de Informação Financeira) as the central agency in STP with responsibility for investigating suspect transactions. After appearing on previous versions, STP was removed from the Financial Action Task Force's October 18, 2013 (FATF) list of countries that have strategic deficiencies in their AML/CFT standards and that have not made sufficient progress in addressing the deficiencies. STP is a member of the Inter-Governmental Action Group against Money Laundering in West Africa, a FATF-style regional body.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

STP signed and ratified the UN Anticorruption Convention. It is not party to the Economic Co-operation and Development Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Resources to Report Corruption

STP does not have a designated agency responsible for combatting corruption.

13. Bilateral Investment Agreements

Bilateral Taxation Treaties

STP signed a bilateral investment treaty with Portugal but it is not in force. STP has not signed a bilateral investment treaty with the United States.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

STP currently has no free trade zones or free ports. The Free Zone Authority (AZF) was established to create a free trade zone in STP but was shuttered in late 2011 due to lack of interest.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

| | Host Country Statistical source* | | USG or international statistical source | | USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other |
|--|----------------------------------|---------------|---|---------------|--|
| Economic Data | Year | Amount | Year | Amount | |
| Host Country Gross Domestic Product (GDP) (\$M USD) | 2014 | 338 | 2014 | 337.4 | www.worldbank.org/en/country |
| Foreign Direct Investment | Host Country Statistical source* | | USG or international statistical source | | USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other |
| U.S. FDI in partner country (\$M USD, stock positions) | N/A | Not Available | N/A | Not Available | N/A |
| Host country's FDI in the United States (\$M USD, stock positions) | N/A | Not Available | N/A | Not Available | N/A |

| | | | | | |
|--|-----|---------------|-----|---------------|-----|
| Total inbound stock of FDI as % host GDP | N/A | Not Available | N/A | Not Available | N/A |
|--|-----|---------------|-----|---------------|-----|

*STP 2014 Budget

Table 3: Sources and Destination of FDI

IMF Coordinated Direct Investment Survey is not available for Sao Tome and Principe.

Table 4: Sources of Portfolio Investment

IMF Coordinated Portfolio Investment Survey data are not available for Sao Tome and Principe.

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

Mixed legal system of civil law base on the Portuguese model and customary law

International organization participation:

ACP, AfDB, AOSIS, AU, CD, CPLP, EITI (candidate country), FAO, G-77, IBRD, ICAO, ICRM, IDA, IFAD, IFC, IFRC, ILO, IMF, IMO, Interpol, IOC, IOM (observer), IPU, ITU, ITUC (NGOs), NAM, OIF, OPCW, UN, UNCTAD, UNESCO, UNIDO, Union Latina, UNWTO, UPU, WCO, WHO, WIPO, WMO, WTO (observer)

Section 6 - Tax

Exchange control

For further information - <http://www.parlamento.st/>

Treaty and non-treaty withholding tax rates

For further information - <http://www.parlamento.st/>

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

| | Lower Risk | Medium Risk | Higher Risk |
|---|-----------------------------------|---------------------------------------|-----------------------------------|
| FATF List of Countries identified with strategic AML deficiencies | Not Listed | AML Deficient but Committed | High Risk |
| Compliance with FATF 40 + 9 recommendations | >69% Compliant or Fully Compliant | 35 – 69% Compliant or Fully Compliant | <35% Compliant or Fully Compliant |
| US Dept of State Money Laundering assessment (INCSR) | Monitored | Concern | Primary Concern |
| INCSR - Weakness in Government Legislation | <2 | 2-4 | 5-20 |
| US Sec of State supporter of / Safe Haven for International Terrorism | No | Safe Haven for Terrorism | State Supporter of Terrorism |
| EU White list equivalent jurisdictions | Yes | | No |
| International Sanctions UN Sanctions / US Sanctions / EU Sanctions | None | Arab League / Other | UN , EU or US |
| Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network | >69% | 35 – 69% | <35% |
| World government Indicators (Average) | >69% | 35 – 69% | <35% |
| Failed States Index (Average) | >69% | 35 – 69% | <35% |
| Offshore Finance Centre | No | | Yes |

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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