

Sao Tome and Principe

RISK & COMPLIANCE REPORT

DATE: January 2017

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	52

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 a substantial amount of food, making it vulnerable to fluctuations in global commodity prices. Over the years, it has had difficulty servicing its external debt and has relied heavily on concessional aid and debt rescheduling. Sao Tome and Principe benefited from \$200 million in debt relief in December 2000 under the Highly Indebted Poor Countries (HIPC) 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 (PRGF) 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. The government also has attempted to reduce price controls and subsidies. Potential 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. The first production licenses were sold in 2004, though a dispute over licensing with Nigeria delayed the country's receipt of more than \$20 million in signing bonuses for almost a year. Maintaining control of inflation, fiscal discipline, and increasing flows of foreign direct investment into the oil sector are the major economic problems facing the country.

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

Exports - partners:

Netherlands 32.7%, Belgium 21.4%, Spain 10.8%, Nigeria 5.7%, US 5% (2012)

Imports - commodities:

machinery and electrical equipment, food products, petroleum products

Imports - partners:

Portugal 63%, Gabon 6% (2012)

Banking

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.

Executive Summary

Sao Tome and Principe (STP) is taking positive steps toward improving its investment climate and making the country a more attractive destination for foreign investment. A new investment code, introduced in 2007, sets forth a modern legal framework for foreign investment. A Millennium Challenge Corporation Country Threshold Program, conducted 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. STP is a stable, multi-party democracy and the government is working to combat corruption and create an open and transparent business environment. Due to its limited domestic capital, STP is highly reliant 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. However, foreign investors 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 188,000 and its 2012 gross domestic product (GDP) at around \$263 million. With very limited revenue sources, roughly 62 percent of STP's budget is financed by foreign assistance from main partners including Taiwan, Angola, and Nigeria. Tourism, fisheries, infrastructure, and agriculture present the most promising investment opportunities. STP's extensive maritime domain may present opportunities for hydrocarbon production as technology improves. Seeking to capitalize on its strategic location in the Gulf of Guinea, STP's government has long sought to attract investment for a deepwater port. As a former Portuguese colony, STP's economic ties with Portugal and other Lusophone countries, such as Angola and Brazil, are strong.

STP is stable politically, and the government and business class appear focused on building consensus to develop the country economically and to improve basic social services for the country's young and growing population. Although STP experiences periodic peaceful demonstrations, it has a recent history of peaceful political transitions. President Manuel Pinto da Costa is supportive of increased foreign investment and welcomes closer U.S. engagement on economic matters. Legislative and municipal elections are scheduled for 2014, but specific dates have not been announced.

1. Openness To, and Restrictions Upon, Foreign 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). The STP government is focused on development of agriculture as a driver of economic growth, with other areas open to foreign investment including fisheries, tourism, construction, port and airport infrastructure 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 \$250,000 are eligible for benefits and guarantees.

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 (TCP) 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. Between 2010 and 2013, STP estimates that tax revenues increased by 37 percent, with customs revenues up 38 percent. According to the International Financial Corporation’s (IFC) Doing Business 2013 report, starting a business in STP takes seven days.

Due to its location in the oil-rich Gulf of Guinea, STP is thought to have potentially large offshore oil and gas deposits. However, to date, there have not been any major oil finds and the prospects for oil production remain uncertain. In September 2013, the French energy firm Total abandoned Block 1 in the STP-Nigeria Joint Development Zone (JDZ), a discouraging sign for development of the sector. Total’s move came a year after Sinopec and its subsidiary Addax similarly abandoned three blocks in the JDZ. Both the JDZ and STP’s Exclusive Economic Zone (EEZ) are open for international bidding. STP is well prepared for any future oil discoveries. In 2004, STP adopted a widely-praised Oil Revenue Management Law and created a National Oil Agency (ANP) with staff trained by the World Bank and the Norwegian Agency for Development Aid. Pursuant to the 2004 oil law, oil revenue will accrue in a National Oil Account (NOA) and invested, with income generated by the NOA covering all STP’s public budget needs in the long term under optimistic scenarios. Optimism over possibly massive oil discoveries in the early 2000s fueled a boom in private investment in the banking and services sector that has since petered out.

STP has long expressed interest in building a deep water port that could serve as a regional transportation hub and “safe harbor” in order to accommodate large ship sizes and volume. With such a port, STP hopes to leverage its strategic location in Africa and become a significant transshipment service provider between Africa and the rest of the world. The government has divided the program into smaller projects in the hopes of attracting investors. Some companies, including French, Russian, and Chinese private sector showed interest in investing in the deep water port, but to date the government has not been able to secure financing for the project.

In October 2012 STP was connected to the ACE fiber optic cable which runs from France along the coast of West Africa. The installation of the ACE cable increased STP’s internet speed by a factor of 100 while significantly lowering prices. The new cable was put in use beginning in January 2013.

Of note, STP received the best ranking among Central African countries in Transparency International’s 2013 Corruption Index.

TABLE 1: The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	72 of 177	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	157 of 177	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	169 of 189	http://doingbusiness.org/rankings
Global Innovation Index	2013	Not ranked	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	USD 1310	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

TABLE 1B - Scorecards: The Millennium Challenge Corporation, 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 2012 per capita gross national income (GNI) or \$4,085 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/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf>.

2. Conversion and Transfer Policies

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 currencies 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 May, 2014, one U.S. dollar is equivalent to about 18,000 STD.

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 a credible parity, minimizes the monetary instability costs, and provides better credibility for the exchange rate and monetary policy. It should also attract more direct foreign investment alleviate the problems of exchange rates in the commercial relationship between STP and Europe.

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. Reinvestments are encouraged by the State with associated reductions in income taxes.

3. Expropriation and Compensation

The government maintains strong protections over all types of property, including private property, and the right of citizens to own and use property. Expropriation is allowed for projects deemed to be in the national public interest, but only occurs with adequate compensation. There is no evidence to suggest that repatriation would be undertaken 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 the economy of STP -- there have not been any documented cases of expropriation of foreign-owned properties. The government has reportedly considered expropriating land to expand the runway on Sao Tome, but has thus far been reluctant to take that step out of concern that any expropriation will be a deterrent to new investment in STP.

4. Dispute Settlement

Disputes are generally solved amicably without litigation, and there are few known instances of disagreements involving foreign investors reaching international courts.

5. Performance Requirements and Investment Incentives

There are no specific performance requirements imposed 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 it is very easy to be approved for a visa and/or work permit. However, Sao Tomean Embassies and Consulates worldwide at which such applications can be processed remain scarce. STP recently began accepting online visa applications, but it is not yet clear how well the new system works. For information on submitting an online visa application, see www.smf.st/inicio/html.

According to the 2007 Investment Code, investments above \$250,000 are eligible for benefits and guarantees. Investments under \$250,000 are no longer eligible but would be protected against expropriation. Qualifying investment projects will benefit from fiscal incentives. Incentives also include the use of state-owned buildings and/or land for the duration of

investment projects, as well as the provision of administrative services to facilitate the process of obtaining access to state-owned buildings and land.

6. Right to Private Ownership and Establishment

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. Former public monopolies in farming, banking, insurance, airline services, telecommunications, and trade (export and import) have been eliminated.

7. Protection of Property Rights

STP guarantees private property rights, and expropriation for public use must be accompanied by a fair, adequate, and effective payment in advance. U.S. companies have not raised intellectual property rights concerns with the Embassy.

8. Transparency of the Regulatory System

The laws and regulations that affect direct investment, such as environmental rules and health and safety regulations, are non-discriminatory and 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-national specialists such as pilots, engineers, or architects into 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 previously used by the Department of Taxation and established a network connecting the primary revenue producing departments of the government (the Central Bank, the "one-stop shop," and the Department of the Treasury) to increase revenue collection.

9. Efficient Capital Markets and Portfolio Investment

The banking system in STP has seen significant development in recent years. Until recently, STP had only one commercial bank. Currently, there are eight private commercial banks, seven of which were opened in the last six years. 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 (BGFI) opened its Sao Tomean operation in March 2012. Depending on conflicting reports, Island Bank either already has or imminently will cease operations.

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.

10. Competition from State-Owned Enterprises

When the cocoa plantations were shut down in the late 1990s, most SOEs also were closed. SOEs remain in only five industries: BISTP (banking), EMAE (Water and Power Supply Company), ENAPORT (Port Authority Company), ENASA (Airport Authority Company), and CST (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 a certain financial autonomy separate from government coffers. The Ministry of Finance and the Court of Auditors audit the SOEs on an annual basis. STP has begun privatizing the remaining SOEs. Rights to ENAPORT and ENASA have already been partially transferred to the Angolan company SONANGOL for a period of 40 years, with the STP government retaining a 20 percent interest in each.

STP is dependent on foreign aid for budget support and it does not have a Sovereign Wealth Fund (SWF) or Asset Management Bureau (AMB). The oil revenue management law does instruct the Government to manage oil revenue in a manner that will save for future generations. However, oil discovery is still only a potential and not yet a reality.

11. Corporate Social Responsibility

There are no rules or legislation pertaining to CSR in STP.

12. Political Violence

STP is a vibrant democracy where politicians and the public have a history of accepting government changes resulting from elections. STP is characterized by relative stability, lack of ethnic tensions, and 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.

STP has a commendable 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, to date, there have been no incidents involving STP, which has been an active partner in regional maritime security efforts.

13. Corruption

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.

14. Bilateral Investment Agreements

As of December 2012, the U.S. has no bilateral investment or taxation treaty with STP. STP has signed bilateral investment agreements with Portugal, Angola, and Gabon but is party to no bilateral taxation treaties.

15. OPIC and Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC) is authorized to do business in STP.

16. Labor

A significant portion of STP's workforce is young, relatively well-educated and multilingual (Portuguese and French). However, further training of the workforce is needed as the economy continues to develop. The cost for basic unskilled labor is about \$55 per month, and it is increasing over time. Minimum wage, workday, overtime, paid annual vacations, and holidays are established by STP labor laws but generally only enforced for public servants. Women are entitled to state-funded maternity leave for a period of 30 days before and 30 days after childbirth. The law does not prohibit anti-union discrimination or retaliation against strikers. Labor laws, including occupational health and safety standards, are poorly enforced due to a lack of resources. Workers' collective bargaining agreements remain relatively weak due to the government's role as the principal employer and key interlocutor in labor matters, including wages.

17. Foreign Trade Zones/Free Ports

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. All the activities related to the free trade zone are now done directly through the Minister of Planning and Development.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

STP's size, combined with its lack of human and financial resources, has made it difficult for the country to attract foreign direct investment (FDI). STP is heavily reliant on foreign assistance. FDI is increasing due to structural macroeconomic reforms that have increased investor confidence. According to the United Nations Conference on Trade and Development (UNCTAD), FDI inward flows to STP reached \$50 million in 2012, up from \$36 million in 2007 and \$4 million in 2002. FDI inward stock in FDI was \$344 million in 2012. Most investment has come from Portugal and, more recently, from Angola and Nigeria. FDI outward flows from STP were \$1 million in 2012. The USTR notes that STP was the United States' 222 largest goods trading partner in 2012, with U.S. exports of around \$870,000 and U.S. imports of around \$553,000. The largest U.S. exports in 2012 were machinery (\$230,000), pharmaceutical products (\$164,000), vehicles (\$117,000), electrical machinery (\$77,000), and chemical products (\$70,000). Main U.S. imports in 2012 included paper and paperboard (\$234,000), machinery (\$203,000), and cocoa (\$26,000).

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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