Executive Summary

São Tomé and Príncipe (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.
### Table 1B - Scorecards

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<tr>
<td>Heritage Foundation’s Economic Freedom index</td>
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<td><a href="http://www.heritage.org/index/ranking">http://www.heritage.org/index/ranking</a></td>
</tr>
</tbody>
</table>

**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](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](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).

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

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<th>Economic Data</th>
<th>Host Country Statistical source*</th>
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<tr>
<td></td>
<td>Year</td>
<td>Amount</td>
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<th>Foreign Direct Investment</th>
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| U.S. FDI in partner country (Millions U.S. Dollars, stock positions) | N/A | Not Available | N/A | Not Available | N/A |

| Host country’s | N/A | Not Available | N/A | Not Available | N/A |


FDI in the United States (Millions U.S. Dollars, stock positions)

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* Provide sources of host country statistical data used.

**TABLE 3: Sources and Destination of FDI**

Not Available.

**TABLE 4: Sources of Portfolio Investment**

Not Available.

19. **Contact Point at Post for Public Inquiries**
   - Mark Hitchcock
   - Economic and Commercial Officer
   - United States Embassy Libreville / Sabliere, B.P. 4000 / Libreville, Gabon
   - (241) 0145-7100
   - HitchcockMJ@state.gov