



SAO TOME AND PRINCIPE
INVESTMENT CLIMATE STATEMENT
2015

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Executive Summary

The island nation of São Tomé and Príncipe (STP) is situated in 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. A new investment code, enacted in 2007, sets forth a modern legal framework for foreign investment. A Millennium Challenge Corporation (MCC) 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. 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. 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 193,000 and its 2013 gross domestic product (GDP) at around USD 311 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. 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 (ADI) party. Prime Minister Patrice Trovoada, who assumed his position on November 28, 2014, is focused on economic growth and attracting foreign investment.

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 (FDI). 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 (OECD) (not a member), the World Trade Organization (WTO) (not a member but is an Observer government), or the United Nations Conference on Trade and Development (UNCTAD) (is a member) in the past three years.

Laws/Regulations of 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.

Industrial Promotion

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

Limits on Foreign Control

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).

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 FDI.

Competition Law

There are no competition laws that interfere with foreign investment.

Investment Trends

STP continues to struggle to attract international investment because it has few attractive investment opportunities.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	76 of 174	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	153 of 189	doingbusiness.org/rankings
Global Innovation Index	2014	Not ranked	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD 1,470	data.worldbank.org/indicator/NY.GNP.PCAP.CD

Millennium Challenge Corporation Country Scorecard

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 per capita gross national income (GNI) of USD 4,125 or less, including STP. 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>.

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 June 2015, 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.

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 repatriation 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 in STP.

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 162 out of 189 in the category of 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. However, 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

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

5. Performance Requirements and Investment Incentives**WTO/TRIMS**

There are no known 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. 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. 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. The government has eliminated former public monopolies in farming, banking, insurance, airline services, telecommunications, and trade (export and import).

7. 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 WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Resources for Rights Holders

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

8. 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.

9. Efficient Capital Markets and Portfolio Investment

The STP government is anxious to attract foreign portfolio investment but struggles to attract investors as a result of 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

Currently, 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 (BGFI) 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.

10. 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 Depósitos (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 (OECD) Guidelines on Corporate Governance for SOEs.

Sovereign Wealth Funds

STP does not have a traditional sovereign wealth fund, but has 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.

11. Corporate Social Responsibility

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

OECD Guidelines for Multinational Enterprises

STP does not adhere to the Organization of Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises.

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 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 respects 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.

13. 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 (EITI) 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 UIF) 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.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

STP signed and ratified the UN Anticorruption Convention. It is not party to the OECD 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.

14. Bilateral Investment Agreements

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.

Bilateral Taxation Treaties

STP does not have a bilateral taxation treaty with the United States.

15. OPIC and Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC) is authorized to do business in STP. There is no current OPIC program in STP.

16. Labor

A significant portion of STP's workforce is young, relatively well-educated and multilingual (Portuguese and French). Further training of the workforce is needed, however, for the economy to continue to develop. The cost for basic unskilled labor is about USD 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 recognizes the right of workers to form and join independent unions, conduct legal strikes, and, in the private sector, bargain collectively. While the law provides for the right to strike, including by government employees and other essential workers, the law strictly regulates this right. 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. Over fifteen percent of children in Sao Tome and Principe are engaged in child labor, primarily in domestic service and street work.

17. Foreign Trade Zones/Free Ports/Trade Facilitation

STP currently has no free trade zones or free ports. A 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.

18. 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)	2012	278	2013	311	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)	Not Available	Not Available	N/A		
Host country's FDI in the United States (\$M USD, stock positions)	Not Available	Not Available	N/A		
Total inbound stock of FDI as % host GDP	Not Available	Not Available			

*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.

19. Contact for More Information

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