

COUNTRY ECONOMIC MEMORANDUM
for São Tomé and Príncipe
Background Notes

Note #6 – Stock take on business environment reform in São Tomé and Príncipe

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I. Introduction

1. **The importance of a good regulatory and institutional environment for business creation and growth is well established.**¹ Good regulations and a level playing field are particularly important to maximize opportunities for private investment in small island states like São Tomé and Príncipe, which tends to be constrained by the lack of economies of scale and distance to markets. Burdensome regulations can hamper the competitiveness of export-oriented sectors, which are essential for São Tomé and Príncipe's sustainable growth and job creation. Moreover, sectors that depend on natural or cultural assets, such as tourism, require good quality regulations and planning to protect those assets. Improving the regulatory environment is an important factor, together with better skills, connectivity, and infrastructure, to strengthen the competitiveness of São Tomé and Príncipe's economy.

2. **Accurate data on the size and composition of the private sector in São Tomé and Príncipe is lacking, but existing information shows that it is dominated by microenterprises in commerce and services.** The ongoing enterprise survey will provide insights on the characteristics and main challenges of São Tomé and Príncipe's firms, while an updated business census, which is planned with support from the World Bank, will give a broader view of the private sector. Data from the National Statistics Institute (INE) shows that there are only 14 companies with more than 100 employees, including the utilities and transport sector SOEs, and 80 percent of firms for which data is available have less than five employees. Most firms are concentrated in the commerce, construction, and tourism sectors. While additional analysis would be necessary to identify the factors contributing to the small size and sophistication of São Tomé and Príncipe's firms, the regulatory environment may be among them as it affects entry and operating costs, access to finance, and ability to resolve commercial disputes.

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¹ Klapper, Leora; Love, Inessa. 2010. The impact of business environment reforms on new firm registration. Impact Evaluation series; no. IE 49; Policy Research working paper no. WPS 5493. Washington, DC: World Bank. Silvia Ardagna & Annamaria Lusardi, 2010. "Explaining International Differences in Entrepreneurship: The Role of Individual Characteristics and Regulatory Constraints," NBER Chapters, in: International Differences in Entrepreneurship, pages 17-62 National Bureau of Economic Research, Inc. For an overview of recent research on the impact of business regulation improvements see also the overview of World Bank. 2018. Doing Business 2019: Training for Reform. Washington, DC.

3. **Despite important progress in easing requirements for business entry and international trade, there is still significant room to modernize the regulatory framework underpinning business activity and to simplify administrative procedures.** Opening a business in STP is now straightforward with the single-window registry and the adoption of electronic single window for international trade, and the streamlining of all agencies at the port made import much easier. On the other hand, getting construction permits, paying taxes and dealing with insolvent companies is still troublesome. The note is organized as follows: section I sets the context, section II provides an overview of the business environment in São Tomé and Príncipe with subsections on business entry, construction permits, business taxation, trade facilitation, contract enforcement, and insolvency. Finally, section III concludes proposing a set of recommendations to continue strengthening regulations and institutions underpinning business activity.

II. Overview of Business Environment in São Tomé and Príncipe

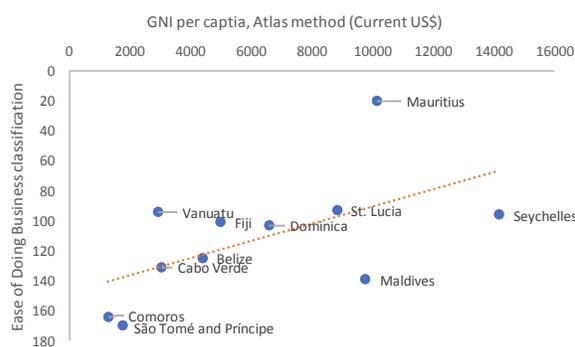
4. **This section provides an overview of recent business environment reforms and performance in selected indicators of the efficiency and quality of regulations.** It highlights key reform opportunities to improve the business environment, and thus support private sector development. The section is based primarily on the World Bank Report Doing Business 2019, other relevant international benchmarking, and previous analysis and operational work by the World Bank Group. Regulations related to land governance and administration are covered in Background Note 8, while access to credit is discussed in Background Note 9.

5. **Available indicators show that São Tomé and Príncipe still presents a difficult regulatory environment for businesses.** The country ranks 170 out of 190 countries in the Doing Business 2019 Report, below other small economies (Figure 1). In the ease of doing business score, which measures the country's distance to the best regulatory practice, São Tomé and Príncipe achieved 45.15 points (out of 100),² a small increase from last year's 44.84 points. The country has gained 1.2 points in recent years, not sufficient to close the gap with other comparator countries (Figure 2). Unfortunately, São Tomé and Príncipe is not included in some key benchmarks of competitiveness and investment climate, such as the World Competitiveness Index, but other available indicators consistently point at opportunities for improvement. For example, the country ranks 137 out of 180 countries in the 2018 Index of Economic Freedom of the Heritage Foundation. Making sure that the country is included in all major international competitiveness database would be an initial step to attract private investments.

6. **Performance varies significantly across the 11 areas included in the Doing Business classification, but only in two São Tomé and Príncipe ranks above the regional average (Figure 3).** The country is better classified in dealing with construction permits (111), and trading across borders (122). However, performance in registering property (173), enforcing contracts (185), and protecting minority investors (188) is towards the bottom of the classification, pointing at the need to update the regulatory framework and invest in capacity in these areas.

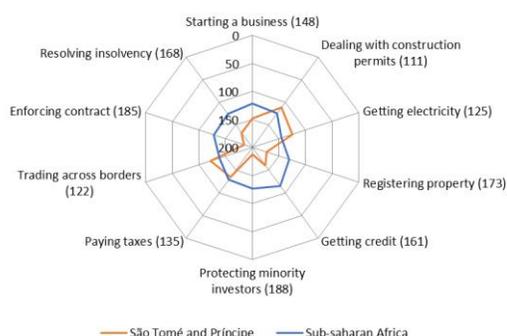
² The ease of doing business score, formerly known as the distance to the frontier indicator, benchmarks economies with respect to regulatory best practice, showing the absolute distance to the best regulatory performance on each Doing Business indicator.

Figure 1 – Ease of doing business ranking (2017/18)



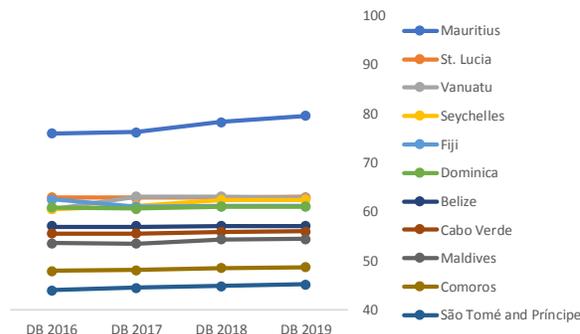
Source: Doing Business database; World Development Indicators.

Figure 3 – Performance in the ease of Doing Business index (2017/18)



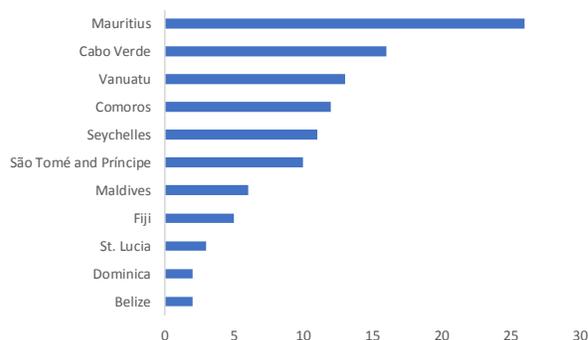
Source: Doing Business database.

Figure 2 – Evolution of the ease of doing business score



Source: Doing Business database.

Figure 4 – Number of business reforms (2010-2018)³



Source: Doing Business database.

7. In recent years, the Government of São Tomé and Príncipe has taken important measures to improve the business environment such as on business registration and licensing, and international trade. Since 2010, Doing Business has recorded 10 positive reforms in the areas measured by the Doing Business report,⁴ five times more than Dominica or St. Lucia, but almost half the number in Mauritius (Figure 4). Business registration and licensing reforms have reduced barriers to entry, while the implementation of a single window for trade has simplified import and export procedures. The liberalization of visa requirements, building on the previous introduction of an e-visa system, has enabled an increase in the number of visitors to the country—almost 29,000 in 2016. The government reformed the Investment Code to attract foreign investment and has updated regulations on the financial sector, court fees, and the country notary and registration services, among others. Electronic data laws were

³ Business reforms are improvements in the regulatory environment in the areas measured by the Doing Business indicators. The figure includes reforms in labor regulations.

⁴ Not all improvements in the regulatory environment in São Tomé and Príncipe fall under the scope of the Doing Business report.

approved, underpinning the introduction of online procedures and electronic signatures. Nonetheless, further improvements are constrained by limited institutional capacity, outdated regulations,⁵ and limited resources for modernizing government systems.

8. **Yet, weak capacity hampers the proper functioning of institutions.** The country performs in the top 50 percent of countries and well above the regional average in the World Bank Governance indicators in the areas of control of corruption and voice and accountability. On the other hand, it is in the bottom 30 percent of countries in the areas of rule of law, government effectiveness, and regulatory quality. This suggests weaknesses in regulations and institutional capacity, including in the judicial system, which are a hindrance to better business environment.

9. **Although not overly restrictive, labor regulations are outdated, and some additional flexibility would be beneficial to the business environment.** The labor law dates back to 1992 and no major change has been done since then. Areas where additional flexibility could be considered include fixed contracts, holiday, and overtime work, and women working hours, as well as dismissal rules. Currently, third party authorization is required for dismissal of one worker. Among comparator countries, only Seychelles requires such approval. In practice, enforcement of labor regulations, including on occupational health is weak due to limited resources. A new labor code has been discussed for some time, which would increase flexibility in hiring and firing, while protecting workers.

II.a. Business registration and licensing have been streamlined, but investors still go through red tape to get established.

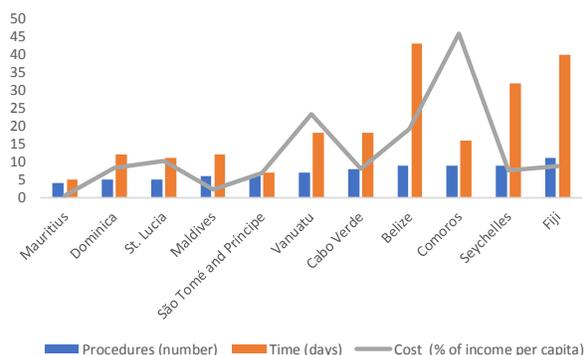
10. **Starting a business in São Tomé and Príncipe is relatively straightforward.** It takes six steps and seven days to start a domestic limited liability company, according to Doing Business,⁶ while the cost is equivalent to 12.3 percent of the income per capita. This is faster than comparator countries except Mauritius, while relative costs are higher only Mauritius and St. Lucia (Figure 5). On the other hand, São Tomé and Príncipe is one of just 59 countries that still require a paid-in minimum capital, equivalent to 178.5 percent of the country's income per capita. The introduction of a one-stop shop (*Guiche Único da Empresa, GUE*) led to a significant reduction in the steps, time, and cost to start a business (Figure 6).

11. **Business entry was made even easier by the introduction of an online business registration platform in 2016.** The one-stop shop for business registration (GUE) launched the GUNet platform, which allows business to register online in just one hour, provided the company representative has all the necessary information available. Completing the process without using the online platform takes seven days, according to Doing Business. The list of existing company names, and the complete records of companies created before the GUE was established were digitized, allowing for the fast processing of applications.

⁵ This is the reason for São Tomé and Príncipe's low rank in the Protecting Minority Investors area of Doing Business, which measures the protection of minority shareholders against conflicts of interests by Directors and the shareholders' rights in corporate governance.

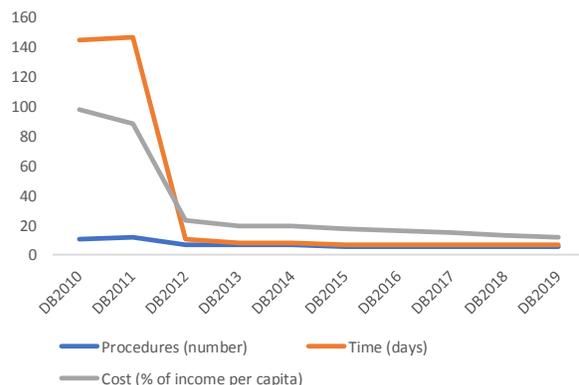
⁶ According to the Doing Business methodology, the minimum duration of a procedure is one day, half day if it can be done electronically.

Figure 5 – Procedures, time, and cost to start a business



Source: Doing Business database

Figure 6 – Starting a business in São Tomé and Príncipe over time



Source: Doing Business database

12. **Licensing requirements were greatly reduced.** A 2011 law eliminated licensing requirements for low risk activities, including 15 out of 19 commercial activities, 11 common industrial activities, and 8 activities in tourism. An online repository of information regarding regulatory requirements for different economic activities in São Tomé and Príncipe was created as part of the GUEnet platform.⁷ A project to introduce online licenses application for three Directorates (Commerce, Industry, and Tourism) is pending completion.

13. **While business registration is easy, investors still face a bumpy road to get established in São Tomé and Príncipe due to limited information and coordination among government entities.** All investments above EUR 50,000 require the signature of an administrative investment contract, authorized by the Minister of Finance. The Investment Code describes the procedures to apply and to obtain the necessary opinions (*pareceres*) from the relevant government entities: the Trade and Investment Promotion Agency (APCI), customs and tax departments, and relevant directorates depending on the sector of activity. Once the contract is signed, the APCI issues a certificate of registration of private investment (CRIP). In practice, investors need to navigate approvals with different authorities, such as obtaining land concessions and construction permit approvals, environmental licenses, and specific operational licenses, by interacting separately with each entity in charge of these authorizations. Information is not easily available and anecdotal evidence suggests that there are instances where investors fail to complete the process or give up.

14. **Foreign investment faces no additional barriers compared to domestic investment.** Regulations are applied equally to domestic and foreign investors and there are no restrictions to foreign ownership except in sectors reserved for the state.⁸ The Investment Code includes the principle of non-discrimination, as well as protections and guarantees for domestic and foreign investors, including the right to repatriate profits and dividends. Investments are eligible to incentives, including tax and tariff

⁷ http://frontoffice.gue-stp.net/licence_liste_autorisation_citi.php5#

⁸ U.S. Department of State. <https://www.state.gov/e/eb/rls/othr/ics/investmentclimatestatements/index.htm#wrapper>

reductions, according to the Code of Fiscal Benefits,⁹ and these are stated in the CRIP. Investments in “special development zones,” encompassing the districts of Cantagalo, Lembá, Lobata, Caué, and the Autonomous Region of Príncipe are eligible for additional incentives.

15. **The Trade and Investment Promotion Agency lacks capacity to play its role in investment facilitation.** APCI was created in 2012 to support the government’s objective of attracting and facilitating investment.¹⁰ However, the agency lacks the resources and institutional support to carry out its mission. The regulatory framework envisions an agency operating with a high degree of organizational and financial autonomy,¹¹ in line with good practice, but in practice, APCI lacks budget and autonomy to operate effectively. As such, APCI has little capacity to facilitate the investment process or to undertake investment promotion efforts. Despite these challenges, recent efforts were made by the Tourism Directorate and APCI at providing a clear investor roadmap and support to prospective investors in the tourism sector, working with other entities involved in the approval process.¹²

16. **São Tomé and Príncipe could reduce the paid-in minimum capital requirement, develop a investor roadmap and expand the online business registration platform in order to further ease business entry.** São Tomé and Príncipe could reduce the paid-in minimum capital requirement, which represents an additional cost for entrepreneurs. Second, efforts to develop a clear investor roadmap should be continued, with special attention given to clarifying land acquisition procedures (see Background Note 8). Finally, the online business registration platform could be further promoted and developed with the completion of the licensing modules.

II.b. Obtaining construction permits could be made easier by streamlining procedures and stablishing a one-stop shop.

17. **Obtaining construction permits is not particularly burdensome.** According to Doing Business 2019, completing all the authorizations to build a warehouse and connect it to water and sanitation takes 16 procedures and 67 days. While the number of steps is among the highest of comparator countries, the time is much shorter (Figure 7). The cost is equivalent to 2.2 percent of the cost of the warehouse, more than seven times the cost in Dominica and Seychelles, but below the average of Sub-Saharan Africa of eight percent. The Public Works and Urbanism Directorate (*Direcção de Obras Públicas e Urbanismo*, DOPU) is the main entity in charge of issuing construction permits. While the number of steps has remained unchanged over time, the time was cut by a third since 2005 (from 221 to 67 days), while the cost dropped by half (from 4.1 to 2.2 percent of income per capita). New construction regulations were passed in late 2015¹³ to streamline the construction permit process, although implementation of a one-stop shop at the DOPU has lagged, and therefore the number of steps remained unchanged.

⁹ Decreto Lei n.º 15/2016.

¹⁰ Sao Tomé e Príncipe Investment Promotion Strategy 2017-2019 (2016), prepared with support from the IFC São Tomé and Príncipe Investment Climate Project.

¹¹ Decreto No. 57/2013.

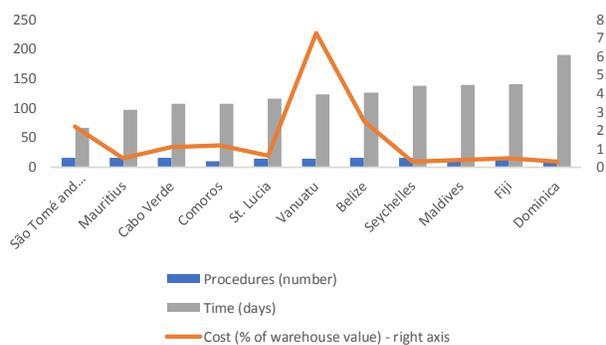
¹² The IFC São Tomé and Príncipe Investment Climate Project supported capacity building to facilitate tourism investment and clarify the approval procedures for potential investors.

¹³ Decreto Lei No. 19/2015 of December 31, 2015, No. 166: "Aprova o regulamento de construção e habitação urbana de STP" and Decreto Lei 20/2015: "Aprova o regulamento de actividades de empreiteiros de obras."

18. **However, the quality of regulations underpinning the sector could be improved.** São Tomé and Príncipe lags other comparator countries in the Doing Business building quality control index, scoring just 5 of the 15 possible points (Figure 8). The country’s performance in this index identifies some gaps including inconsistent enforcement of mandatory inspections at the end of construction, lack of mandatory insurance policy to cover for structural flaws or defects in the building and insufficient qualification requirements for professionals reviewing architectural plans and supervising construction.

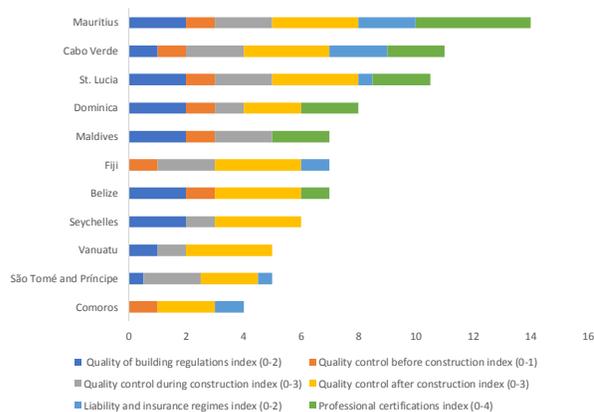
19. **Improving the construction permitting process would require streamlining procedures and regulatory reforms.** Currently, 7 of the 16 procedures recorded by the Doing Business report are related to land-related requirements, including obtaining approval from the Directorate of Geographical and Cadastral Services prior to construction, and registering the new building for tax purposes and at the Property Registry after construction. The ongoing automation of the Property Registry should contribute to reduce delays in this final step. In addition, the following procedures could be streamlined: the need for inspections prior to registration, and information sharing among the DOPU, the tax department, and the property registry strengthened. The proposed project to establish a one-stop shop for construction permits at DOPU could contribute to streamline the process. In addition, regulations should be introduced to strengthen qualification requirements for architects and engineers preparing building plans and supervising construction, including minimum years of experience and being part of a professional order. Finally, insurance policy for latent defect liability or decennial liability (10 years after construction) could be required for construction parties.

Figure 7 – Procedures, time, and cost to obtain construction permits



Source: Doing Business database

Figure 8 – Building quality control index¹⁴



Source: Doing Business database

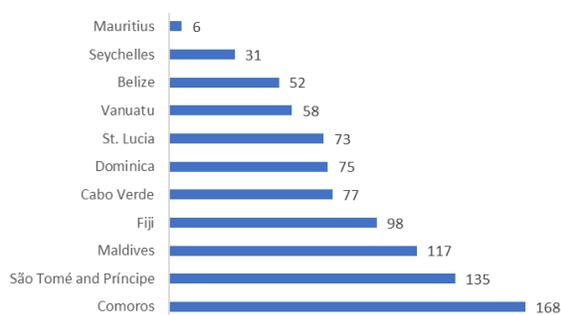
II.c. Companies face a very complex tax legislation, and the tax office does not make easier to pay taxes

20. **Businesses in São Tomé and Príncipe face a difficult environment to pay taxes.** In the Doing Business 2019 report, the country ranked 135 out of 190 in this area, revealing opportunities to increase

¹⁴ The building quality control index is based on six indices—the quality of building regulations, quality control before, during, and after construction, liability and insurance regimes, and professional certifications indices.

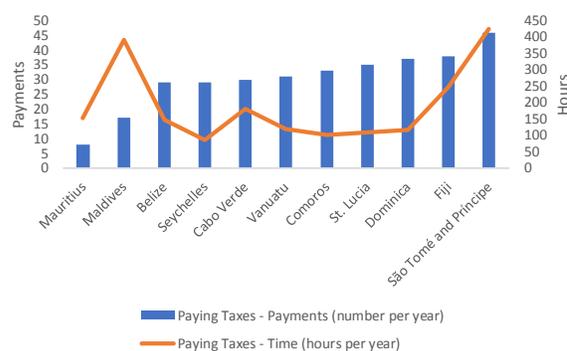
the efficiency of the tax administration. Among comparator countries, only Comoros has a lower classification (168) (See Figure 9). It takes 46 separate payments and 424 hours to comply with tax and social security regulations for a medium-size company, more than any of the comparator countries (Figure 10). The relatively high compliance burden in São Tomé and Príncipe stems from the complexity of taxes and the lack of electronic systems for filing and paying taxes and social security contributions. In contrast, in Mauritius, taxes and social security contributions can be paid online. No significant improvements in tax administration have been registered in São Tomé and Príncipe by the Doing Business report, the only improvement in the paying taxes area being a reduction in the corporate tax rate in 2010. Improving tax policy and administration is critical to increase São Tomé and Príncipe’s domestic resource mobilization, which is necessary to reduce the country’s fiscal fragility.

Figure 9 – Classification in the ease of paying taxes



Source: Doing Business database

Figure 10 – Number of payments and time to pay taxes



Source: Doing Business database

21. **The recently concluded World Bank Public Expenditure Review identified several opportunities to consolidate and simplify taxes, and to close the large gap in tax administration practices.** For example, São Tomé and Príncipe lacks a broad-based consumption tax such as value added tax or an excise tax. Instead, it has a plethora of narrowed based consumption taxes. In addition, STP charges a stamp tax on several administrative procedures such as getting a notarization, which significantly increases the number of payments a company has to make in STP, bringing down the country’s position in the DB ranking. On tax administration, STP needs to move to a client-centered approach by making it easier to pay taxes. Simple steps like organizing and making online all tax legislation and allowing taxes to be paid at any bank would go a long way.

22. **Weaknesses in the accountancy profession undermine the quality of financial reporting.** The 2014 Report on the Observance of Standards and Codes (ROSC) – Accounting and Auditing indicates that the accountancy profession is at an incipient stage of development. The report identified gaps such as lack of data on the number of accounting professionals, weaknesses in professional organization and qualifications, and outdated reporting standards. A decree was enacted in 2017 that stipulates the establishment, responsibilities and governance arrangements of a Professional Accountancy Organization (OTOCA) charged with promoting and overseeing the profession, including the process of certifying/licensing and registering accountants and auditors, which is the responsibility of the Ministry of Finance. Strengthening the accountancy profession could contribute to improve business compliance with tax obligations.

II.d. Trade facilitation is the area in which STP had advanced the most, but there are quick wins to be made on information availability and expedited processes.

23. **São Tomé and Príncipe has consistently implemented improvements in trade facilitation.** Simple and fast import and export procedures are critical for a small open economy like São Tomé and Príncipe, which relies on imports to satisfy a large share of consumption needs. The introduction of the electronic customs platform ASYCUDA World started in 2011 and served as the basis to a series of improvements that led to a fully functional electronic single window (ESW) for trade that consolidates all international trade transactions. With support from donors, including the World Bank Group, the ESW now includes 10 government agencies, customs agents, and banks.¹⁵ In the process of introducing the ESW, São Tomé and Príncipe developed a clear set of regulations that clearly defines the roles and responsibilities between all the entities involved in international trade. It introduced a risk management system,¹⁶ streamlined procedures (for example, eliminating the requirements of the port exit note and tax certificate), eliminated paper (all documents must be submitted electronically) and introduced a single online payment for all fees.

24. **These improvements reduced the time to import and export.** The time to comply with border regulations dropped for import and export between 2014 and 2018—from 115 hours to 83 for export and from 163 to 150 to import. This has allowed the country to consistently close the gap with the best performing countries in this area, However, it continues to lag comparator countries (Figure 9). São Tomé and Príncipe currently ranks 122 of 190 economies in the Doing Business ease of trading across borders classification.¹⁷ São Tomé and Príncipe's has also improved its classification in the Logistics Performance Index, especially in the customs dimension, where the country's improved from 120 (out of 160 countries) to 57 (Figure 10).

25. **However, there are still opportunities to improve trade facilitation, especially in making information available and introducing expedited procedures.** Non-tariff barriers are generally low in São Tomé and Príncipe (no quotas or other economically motivated import restrictions exist).¹⁸ Despite the improvements in trade-related procedures, there is need to improve access to information about regulations and procedures by customs and control agencies. Currently, these entities have limited to none online presence and detailed information is not easily accessible to users. Moreover, a single point of enquiry or help desk to address questions regarding import/export procedures could be introduced. The Customs Code is silent about issuing rules of origin for exports and these should be clarified. In addition, provisions to establish an authorized operator program with expedited control procedures have

¹⁵ Port Authority, Airport Authority, Customs Administration, Tax Administration, Department of Trade, Department of Public Health, Department of Livestock, Phyto-sanitary Department, Transport Department and Fiscal Police.

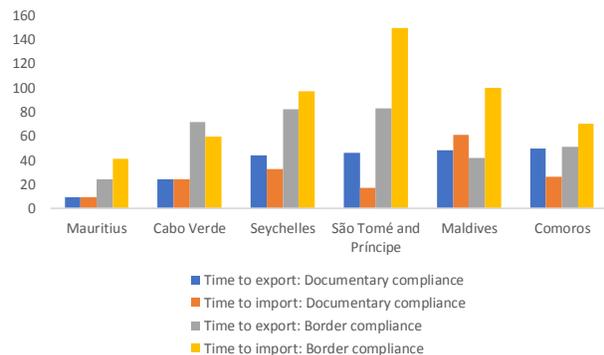
¹⁶ All imports to STP are subject to documentary check, and about 45% of all imports are selected for physical control (about 35 percent for the Veterinary Department, and about 33 percent for Plant Department). Technical agencies use the selectivity module in ASYCUDA World to identify high risk products and importers to ensure compliance.

¹⁷ The ease of trading across borders index increased from 62.43 points (100 being the best regulatory practice) in Doing Business 2015 to 66.03 in Doing Business 2019.

¹⁸ World Bank. 2014. Diagnostic on Trade Integration Study. Washington DC.

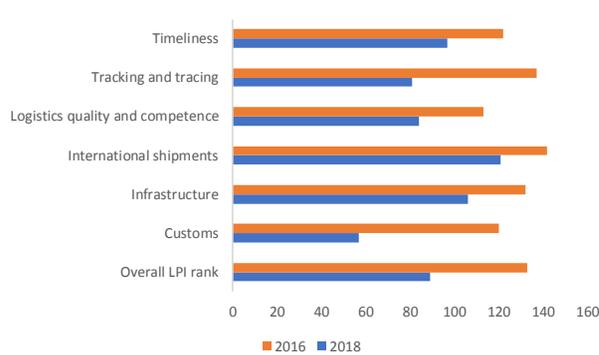
not yet been implemented. Finally, there are no provisions to authorize the expedited release of express consignments or air cargo. Yet, these are no binding constraints to export diversification, compared to air connectivity (there is no air express cargo service and TAP suspended cargo services in July 2018 on grounds of security issues at the São Tomé airport). As discussed in Background note 6, air connectivity should be a priority.

Figure 11 – Time and cost to import and export (hours)



Source: Doing Business database

Figure 12 – Logistics Performance Index



Source: Logistics Performance Index (2018)

II.e. Contract enforcement is the area in which STP lags the most and also in which it has done few reforms

26. **Commercial justice in São Tomé and Príncipe is slow and inefficient.** According to the Doing Business 2019 report, it takes over three years to resolve a simple commercial dispute at the courts, and one third of that time is spent enforcing the judicial decision. This is longer than in any of the comparator countries (Figure 13). Moreover, performance in the index of quality of judicial processes also lags other peer countries (Figure 14). São Tomé obtains only 4.5 of 18 possible points in this index, which measures whether the country has adopted a series of good practices regarding court structure and proceedings, case management, court automation, and alternative dispute resolution. Overall, São Tomé and Príncipe ranks 133 of 190 countries on the ease of enforcing contracts in the Doing Business 2019 report.

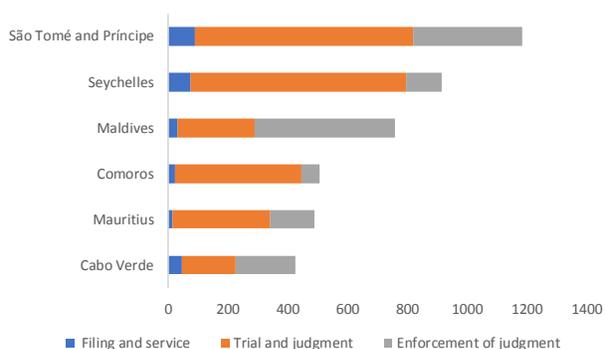
27. **The resolution of commercial disputes is hampered by the deficiencies of São Tomé and Príncipe’s justice system.** The Justice Reform Program 2017-2020 described the state of the justice system as a deep crisis. The main challenges include: (i) slow judicial procedures due to backlogs and outdated procedural rules—such as the Code of Civil Procedure, dating back to 1961; (ii) constraints in human and technical resources; (iii) instances of political interference; (iv) limited access to legislation and information by judges (such as Supreme Court decisions). On the positive side, judge appointments follow largely a merit-based system and the judicial governing body (*Conselho Superior da Magistrados Judiciais*) is appointing judges specialized in commercial disputes, which can lead to a more efficient resolution of such cases. Despite political consensus about the need for justice reform, controversy arose about specific aspects, such as the appointment of judges, during the previous legislature.

28. **Recent legal reforms have reduced court fees and introduced regulations to create arbitration centers.** A new Code of Judicial Costs (*Código das Custas Processuais*) was approved in 2018, which

contributed to reduce court fees—although the cost of resolving a commercial dispute is still high at 45.6 of the claim value —above the Sub-Saharan Africa average of 42.3 percent— according to Doing Business. Encouraging alternative resolution of commercial disputes could contribute to reduce the backlog at the courts, while the need to address the judicial system challenges remains. A 2017 Decree-Law authorized the creation of an arbitration center, as envisioned in the 2006 Voluntary Arbitration law.¹⁹

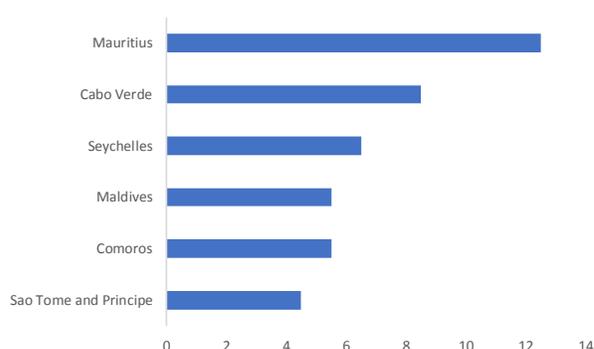
29. **Improving the efficiency of commercial justice would require comprehensive reforms.** First, legislative reforms are necessary to update the Commercial Code and the Civil Procedure Code, plus the rules governing the functioning of courts. Second, there is need to invest in the training of judges and judicial personnel and promote their specialization. Third, there are opportunities to introduce case management techniques, including collecting statistics on the duration of judicial cases to identify bottlenecks and opportunities for efficiency gains. Fourth, case management would be facilitated by the automation of the courts. The use of IT would also enable the introduction of electronic procedures in the future, such as e-filing and service of process. Fifth, judicial decisions at all levels should be published to strengthen transparency and consistency. Finally, alternative dispute resolution mechanisms, including mediation and conciliation, in addition to arbitration, could be promoted to reduce the burden on the courts.

Figure 13 – Time to enforce contracts (days)



Source: Doing Business database

Figure 14 – Quality of judicial procedures index



Source: Doing Business database

II.f. Resolving insolvency or enforcing a debt through courts is nearly impossible in STP

30. **São Tomé and Príncipe lacks an updated insolvency framework.** São Tomé and Príncipe is considered a ‘no practice’ country in the Doing Business 2019 resolving insolvency indicators, due to lack of cases of judicial reorganization, or debt enforcement procedure in the last five years. Insolvency procedures are governed by the Decree Law 44129, of December 18, 1961, which approved the Code of Civil Procedure. This legislation is not in line with modern insolvency legislation, as it does not encourage the reorganization of viable firms, and limits creditors’ right to participate in the insolvency procedures. Under this legal framework, the most likely outcome of an insolvency procedure is the liquidation of the company’s assets. In comparison, Mauritius insolvency framework promotes the reorganization of viable

¹⁹ Decreto Lei 05/17.

firms. According to the Doing Business case study on insolvency, in Mauritius the procedure takes 1.7 years and investors can expect to recover 67.4 cents on each dollar invested.

31. **Insolvency reform needs to be comprehensive and could follow the example of other Lusophone countries.** Portugal and Mozambique have modernized their insolvency frameworks, while Angola is in the process of developing an insolvency law. The legal framework is the first step, but an effective insolvency reform can only be effective when the adequate institutional infrastructure and organizational capacity to implement it exist. The enforcement framework includes judicial authorities, insolvency oversight authority or regulator, and insolvency practitioners. The role of insolvency practitioners is critical and requires strong regulations and oversight.

III. Way forward

32. **São Tomé and Príncipe should continue modernizing its regulatory framework underpinning private sector activity and strengthening the capacity of implementing entities.** The country can build on recent successful reform experience, such as the modernization of customs and the implementation of the single window for trade. Political leadership, combined with consistent technical assistance and training of government officials, have been crucial factors in the success of that reform. There is ample room to improve the efficiency, transparency, and quality of regulations and their enforcement. The good news is that São Tomé and Príncipe can learn from other countries, including other Lusophone economies, and continue to foster regional exchanges of good regulatory practices. Priority areas of focus include:

- a. Continue updating the country's legal framework regarding insolvency, secured transactions, company law and corporate governance, as well as the civil procedural code. Legal reforms should be accompanied with ample dissemination and training of public officials and the private sector to ensure adequate application of new regulations.
- b. Strengthen government IT systems (e.g. the upcoming automation of the property registry) and allow information sharing across government systems, the reduction of paper, and more efficient administrative procedures. As explained above, the introduction of IT systems in government to business interactions, such as the GUEnet platform or the electronic single window for trade led to positive results in speeding processing times and reducing documentary requirements. Moving forward, IT investments at the Directorate of Taxes are a priority. Access to information regarding regulations, administrative requirements and fees could be made more easily available at government offices and online. Cabo Verde is a good example of a country that has invested heavily in interconnected e-government systems.
- c. Improve investment facilitation by providing APCI with adequate resources to play this role and ensuring close coordination by all entities involved in the investor approval process. Remove duplicate requirements and provide investors with a clear roadmap and timeline for obtaining all authorizations to set up operations, including land acquisition procedures.
- d. Advance the development of commercial justice by promoting alternative dispute mechanism, and investing in training of judges and court staff, and IT equipment.