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# Regional Harmonization of Remittance Policies in the Economic Community of Central African States (ECCAS)

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## **São Tomé and Príncipe**

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## ABOUT THIS REPORT

This is a diagnostic report for São Tomé and Príncipe as part of a wider project on harmonizing remittance policies in the Economic Community of Central African States (ECCAS) region, prepared by the United Nations Capital Development Fund (UNCDF) and the ECCAS Commission to improve the ECCAS countries' current and ongoing policy and regulatory framework development and other initiatives relating to remittances.

UNCDF makes public and private finance work for underserved communities in the world's 46 least developed countries. With its capital mandate and instruments, UNCDF offers last-mile finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's digital agenda for migration and remittances falls within the organization's broader corporate strategy, set forth in 2019, of Leaving No One Behind in the Digital Era. On the other hand, ECCAS is a regional economic community (REC) of the African Union for the promotion of regional economic cooperation in Central Africa. ECCAS is formed by 11 countries: Angola, Burundi, Cameroon, Central African Republic, Chad, Republic of the Congo, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Rwanda, and São Tomé and Príncipe. The objective of ECCAS is to achieve collective autonomy, raise the standard of living of its populations and maintain economic stability through harmonious cooperation. In 2015, ECCAS was reformed to improve its effectiveness and efficiency with the target of achieving a single, harmonized legal and institutional framework. The objective of the reforms is to position ECCAS to achieve economic and trade integration, political integration, social stability, physical integration, and socio-cultural integration.

Remittances can help eradicate poverty and act as a catalyst for economic development in recipient countries, thus complementing both the UNCDF and ECCAS objectives. As the flow of migration and remittances are becoming more and more regional, it is important to enhance the regulatory framework governing remittances to promote the usage of digital channels at the regional level in a manner that balances innovation and risk. This will increase and fluidify these flows toward productive investment, in health, education, and local businesses, thus contributing to the long-term development of countries around the world.

This diagnostic report has been prepared through a desk review of relevant policies, laws, and regulations followed by extensive stakeholder consultations and benchmarking with international best practices and relevant countries' initiatives, policies, and regulatory frameworks. The authors of this report have prepared a roadmap with a country-level mapping of possible enablers, inhibitors, and policy options. It is recognized that implementation of the roadmap requires further engagements with the regulatory and policymaking bodies to determine what options can be taken up.

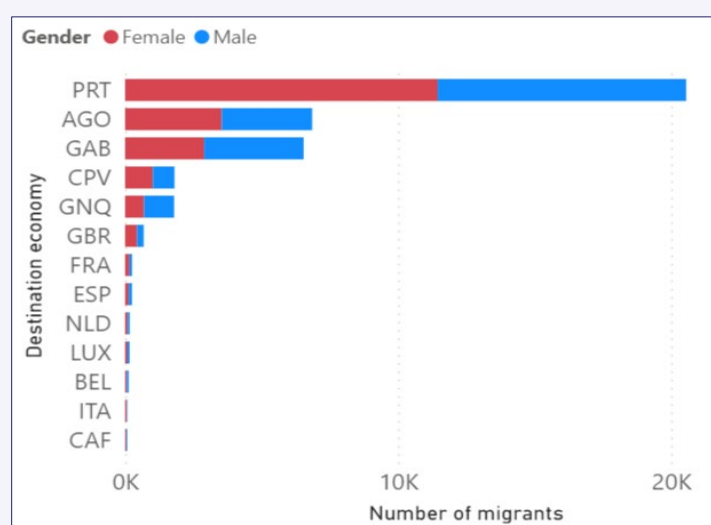
## ACRONYMS

AfDB	African Development Bank
AML/CFT	anti-money laundering/combating the financing of terrorism
ATM	automatic teller machine
AFI	Alliance for Financial Inclusion
BCSTP	Banco Central de S.Tomé e Príncipe
ACH	automated clearing house
CDD	customer due diligence
CSD	Central Securities Depositary
COMESA	Common Market for Eastern and Southern Africa
COVID-19	coronavirus disease 2019
CEMAC	Communauté Économique et Monétaire de l'Afrique Centrale (Economic and Monetary Community of Central Africa)
DFS	Digital Finance System/Service
DGRN	Direcção Geral dos Registos e Notariado
EFT	electronic funds transfer
ECCAS	Economic Community of Central African States
FSDIP	Financial Sector Development Implementation Plan
FX	foreign exchange
POS	point of sale
e-KYC	electronic KYC
KYC	know your customer
GDP	gross domestic product
GPs	General Principles for International Remittances Services
ID	identification
IMF	International Monetary Fund
ISO	International Organization for Standardization
LMICs	low- and middle-income countries
MFIs	microfinance institutions
MFS	mobile phone financial services
MMO	mobile money operator
MNO	mobile network operator
MRPs	money remittance providers
NPS	national payment system
ENRPN	National Strategy for Permanent Birth Registration
P2P	person-to-person
PPP	public-private partnership
PSP	payment system provider
PSOs	payment systems operators
PCI-DSS	Payment Card Industry Data Security Standard

PvP	payment-versus-payment
REC	regional economic community
RSP	remittance service provider
RTGS	real-time gross settlement system
SADC	Southern African Development Community
SDGs	Sustainable Development Goals
SIM	subscriber identity module
SMS	short message service
STP	São Tomé and Príncipe
SYGMA	système des gros montants automatisé
SWIFT	Society for Worldwide Interbank Financial Telecommunication
RTGSS	real-time gross settlement system
UAE	United Arab Emirates
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDESA	United Nations Department of Economic and Social Affairs
USD	United States dollar
USA	United States of America
WU	Western Union

## COUNTRY CONTEXT

The Democratic Republic of São Tomé and Príncipe (STP) is the smallest country in Africa after Seychelles, with 18 percent of its population living abroad. It is estimated that there are 39,600 São Toméan migrants worldwide, with around 50 percent being women.<sup>1</sup> More than half of São Toméan migrants, i.e., 52 percent, are in Portugal. The other top São Toméan migrant destination countries are Angola (22 percent), Gabon (13 percent), Cape Verde (11 percent), Equatorial Guinea (9 percent) and South Sudan (5 percent). Portugal and these other top countries contribute up to 93 percent of the remittances received in 2021.



Number of Migrants in Destination Economies

PRT= Portugal, AGO= Angola, GAB= Gabon, CPV= Cape Verde, GNQ= Equatorial Guinea, GBR= Great Britain, FRA= France, ESP= Spain, NLD= Netherlands, LUX= Luxembourg, BEL= Belgium, ITA= Italy, CAF= Central African Republic

Source: UNDESA, International Migrant Stock Data (Accessed on 11 November 2022)

São Tomé and Príncipe is also a destination country for many migrants from Portuguese-speaking countries, such as Cape Verde, Angola, Equatorial Guinea, Portugal, and Mozambique. São Tomé and Príncipe is also a destination country for migrants from Gabon, the island's closest maritime neighbour. Nigeria and France, while not in the top five nationalities residing in São Tomé and Príncipe, receive 67 percent of the outbound remittances from São Tomé and Príncipe. Other recipients are Cape Verde, followed by the DRC and South Sudan. São Tomé and Príncipe has inadequate remittance capturing systems, making it more likely that migrants in São Tomé and Príncipe use informal channels to send money to their families.

<sup>1</sup> IOM, [https://www.migrationdataportal.org/international-data?i=stock\\_abs\\_origin&t=2020&cm49=678](https://www.migrationdataportal.org/international-data?i=stock_abs_origin&t=2020&cm49=678) (accessed on 11 November 2022).



In 2021, São Tomé and Príncipe received US\$9 million in migrant remittances, comprising 1.7 percent of the country's GDP. Remittances from São Toméans in Portugal account for over half of the total remittances received.<sup>2</sup> Despite being the destination country for a small number of migrants of around two thousand people,<sup>3</sup> the outbound remittance flow<sup>4</sup> is almost equal to the inbound flow remitted by almost 40,000<sup>5</sup> São Toméan migrants. Nevertheless, São Tomé and Príncipe is a net recipient country with a relatively high cost for receiving funds, at least 9 percent, based on RSPs reviewed.

The country is heavily ingrained in a cash culture, with 73 percent of commercial transactions for day-to-day needs taking place in cash.<sup>6</sup> Financial inclusion is a priority for the country, as it was addressed in Financial Sector Development Implementation Plan (FSDIP) 2017-2019 to improve the financial sector. Furthermore, the FSDIP includes upgrades to financial infrastructure and strengthened financial sector supervision, enabling the non-bank financial sector, especially microfinance institutions and digital finance operators, to grow rapidly. To support the financial inclusion process, the central bank of São Tomé and Príncipe (BCSTP) has launched a financial inclusion strategy to have 70 percent of São Toméans financially included by the end of 2024.<sup>7</sup>

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<sup>2</sup>KNOMAD, <https://www.knomad.org/data/remittances> (accessed on 11 November 2022).

<sup>3</sup> UN DESA, International Migrant Stock, Population Division, <https://www.un.org/development/desa/pd/content/international-migrant-stock> (accessed on 11 November 2022).

<sup>4</sup> KNOMAD, <https://www.knomad.org/data/remittances> (accessed on 11 November 2022).

<sup>5</sup> UN DESA, International Migrant Stock, Population Division, <https://www.un.org/development/desa/pd/content/international-migrant-stock> (accessed on 11 November 2022).

<sup>6</sup> <https://www.afi-global.org/wp-content/uploads/2021/08/National-Financial-Inclusion-Strategy-STP1.pdf>.

<sup>7</sup> Ibid.

## POLITICAL ECONOMY

STP has demonstrated a stable democracy that has undergone multiple power transfers between rival parties since its independence from Portugal. However, the country has a fragile economy primarily because of its remoteness and limited resources and capacity, exacerbated by a poor business environment. The government has undertaken various initiatives to strengthen the business environment, including the 2016 investment benefit incentive law, a new tourism development strategy and a Public-Private Partnership (PPP) law approved in 2018. The country has also launched a development plan to respond to the country's challenges—*São Tomé and Príncipe Transformation Agenda 2030: The Country We Need to Build*. The schedule is aligned with the UN Sustainable Development Goals.<sup>8</sup>

Despite the lack of a dedicated diaspora engagement policy, the development plan, under the section on strengthening social cohesion and external credibility, has a subsection—*Enhancing National Culture, Supporting Inclusive Development Including the Diaspora*—to involve migrants in the country's development. Moreover, the country recognizes the vital role migrants have played in the country's development since independence. As such, the government has established a set of institutional, legal, fiscal, and diplomatic agenda and communication measures to support the development of São Tomé and Príncipe by taking advantage of the expertise accumulated by expatriated São Toméans.

The country is listed among the poorest countries with the smallest economies in Africa that are highly dependent on cocoa (95 percent of all exportation). As such, remittances are a vital source of revenue for many families in the country.

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<sup>8</sup> [https://www.undp.org/content/dam/sao\\_tome\\_and\\_principe/docs/Centre de press/undp\\_st\\_GLAgenda\\_En.pdf](https://www.undp.org/content/dam/sao_tome_and_principe/docs/Centre de press/undp_st_GLAgenda_En.pdf).

# REMITTANCES LANDSCAPE

Remittances are money transfers sent by migrants to their family members or other loved ones back in their country of origin. The main remittance market players in São Tomé and Príncipe are banks and non-bank financial institutions.

## MARKET

**Banks:** As per 2022 data from BCSTP, the country has six licensed commercial banks with 20 branches across the country in five out of the seven districts<sup>9</sup>. Of the six banks, one bank, *Banco Internacional de São Tomé and Príncipe* (BISTP), accounts for half of the total assets and 70 percent of foreign currency deposits.<sup>10</sup>

**Microfinance institutions (MFIs):** The country's MFI landscape is still developing, considering that the legal framework entered into force in 2018. Only four privately owned payday lenders are currently recognized MFIs in the country, mostly extending loans to salaried individuals that banks have turned down over a one-day to seven-month period at a very high-interest rate of up to 55 percent.<sup>11</sup>

**Mobile money operators (MNOs):** Mobile money services are unavailable on the island. However, in terms of DFS accessibility via phones, three banks have implemented Internet banking.<sup>12</sup>

**Remittance service providers (RSPs):** Remittance services are provided primarily through banks and their partnership with two key non-bank RSPs, Western Union and MoneyGram (over the counter).

**Payment systems operators (PSOs) and payment service providers (PSPs):** The Central Bank of São Tomé and Príncipe has recently approved a new national payment system law. But, at the same time, regulations on electronic funds transfers, oversight of payment systems and the use of agents are also being worked on to improve financial inclusion for both men and women of São Tomé and Príncipe.

**Agents:** The existing legal framework does not enable financial institutions to extend their coverage through agents. However, the government is working on a new regulation to support payment services like mobile payments and using agents. The

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<sup>9</sup> <https://bcstp.st/Instituicoes-Financeiras-Detalhes?cod=BAN> (accessed on 11 November 2022).

<sup>10</sup> <https://www.mfw4a.org/country/sao-tome-and-principe> (accessed on 11 November 2022).

<sup>11</sup> <https://documents1.worldbank.org/curated/en/707521474550469708/pdf/AUS15036-WP-P150418-PUBLIC-ABSTRACT-SENT-STPFSDIPENFINAL.pdf> (accessed on 11 November 2022).

<sup>12</sup> <https://documents1.worldbank.org/curated/en/707521474550469708/pdf/AUS15036-WP-P150418-PUBLIC-ABSTRACT-SENT-STPFSDIPENFINAL.pdf> (accessed on 11 November 2022).

available financial-related service distribution network are ATMs and, to some extent, points of sale. As of 2018, the country had 33 ATMs concentrated in Agua Grande and 125 point-of-sale (POS) devices mainly used for airtime purchases.<sup>13</sup>

## PAYMENT INFRASTRUCTURE

**Payment system:** Components of the financial infrastructure within São Tomé and Príncipe include the credit registry (*central de riscos*), the collateral registry system, and the payments and settlement systems.

**Systems operated by *Banco Central de S.Tomé e Príncipe* (BCSTP):** The local payments company, São Tomé Príncipe Automated Payments (SPOUT), is jointly owned by BCSTP and banks and operates the country's Dobra24 ATM network and has the exclusive rights to operate all POS devices. BCSTP maintains the country's only connection to the international SWIFT network, but banks maintain international correspondent relationships. With grant support from the African Development Bank (AFDB) and the World Bank, the government is implementing the National Financial Sector Development Implementation Plan (FSDIP),<sup>14</sup> prioritizing upgrading its existing financial infrastructure. The upgrade should improve international connectivity and acceptance of internal card payments to diversify services provided at ATMs (electronic transfers, topping-up mobile telephones, bill payments, etc.) and provide an interoperable and open platform to process mobile payment transactions when mobile payments are introduced. In phase 2, the payment system infrastructure will be modernized by obtaining an automated system (ATS) to replace the current manual checking system, which will enable safer and more efficient processing of interbank payments and can be used to transfer government payments. ATS systems include Real Time Gross Settlement modules (RTGS) and Automated Clearing House (ACH) functionalities that support the clearing and settlement of high-value and retail payments. Through the RTGS, high-value transfers (inter-bank transfers and transfers between the banks and the BCSTP, including monetary policy operations) are settled in central bank money and real-time, reducing liquidity and credit risks in the system. The ACH clears low-value (retail) payments throughout several daily clearing cycles and provides for settlement in the RTGS component. As a result, retail payments (such as transfers and direct debits) are processed more quickly and efficiently with a reduced probability of leakage as opposed to what is happening in the existing manual system. In addition, the ATS system provides the possibility to integrate a central securities

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<sup>13</sup><https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fdocuments1.worldbank.org%2Fcurated%2Fen%2F447851552019438223%2FSocial-Protection-Payments-in-the-Directorate-of-Social-Protection-and-Solidarity-Sao-Tome-and-Principe.docx&wdOrigin=BROWSELINK> (accessed on 11 November 2022).

<sup>14</sup> [https://www.afdb.org/sites/default/files/documents/projects-and-operations/sao\\_tome\\_principe\\_payments\\_system\\_infrastructure\\_and\\_financial\\_inclusion\\_project\\_-\\_project\\_appraisal\\_report.pdf](https://www.afdb.org/sites/default/files/documents/projects-and-operations/sao_tome_principe_payments_system_infrastructure_and_financial_inclusion_project_-_project_appraisal_report.pdf) (accessed on 22 March 2023).

depository (CSD) element to facilitate the provision of intraday liquidity to the participants in the system.

**Private payment systems:** These include RSPs like Western Union and other money transfer services.

São Tomé and Príncipe has two licensed MNOs: CST and Unitel São Tomé and Príncipe, although these are yet to provide mobile financial services or mobile money.

**Identification systems:** The *Direcção Geral dos Registos e Notariado* (DGRN) is responsible for civil registration. Under the National Strategy for Permanent Birth Registration (ENRPN), the DGRN set out to modernize the country's civil registration and vital statistics systems. Introducing the first-time registration software, the CivID1.1, was crucial in increasing registration. CivID is a digital civil registration and identification system that registers births, deaths, and other vital events. It is also used for the issuance of national IDs. The DGRN is not integrated with any payment systems for purposes of KYC.

**Automatic teller machines (ATMs) and point of sale (POS) devices and cards:** The country's Dobra24 ATM network is operated by SPOUT, which has the exclusive rights to operate all POS devices. However, the network's controls need strengthening. Dobra24 did not get the PCI-DSS certification to enable connectivity with Visa and Mastercard networks. Consequently, local banks only offer domestic debit cards. Banks cannot offer credit cards, and foreign visitors with such cards cannot use them widely in São Tomé and Príncipe, encouraging the use of cash and limiting commercial transactions.

## PRODUCTS

Most remittances are handled over the counter through traditional banking services and informal and formal transfer agents—Western Union and MoneyGram. São Tomé and Príncipe is ranked by AFI as the country with the lowest financial inclusion rate of 0.24, indicating low access to and usage of financial products and services.<sup>15</sup> São Tomé and Príncipe is determined to take advantage of the 90 percent mobile phone penetration due to a lack of digital financial services and robust financial infrastructure that could enhance financial inclusion.

Banks are also slow in implementing DFS, contributing to poor participation in the payment ecosystem. In 2018, only three banks out of six banking institutions had

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<sup>15</sup> <https://www.afi-global.org/wp-content/uploads/2021/08/National-Financial-Inclusion-Strategy-STP1.pdf> (accessed 22nd March 2023).

Internet banking, and only 5 percent of operations were made with debit cards, with only one percent of payments made via POS devices.

The São Tomé and Príncipe market is evolving, with tremendous opportunities for DFS players to innovate in developing digital services that will drive financial inclusion. The other aspect affecting the São Toméan market is the low financial literacy. The AFI index indicates that 39 percent of the population has a reasonable knowledge of financial services.

In summary, the financial inclusion opportunity in São Tomé and Príncipe across the board, remittances included, lies with the non-bank financial service providers like mobile network operators through mobile money, given the existing high penetration of mobile phones.

## ROADMAP

The assessment and stakeholders' consultations have resulted in developing remittance-related enablers, inhibitors, and recommendations for reform. Enablers are factors that contribute to the enhancement of remittance flows, while inhibitors are factors that restrict efficient remittance flows, and recommendations are options to improve the current enabling policy, regulatory and payment infrastructure environment to increase remittance flows. All of these have been categorized under five key areas:

- i. **Legal and regulatory framework:** This includes options for reform relating to authorities, roles, responsibilities, and mechanisms for coordination, including legal and regulatory factors that support cross-border remittances.
- ii. **Financial and payment system infrastructure:** This includes options for reforming policies, standards and rules related to national payment systems, improving the network of access points, promoting access to interoperable systems and platforms, and establishing national ID systems that support e-ID and ID requirements adjusted on a risk basis.
- iii. **Market practices:** This includes options for reforms supporting cross-border remittances, especially on a foreign exchange regime that provides clear guidance and mechanisms to capture remittance-related data at the transaction level, as well as data analysis and sharing.
- iv. **Consumer protection:** This includes options for reforms related to data protection, privacy and confidentiality for remittance-related data and relevant components of consumer protection laws that guide consumer protection and complaints resolution mechanisms for financial services, including cross-border remittances.
- v. **Cooperation and collaboration:** This includes recommendations on establishing mechanisms and processes to foster coordination between different stakeholders, including through memoranda of understanding and bilateral (or multilateral) agreements; public-private collaboration mechanisms on matters related to the development and implementation of cross-border remittance policies; harmonization of laws and regulations; and establishment of regional bodies to coordinate regional initiatives, and mechanisms for coordinating and implementing policy issues at the regional level. This includes leverage and consistency with other regional and subregional instruments and institutions.

Tables (a)–(e) present enablers, inhibitors, and recommendations for reform across the five domains listed above.

## LEGAL AND REGULATORY FRAMEWORK

Enabler(s)	Inhibitor(s)	Recommendation(s)	Timeframe
<p>The national payment system of São Tomé and Príncipe is regulated by Law No. 17/2018. The BCSTP oversees the National Payment System (NPS). The BCSTP is also empowered to exercise the functions of licensing and supervision of financial services providers, including payment service providers and remittance service providers (RSPs) in particular. This law also permits the use of agents by banking institutions.</p> <p>In Article 13, the law specifies that the participation requirement to the NPS should be proportionate and non-discriminatory and will not prevent access beyond what is necessary for the prevention of specific risks, such as liquidity, operational and commercial risks. The main objective is to protect the financial and operational stability of the payment system.</p> <p>The law is amplified by NAP.005.20-Constitution and Authorization of Payment Institutions and Payment System Operators that provides the requirement for an institution to become a payment institution and operator while providing details of the granting of authorization for services related to the provision of e-money.</p> <p>To ensure the efficient management of the NPS, BCSTP has established an Advisory</p>	<ul style="list-style-type: none"> <li>While payment institutions' application include a form describing how interoperable the system will be, São Tomé and Príncipe still lacks the interoperability policy that provides a set of arrangements, procedures and standards that allow NPS participants to fully be interoperable. This will guide financial institutions, which in turn will enhance customer access to financial services.</li> <li>The RTGS and the retail payment system are under construction as explained by the central bank.</li> </ul>	<ul style="list-style-type: none"> <li>The BCSTP could consider implementing regulatory requirements for payment systems' interoperability for all market players through an interoperability policy. This could improve speed and access, reducing the cost of remittances.</li> <li>The BCSTP, in the implementation of the RTGS, could consider directly implementing a 24/7 operating time.</li> </ul>	<p><b>Short-term: expected to be implemented in the next year</b></p>



Enabler(s)	Inhibitor(s)	Recommendation(s)	Timeframe
<p>Committee for the National Payment System (CCSNP) to advise the BCSTP in the regulation and oversight of the National Payment System as provided under Article 7 of the law.</p> <p>The NPS is being revamped and one of the projects is around the retail payment system. ATS and RTGS projects are yet to be implemented, financed by a different partner not included in PISPF.</p>			
<p>The BCSTP is responsible for monitoring and supervising the MFIs as described in MFI Law No. 16/2018, enacted on 3 September 2018. The law covers both deposit and non-deposit MFIs. The law is supported by a subsidiary regulation NAP.007.19 that provides for the specific licensing requirements and procedures for the two microfinance categories.</p>	<ul style="list-style-type: none"> <li>While the MFI regulation is not explicit on the requirement for MFIs to engage in cross-border remittances, the regulator mentioned in the consultation that they can apply for another license.</li> </ul>	<ul style="list-style-type: none"> <li>The proximity of MFIs could be leveraged to improve access to remittance services, particularly by low-income migrants in rural areas mostly served by MFIs. As a starting point, MFIs could at least terminate remittances on the basis of their current license.</li> </ul>	<p><b>Short-term: expected to be implemented in the next year</b></p>
<p><b>Foreign exchange law:</b> São Tomé and Príncipe has a foreign exchange Law No. 32/99. This law provides supervisory and regulatory power to the BCSTP in matters related to foreign exchange.</p> <p>The São Tomé and Príncipe dobra has been pegged to Euro since 2010 at a rate of €1 Euro to <a href="#">STD 24.50</a>. This benefits the São Toméan economy because its top-five trading partners are from the Eurozone.</p> <p>Article 7 of the law requires all market players to seek authorization to deal with foreign currencies, except for commercial</p>	<ul style="list-style-type: none"> <li>There is no regulatory guidance for remote account opening to help migrants access financial services while abroad. This may affect the ability of São Tomé and Príncipe migrants to save in their country of origin.</li> <li>Article 13 of the regulation on forex bureaux does not authorize them to undertake cross-border remittance services even though they deal with foreign currency.</li> </ul>	<ul style="list-style-type: none"> <li>The BCSTP could provide more guidance on the KYC processes for opening accounts remotely in foreign currency by the migrants to enhance resource mobilization from São Toméans abroad.</li> <li>The BCSTP could consider establishing specific guidelines to leverage forex bureaux in providing cross-border remittance services as agents or sub-agents of international money transfer service providers.</li> </ul>	<p><b>Short-term: expected to be implemented in the next year</b></p>

Enabler(s)	Inhibitor(s)	Recommendation(s)	Timeframe
<p>banks, which are allowed to deal with foreign currencies by their banking license.</p> <p>Article 16 of the law permits residents and non-residents to open foreign currency accounts.</p> <p>Exchange bureaus are regulated by NORMA DE APLICAÇÃO PERMANENTE24 / 2009.</p> <p>Article 11 mentions the security deposit required to operate a forex bureau and for opening branches is € 3,000 and € 500, respectively.</p>			
<p>The BCSTP is empowered to exercise the functions of licensing and supervision of financial services providers, including payment service providers and remittance service providers (RSPs), in particular under the NPS law.</p>	<ul style="list-style-type: none"> <li>No specific instructions or regulations exist to amplify the law on the authorization and licensing of non-bank RSPs. Detailed licensing requirements and provisions regarding remittance services could have been under specific instructions from the main NPS law.</li> </ul>	<ul style="list-style-type: none"> <li>The BCSTP could consider putting in place a specific regulatory framework for non-bank RSPs, including specific requirements for their licensing and reporting, domestic and cross-border activities, and how they can integrate within the rest of the payment ecosystem to support smooth fund flows.</li> </ul>	<p><b>Short-term: expected to be implemented in the next year</b></p>
<p>E-money issuance is covered in Law No. 17/2018, chapter 12.</p> <p>The NAP.010.20-ELECTRONIC CURRENCY regulates the issuance and redeemability of electronic money.</p>	<ul style="list-style-type: none"> <li>The legislation covering the use of agents is found in the Law no. 17/2018, Legal Framework of the National System, Article 15, without specific guidance in the case of e-money issuance. And the NAP.010.20-ELECTRONIC CURRENCY also does not address that aspect in detail.</li> <li>The NAP.010.20-ELECTRONIC CURRENCY speaks of a risk-based approach in setting the limits applicable to e-money wallet balance and transactions (Article 5) without specifying the actual</li> </ul>	<ul style="list-style-type: none"> <li>The BCSTP could consider establishing a specific regulatory framework on the usage of agents to amplify the main NPS with a focus on e-money issuance.</li> <li>The BCSTP could consider expanding the NAP.010.20-ELECTRONIC CURRENCY to include the limits of balance and transactions of the e-wallet in a tiered manner, based on the proportionate assessment of risks.</li> </ul>	<p><b>Medium-term: expected to be implemented in the next 1 to 2 years</b></p>

Enabler(s)	Inhibitor(s)	Recommendation(s)	Timeframe
	amounts and without specifying that it will be tiered on the basis of KYC.		
<p>São Tomé and Príncipe has an AML/CFT regulatory framework passed by the Parliament in 2013. The law complies with international standards. Based on this law, the Financial Information Unit (<i>Unidade de Informação Financeira</i>) is the central agency in São Tomé and Príncipe responsible for investigating suspicious transactions.</p> <p>The law provides for dealing with PEP.</p> <p>Permanent application standard No. 010.15 (Nap.010.15.) details the types of customers and respective KYC requirements for accessing financial services locally.</p>	<ul style="list-style-type: none"> <li>• KYC forms to open accounts require customers to provide information on their current employment and address. This may not apply to migrants from the informal sector and, thus, push them to informal channels.</li> <li>• The AML/CFT regulatory framework does not include risk-based approach guidelines for CDD.</li> </ul>	<ul style="list-style-type: none"> <li>• The BCSTP could consider developing risk-based approach guidelines for customer onboarding. This is critical for maintaining migrants' financial inclusion, depending on their status and income level, and increasing transparency on remittance transactions.</li> </ul>	<p><b>Short-term: expected to be implemented in the next year</b></p>

## INFRASTRUCTURE

Enabler(s)	Inhibitor(s)	Recommendation(s)	Priority
<p>There are two MNOs in São Tomé and Príncipe, namely CST and Unitel São Tomé and Príncipe.</p> <p>In terms of interoperability, São Tomé and Príncipe has a retail payments infrastructure that supports the banking network. The retail payments infrastructure is operated by a local payment company jointly owned by BCSTP and banks, which also operates the country's Dobra24 ATM network and has the exclusive rights to operate all POS devices. The AfDB is supporting São Tomé and Príncipe to strengthen the payment system infrastructure—in particular, upgrades to Dobra24's hardware and software, and implementation of the necessary processes to obtain Visa/Mastercard PCI-DSS (payment cards industry - data security standards) certification.</p>	<ul style="list-style-type: none"> <li>• The MNOs have neither developed mobile money products nor been licensed for mobile money operations.</li> <li>• The retail payments infrastructure supporting the banking network is not interoperable with mobile money.</li> <li>• The country's Dobra24 ATM network is operated by SPOUT, which has the exclusive rights to operate all POS devices.</li> <li>• As per AfDB, project on payments systems infrastructure in São Tomé and Príncipe is being appraised. Due to poor operational risk management and security, Dobra24 did not get the PCI-DSS certification to enable connectivity with Visa and Mastercard networks.</li> <li>• Consequently, local banks only offer domestic debit cards. Banks cannot offer credit cards, and foreign visitors with such cards cannot use them widely in São Tomé and Príncipe, which encourages the use of cash and limits commercial transactions.</li> <li>• São Tomé and Príncipe's payments infrastructure also needs to support cross-border retail payments, hence the need to harmonize messaging standards.</li> <li>• The large-value payments or RTGS are not integrated with the retail payments systems infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>• The BCSTP can explore the feasibility and draft policies to develop mobile financial services in São Tomé and Príncipe. Mobile financial services (MFS), or mobile money, is a trusted channel for receiving remittance transfers because of convenience, speed, security, and reduced cost.</li> <li>• The BCSTP should complete the upgrade of the Dobra24 infrastructure to attain PCI-DSS certification required by international card schemes such as Visa and Mastercard.</li> <li>• To incentivize MNOs to develop mobile money products, the BCSTP could consider policies that promote shared infrastructure. In this situation, MNOs or new entrants can save on operational and capital costs using the shared infrastructure.</li> <li>• The BCSTP could consider adopting a harmonized messaging standard for the National Payment Systems based on ISO 20022. The BCSTP could also consider adopting open application programming interfaces (APIs).</li> <li>• The BCSTP could consider allowing other PSPs to establish payment infrastructures that support access points such as points of sale and QR codes. Competition improves the product and enables many players to harness shared infrastructure such as the SPOT infrastructure.</li> <li>• The BCSTP could consider integrating the RTGS systems and retail payment systems. The remittances will be efficient and well-functioning when the RTGS and retail payment and settlement systems are well integrated.</li> </ul>	Medium- to Long-term
<p>Cybersecurity awareness in the banking sector is championed individually by different entities.</p>	<ul style="list-style-type: none"> <li>• Cyber-attacks on payment systems represent a major threat to large retail and cross-border payment systems. The lack of harmonized and coordinated cyber-reporting undermines collective efforts to implement sufficient safeguards.</li> <li>• System failures and channel downtimes associated with digital payment instruments cause delayed payments, thus</li> </ul>	<ul style="list-style-type: none"> <li>• The BCSTP could agree on a harmonized and coordinated cyber-reporting framework as the first step for collective efforts and sharing of experiences necessary to implement sufficient safeguards. A standard security framework, ISO/IEC 27001, could be adopted.</li> </ul>	Medium-term: expected to be implemented in the next 2-3 years

Enabler(s)	Inhibitor(s)	Recommendation(s)	Priority
	affecting consumers' willingness to use digital payment services and increasing the dominance of cash, especially for low-value payments. Users lack assurance that payments will reach the intended recipients at the right time, reducing their willingness to use digital payment services.	<ul style="list-style-type: none"> <li>The BCSTP could consider introducing guidelines for business continuity plans. The guidelines should also make business continuity plans mandatory for all PSPs. This includes requiring RSPs to implement appropriate governance and risk management practices to improve the safety and soundness of remittance services and help protect consumers.</li> </ul>	
The <i>Direção Geral dos Registos e Notariado</i> (DGRN) is responsible for civil registration. Under the National Strategy for Permanent Birth Registration (ENRPN), the introduction of the first-time registration software, the CivID1.1, played a crucial role in increasing registration. CivID is a digital civil registration and identification system that registers births, deaths, and other vital events. It is also used for the issuance of national IDs.	<ul style="list-style-type: none"> <li>The CivID1.1 platform is used to issue national IDs. However, CivID1.1 is not interoperable with any payment systems. There is no automation of KYC verification, which adds to the processing time for bank account creation and other financial services.</li> <li>The lack of a robust identification system makes it complicated and costly to securely identify beneficiaries, a significant prerequisite for gaining access to digital forms of payments. The inability to confirm the identity of a beneficiary causes delays and increases costs.</li> </ul>	<ul style="list-style-type: none"> <li>The ID databases need to be standardized and digitized. Digital ID is paramount to increasing the adoption of formal financial services. Identifying specific policy interventions to boost the implementation and usage of digital ID is critical to its role as an enabler for remittance services as it supports effective identification and onboarding of customers/user segments, facilitates authentication and verification of cross-border transactions, facilitates effective AML/CFT supervision of cross-border transactions, and expands the digital footprint of the underbanked to enable their access to a broader range of financial services.</li> <li>Integrate the ID systems with the payment infrastructure: Once the ID system is improved, the payments infrastructure should also be enhanced to integrate with digital identity systems. Access to due diligence information will play a significant role in lowering the risk perception of persons and reducing compliance costs.</li> </ul>	<b>Long-term: not expected to be implemented in the near future</b>

## MARKET ASPECTS

Enabler(s)	Inhibitor(s)	Recommendation(s)	Priority
<ul style="list-style-type: none"> <li>Financial inclusion is a priority for São Tomé and Príncipe. As such, a financial inclusion strategy was developed to improve financial service access and usage by tapping into the high penetration (90 percent) of mobile phones.</li> </ul>	<ul style="list-style-type: none"> <li>Digital finance services are inadequate in the country, and even digital remittance services are yet to be offered. Especially when considering that ATM, debit card and Internet banking usage are only at 17 percent, 5 percent and 1 percent, respectively, similar patterns are observed in household remittances.</li> <li>Low financial literacy, especially among women, as 9 percent consider that financial products and services offered by banks do not meet their needs.</li> </ul>	<ul style="list-style-type: none"> <li>By implementing the FI strategy, the government could encourage MNOs to launch mobile money services through various incentives to grow financial inclusion.</li> <li>The BCSTP could consider running financial literacy campaigns among SMEs in partnership with financial institutions.</li> <li>The BCSTP could consider supporting financial institutions in developing agent network distribution nationwide. In the early stages, this would entail guiding FSPs toward areas that need</li> </ul>	<b>Medium-term: expected to be implemented in the next 2-3 years</b>

Enabler(s)	Inhibitor(s)	Recommendation(s)	Priority
	<ul style="list-style-type: none"> <li>Inadequate knowledge of financial products and services for most of the population with a high rate of informal channel usage (73 percent of transactions are in cash, and 82 percent of MSMEs are not incorporated). This trend is also visible in remittances, where only basic means are available.</li> <li>The poor distribution network of financial institutions creates poor access to existing products.</li> <li>Lack of service provider diversity and transparency in the market.</li> </ul>	<p>agents either by setting up a ratio of 2:1 urban versus rural or by vetting the FSP expansion plan to ensure even coverage of the territory with access to financial services.</p> <ul style="list-style-type: none"> <li>The BCSTP could display information on its website related to RSPs, such as names, transaction fees, exchange rates, and total costs, with updated diaspora-related information to facilitate better engagement in the financial ecosystem.</li> </ul>	
<ul style="list-style-type: none"> <li>Market players and RSPs submit periodic reports on their activities as the BCSTP prescribes.</li> </ul>	<ul style="list-style-type: none"> <li>There is a lack of sex-desegregated data at the transactional level across all players.</li> <li>Informal channels are extensively used in São Tomé and Príncipe, as shown in the survey conducted during the NFIS development.</li> </ul>	<ul style="list-style-type: none"> <li>The BCSTP could consider developing and implementing an automated transaction reporting system for data collection that fetches sex-desegregated data at the transactional level directly from market players' core platforms. This system will be configured to perform data analysis and monitoring as well. Human errors will be reduced as a result of this automation.</li> <li>Given that informal remittances are an issue, the BCSTP could consider developing estimates on the size of informal remittance flows to complete the data formally collected and provide a better picture of the contribution of remittances to the country's economy.</li> </ul>	<b>Medium-term: expected to be implemented in the next 2-3 years</b>
São Tomé and Príncipe has embassies in major remittance-sending corridors.	<ul style="list-style-type: none"> <li>Due to the lack of documentation RSPs require, women and men migrants' access to financial services to formally support their families in their country of origin becomes difficult, leading to informal channels. Also, even the country's lack of a robust ID system makes it difficult to channel remittances through digital channels. Most beneficiaries are not registered with a bank, considering mobile money has yet to start in São Tomé and Príncipe.</li> </ul>	<ul style="list-style-type: none"> <li>Issuing consular identity cards to women and men migrants, especially those who don't necessarily have the documentation that RSPs require upon arrival so that they can use formal remittance channels, would be more effective with the participation of RSPs established both in origin and destination countries. Such cards may encourage women and men migrants (regardless of immigration status) to use formal remittance services to support their families in their country of origin.</li> </ul> <p>Introduce and foster the use of mobile money to improve beneficiaries' access to financial services, which will impact formal remittance channels.</p>	Medium-term: expected to be implemented in the next 2-3 years

## CONSUMER PROTECTION

Enabler(s)	Inhibitor(s)	Recommendation(s)	Priority
<p>A general consumer protection law was approved on 16 February 2017 under Bill No. 16 of the tenth legislature of the Fifth Session, 2017, on Consumer Protection Law.</p> <p>Furthermore, the national payment system Law No. 17/2018 contains a provision under Chapter 12 and Article 67 on transparency of fees.</p>	<ul style="list-style-type: none"> <li>The lack of a dedicated financial consumer protection law leaves consumers at the mercy of financial service providers with no visibility of their rights regarding financial services. Also, as part of consumer protection, consumers should be aware of the complaint-handling mechanism, especially regarding their money.</li> </ul>	<ul style="list-style-type: none"> <li>The BCSTP could consider developing a consumer protection law specifically targeting financial services. The law should consider all transaction types, including cross-border remittances and mobile money-related transactions. Moreover, the consumer law must include provisions around consumer protection, particularly on processes to be followed when consumers lodge complaints. Some of the areas of consideration: <ul style="list-style-type: none"> <li>RSPs could be required to display the exchange rate fee they are charging their clients for full disclosure of charges and the amount that will be disbursed by the sender and received at the other end.</li> <li>For transparency and disclosure, the BCSTP could consider requiring proper disclosure at the advertising, shopping, pre-contractual, and contractual stages (and on request). Principle 3 of the G-20 High-Level Principles on Financial Consumer Protection states that "all financial consumers should be treated equitably, honestly and fairly at all stages of their relationship with financial service providers". Guidelines should also require RSPs to provide information about any other relevant aspects of their service, such as: (i) the ability, if any, of the sender to revoke the transfer after it has been paid for; (ii) whether the RSP will inform the recipient when the funds are available; (iii) information about the rights of the consumer in the event of any problems (e.g., dispute or error resolution); (iv) the customer's ability to transfer products or services to another provider with reasonable notice; and (v) contact information.</li> </ul> </li> </ul>	<p>Short-term: expected to be implemented in the next year</p>

		<ul style="list-style-type: none"> <li>○ The BCSTP could consider introducing a code of conduct on float and liquidity management because this is an implicit charge. Its effect is that the remittance service is slower, and the intermediary entity earns interest income from the funds.</li> <li>○ The BCSTP could consider introducing effective and accessible consumer grievance procedures to address system failure-related issues using digital services. This will involve a threshold at the time of dispute settlement. This will ensure that consumers receive high-quality service.</li> <li>• The BCSTP could consider, in partnership with financial institutions (including RSPs), conducting education and customer awareness for financial education on remittance-related services to raise awareness of basic information about remittance products and services, including KYC processes, charges, and fees.</li> </ul>	
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## COOPERATION AND COLLABORATION

Enabler(s)	Inhibitor(s)	Recommendation(s)	Priority
<p>São Tomé and Príncipe is a member of various regional and international communities, besides ECCAS.</p> <p>São Tomé and Príncipe has also entered into bilateral agreements with, among others, Angola and the Community of Portuguese-Speaking Countries (CPLP).</p>	<ul style="list-style-type: none"> <li>• Un-harmonized policies, laws and regulations related to cross-border remittances across regional blocks.</li> </ul>	<ul style="list-style-type: none"> <li>• The BCSTP could consider harmonizing remittance policies within the ECCAS region to ease remittances for migrants, primarily, as most of the migration occurs with neighbouring countries that are also members of ECCAS (such as Angola, Equatorial Guinea).</li> <li>• Leverage existing bilateral arrangements with various corridors, especially with Portugal and Angola, to include remittances related to service operations and cross-border regulatory cooperation as a pathway toward harmonizing with one country at a time. The intended outcome is to increase the efficiency, affordability, and security of intra-regional and cross-border fund transfers.</li> </ul>	<p><b>Short-term: expected to be implemented in the next year</b></p>



## KEY TAKEAWAYS AND NEXT STEPS

UNCDF and the ECCAS Commission conducted this diagnostic review and consultations with the specific and essential purpose of optimizing migrant remittances. We recognize that the recommendations also require various levels of effort and timeframes to implement.

We look forward to reviewing this report in detail with key BCSTP and Government stakeholders and accordingly identifying opportunities where UNCDF can provide specific support going forward. Along with consultations to review this report's contents, UNCDF and the ECCAS Commission will keep São Toméan stakeholders updated on the comprehensive work we will pursue around migration and remittances. That work includes:

- **Demand-side research:** Despite digital solutions' great potential to improve the lives of migrants and their families, both access and uptake remain a challenge. Many migrants may lack practical access to a digital transaction account (such as a mobile wallet), whether because such services are simply unavailable in the locale where the migrant is working or because the migrant lacks the necessary documentation to open such an account, or due to some other external factor. Where access is available, migrants may lack the necessary digital literacy to register for such an account. Finally, some migrants, even those digitally adept, may not see digital solutions as better than cash-based solutions, which is perhaps unsurprising since the use cases for digital remittance channels remain limited. Unless human-centred financial product development, focused on the financial needs and mobility considerations of migrants, is responsively designed and supported by the requisite last-mile delivery infrastructure, commercially viable financial inclusion for migrants and their families will not be achieved. UNCDF's demand-side research focuses heavily on human-centred design. We anticipate that the learnings from our human-centred design work will be applicable and valuable to the São Toméan context.
- **Supply-side research:** Access and uptake of digital financial services, including remittances, requires a robust and inclusive digital finance ecosystem. Such an ecosystem must ensure the active participation of traditional and non-traditional financial service providers to support commercially viable digital remittance channels. The supply-side assessment work is aimed at reviewing the constraints faced by the providers—agent networks, liquidity management, business models, products, digital infrastructure, etc.—that currently limit their capacity to advance the usage of digital products.

- **Learning and implementation:** In parallel with the roll-out of the research strategy, UNCDF and the ECCAS Commission will pursue an ambitious capacity-building and learning agenda. We are partnering with leading academic and learning institutions to advance our understanding of shared challenges and opportunities about building enabling ecosystems, pursuing evidence-based decision-making, and designing migrant-centric financial products.

Finally, as we begin collaborating with the BCSTP to review this report, we look forward to holistically considering the recommendations. The holistic approach is important for several reasons. All work with UNCDF will ultimately support the central bank's efforts to improve remittance flows through formal channels, giving regulators a more accurate picture of the true balance of payments. At the same time, the work will also advance the financial inclusion of migrants and their families, advancing the financial inclusion agenda for the country. UNCDF's recommendations in this report form a system, and changes to any single factor will likely cascade through that system. Tackling the diagnostic recommendations systemically, rather than looking at individual recommendations in isolation, will make their inter-dependencies and linkages more visible, aligning them with the country's monetary, financial inclusion, and digitalization agendas and ultimately creating the best path forward.

## ABOUT ECCAS

The Economic Community of Central African States (ECCAS), created in 1983, comprises 11 Member States—Angola, Burundi, Cameroon, Central African Republic, Chad, Republic of the Congo, Democratic Republic of the Congo, Gabon, Equatorial Guinea, Rwanda, and São Tomé and Príncipe. It is one of the five development zones on which the African Union (AU) intends to build continental cooperation and integration.

According to its statutes, ECCAS' mission is to foster political dialogue in the region, establish a regional common market, set common sectoral policies, foster and strengthen harmonious cooperation and balanced and self-sustaining development in all areas of economic and social activity, especially in the fields of industry, agriculture, natural resources, infrastructure, trade, customs, monetary and financial matters, and tourism.

ECCAS member states adopted a strategic plan for integration and a strategic vision in October 2007. The vision is to create by 2025 "a stable, prosperous, united, economically and politically united Central Africa" to make the region an area of peace, solidarity, and balanced development, with free movement of people, goods, and services.



## ABOUT UNCDF

UNCDF mobilizes and catalyzes an increase in capital flows for SDG impactful investments to Member States, especially Least Developed Countries, contributing to sustainable economic growth and equitable prosperity.

In partnership with UN entities and development partners, UNCDF delivers scalable, blended finance solutions to drive systemic change, pave the way for commercial finance, and contribute to the SDGs. We support market development by enabling entities to access finance in high-risk environments by deploying financial instruments, mechanisms and advisory.

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