

10 Freedoms of the Index of Economic Freedom

1. Business Freedom

- Regulations affecting time, cost and procedures to start a business, obtain license, and closing a business

The actual cost of starting a business is on average USD \$143¹, per Decree-Law 9/2008 approved on March 13th, 2008. This Decree-Law created a special form for the procedures and cost of starting a business by limited liability quota and limited companies. Under this regulation the time to start a business is on average one day². This process is applicable in the island of Sal (main destination of FDI in tourism) and in the capital City (Praia).

The process is implemented through an One-Stop-Shop (“citizen’s house”) access to the firms and citizens, through different channels – web (www.portondinosilha.cv), phone, mobile phone and on-location (also through the Cape Verdean Embassies and Consulates in Lisbon, Portugal (since October 2007), in Boston, USA (since July 2008), in Rotterdam, Holland (since 2009), France, Italy, Spain, Luxemburg, Belgium, Brazil, Sweden, Switzerland, Germany, Argentina, Angola, S. Tome and Principe, Dakar, Abidjan and Bissau).

There are now several kinds of certificates which can be issued online anytime and from anywhere, as far as the person is registered at the Citizen’s House and has the appropriate access code, namely:

- Birth Certificate
- Certificate of Marriage
- Certificate of Adoption
- Certificate of Fiscal Debt

The Citizen’s House can also provide the Criminal Record’s Certificate

Starting a Business

Description of Reform

Cape Verde has approved an online streamlined process for the licensing of firms easing the business operations startup process.

As a result:

1. Obtaining municipal license - The process is reduced to no more than 2 (two) days (62.5% of the business were licensed in 1 [one] hour).The time for commercial, industrial and tourism licensing and granting of construction permits was reduced (average of 2 or 3 months to 10 days).
2. Ex-ante license inspection from municipality procedure is not anymore a mandatory procedure. This was approved by the Decree-Law 30/2009, of August 17, that establishes post-supervision, thus easing starting up of a business.

Implication: 2 procedures and 19 days were cut.

Registering property

¹ 1 USD = CVE 76.21

Description of Reform

Cape Verde eased the registering property process by switching transfer costs from a percentage of property values to a lower fixed rate. This was done by the Decree Law 70/2009.

Summary of reform: Reduced taxes or fees

For the implementation of the online one stop solution for business registration new business process were introduced, streamlined and databases integrated reducing the time to complete the procedures in 20 days.

With three major reforms related to starting a business, registering property and paying taxes, Cape Verde was recognized as one of the 10 economies that improved the most in the ease of doing business in 2009/10 and introduced policy changes in 3 or more areas (Doing Business Report 2010).

Closing a Business

Description of Reform

In April 2011, Cape Verde introduced a new bankruptcy law – Decree Law No. 22/2011. The main features of the reform are as follows:

1. A 12 month time frame for a liquidation process has been set up. However, depending on the case, the time period can be further extended by the judge for an additional 180 days;
2. Strict qualification requirements and clear responsibilities of administrators have been introduced;
3. Administrator can be replaced by the judge, based on the request of the management or shareholders of the company, or the company's creditors.

Summary of Reform: Cape Verde introduced a shorter time frame for the liquidation process and qualification requirements for administrators.

Features of Reform: Shortened insolvency procedures; introduced qualification requirements for administrators.

2. Trade Freedom

- Latest weighted average tariff rate and simple average tariff rate. If your country belong to a custom's union, the union's average common external tariff.
- Non-tariff barriers like import quotas, delays in customs, foreign exchange restrictions, and issues with the procurement process.

Cape Verde has introduced an important tariff reform on January 1st, 2004 together with the new Value Added Tax, aimed at overcoming significant distortions in the incentive structure of the Cape Verdean economy. The implementation of a new tariff structure, in addition to the value added tax regime made the average weighted tariff rate to be 11,18%% and the simple average were reduced at a weighted average of tariff to be estimated at less than 20% with 5 bands (from 0% to a maximum of 50%).

In order to strengthen the private sector-based market economy, taxes on imports are streamlined and optimized, accompanied by a general reduction of custom duties and requirements, which is adapting the trade-related body of law to the standards of the World Trade Organization. Cape Verde became the 152nd member of the World Trade Organization in December 2007. For industrial products, Cape Verde has agreed to bind tariffs at rates ranging from zero to 55 per cent. Some bindings involve reductions phased in over the

period to 2018. This would result in an average upper limit of 15 per cent. For agricultural products, Cape Verde has agreed to bind tariffs at an average of about 19 per cent. Cape Verde has also made specific commitments to ease market access in ten services sectors and a wide range of sub sectors.

The Current Account is fully liberalized and there are no foreign exchange restrictions.

3. Fiscal Freedom

- Top personal income tax rate
- Top corporate tax rate
- *General government tax revenue as percentage of GDP (for the latest three years)

Income in Cape Verde is taxed by the “Single Income Tax” (IUR), which applies both to physical persons and companies. IUR regime is set up in Law n° 127/IV/95, of the 26th of June, and Decree-Law n° 1/96, of the 14th of January. IUR tax rates are annually published in the State Budget Law.

For individuals, the IUR rates vary depending on the applicable method of determining taxable income: 30% for the “verification method” and 20% for the “estimate method”. The “return method” corresponds to a progressive tax rate scale, which can go from 15% to 45%. Certain types of income are subject to withholding tax, although not generally with a definitive tax rate. Since 2009 the top personal income tax rate is 35%, a reduction of 10%.

As far as resident companies are concerned, IUR taxes their profit, which consists in the difference between the amount of net assets at the beginning and at the end of the tax period (typically coincident to calendar year).

- 1- As of 2009 the maximum rate of the corporate income tax decreased from 30% to 25%;
- 2- As of 2009 the maximum rate of the small business income tax decreased from 20% to 15%;
- 3- As of 2009 the stamp duty tax on sales and check was abolished.

A new regime of fiscal and financial incentives and benefits for businesses internationalization approved (Decree-Law 2/2011 that regulates granting of fiscal and financial temporary incentives to investment projects).

Three tax codes, the Código Geral Tributário, the Código do Processo Judicial Tributário and the Código de Execução Tributária were revised, leading to simplification in payments and revenue administration. This reduction of business costs is expected to help boost competitiveness and employment.

General government tax revenue as percentage of GDP

Year	2007	2008	2009	2010
Tax revenue as % of GDP	24.45	24.87	20.37	19.97

4. Freedom from Government

- *General government expenditure as percentage of GDP (for the latest three years)
- *General Government revenue from state-owned enterprises and government ownership of property (for the latest three years)

Confidence indicators herald an improved economic outlook this year, and staff projects growth to edge up to 5.6 percent. Net exports should contribute to growth with continued strong performance in the tourism sector and fisheries. Implementation of the public investment program (PIP) should support domestic demand, as

corroborated by high growth in imports of consumer and intermediate goods during the first quarter of 2011.

The Cape Verde's economy has been fared well and growing better than expected, given the international crises. Economic performance has been encouraging, and real GDP grew by 5.4 percent in 2010, backed by strong growth in the number of tourists, lured by lower prices, the political turmoil in northern Africa, and the implementation of the public investment program (PIP).

Fiscal developments in 2010 were in line with fiscal sustainability and implementation of the medium-term public investment program. The fiscal deficit reached 10.7 percent of GDP reflecting the higher growth of the public investment program. Recurrent expenditures were swiftly reduced to compensate for weaker-than-expected tax revenues during the year and the overall fiscal balance was lower than projected.

In this regards the general government expenditure as percentage of GDP is the following:

Year	2007	2008	2009	2010
General government expenditure as % of GDP	34.7	35.1	36.03	39.36

Government revenue from state-owned enterprises is the following:

Year	2007	2008	2009	2010
Government revenue from state-owned enterprises (in CVE)	310,522,071	330,940,505	705,574,318	162.574.449

Another important structural element was the decision by the **government to eliminate subsidies for water and electricity, allowing full pass-through of prices, and allowing domestic gas prices to adjust to international prices**

Economic climate indicators for 2011Q1 show an increase in economic activities across all sectors. In particular, both the current and perspective activities are mainly favorable in transportation, tourism, and commerce. Employment opportunities are strong in agricultural and construction, especially in the second-home real estate market. It is estimate that the economy will grow around 5.6%

This will be supported by Cape Verde plans to maintain a steady pace for the public infrastructure investment program in line with its medium-term fiscal framework (MTFF). It has been assured by its partners that concessional financing will be maintained and the partners showed willingness to extend concessional financing until 2015.

5. Monetary Freedom

- Inflation rates (annual percent change in consumer price index) for 2006, 2007, 2008, 2009 and 2010
- List of goods subjected to government price controls (commodities, primary consumer goods, agriculture, utilities, etc.)

Inflation rates

Year	2006	2007	2008	2009	2010
Inflation rate	5.4%	4.4%	6.8%	1%	2.2%

Source – National Statistics Institute

The market determines most prices. According to the World Bank, there are no important subsidization schemes, except for a subsidy on certain products consumed in poor rural areas (butane). Water and energy prices are set by an independent regulatory entity that defines its own pricing mechanisms and domestic gas prices are adjusted to international prices.

A Fund for Mutual Guaranty to support investments, in particular SME, has been created.

The products subject to government price controls are :

Utilities	Commodities	Other goods
<ul style="list-style-type: none">• Urban passenger transportation services;• Sea passenger transportation services	<ul style="list-style-type: none">• Gas oil;• Petrol fuel oil,• Oil;• Butane gas	<ul style="list-style-type: none">• Tobacco;• Medicine

The Bank of Cape Verde (BCV) continues to conduct monetary management appropriately. Given the peg and a largely open capital account, passive monetary management by the BCV has been setting the official policy rate consistent with its endogenous equilibrium level, which smoothes and sterilizes short-term capital flows.

The Central Bank is continuing to harmonize prudential norms to the EU banking law standards.

The global financial crisis has had little impact on the financial sector. Local banks have good liquidity and low loan-to-value ratios. Although some banks had low capital-asset ratios, they have raised capital through the Cape Verde stock exchange.

Monetary management is consistent with the peg and the largely open capital account, the framework is geared toward keeping cross-border capital flows low and stable. The BCV policy rate set relative to the euribor adjusted for the perceived country risk premium. Structural excess liquidity is mopped up by auctioning 90-day BCV bills in variable-rate tenders to ensure price discovery. This approach has reduced the incentives for banks to place excess liquidity abroad.

Also the new investment opportunities on the Stock Exchange following rapid development of the domestic equity market, and by growth in private sector credit.

- Regulations affecting foreign investment, including regulations to own and establish foreign businesses, as well as controls on capital flows

Current account transactions, investments in securities, and foreign borrowing and lending in connection with current transactions have been liberalized under the Decree-Law nr.26/98. The major objectives of Cape Verdean Government in the realm of promoting foreign investments are:

- Proportionate a fair and appropriate business environment both for external and domestic investors;
- Increase the role of private sector in the development of national economy.

To that end, the government adopted the Law of Foreign Investments (Law 89/IV/93 and Industrial Status Decree-law 108/89).

Cape Verde is a service economy with construction, commerce, transport and communications, financial and public service sectors accounting for 80.6% of GDP in 2008. Among services, tourism is by far the leading sector and attracts most FDI inflows. However, tourism in 2009 contracted by 13%, after 7.8% growth in 2008.

The overall balance of payments position deteriorated slightly in 2009, but should strengthen over the medium term as confidence returns. The current account balance improved slightly in 2009, as higher current transfers and lower imports more than offset the significant fall in tourism receipts. In the financial account, FDI fell drastically, but partly was compensated by increased external financing for the Public Investment Program.

Internal and external balance considerations suggest that the real effective value of the escudo continues to be broadly in line with fundamentals. Recent developments in both goods and factor markets after the global shocks do not suggest any sign of over or undervaluation of the real effective exchange rate.

The Cape Verde Stock Exchange continued to be vibrant, being one of the most important channels of providing funding to private firms.

Cape Verde adhered to ICSID Convention, to improve legal security and protection and attract investors. The Convention establishes the mandate of the International Center for Investments Dispute Solving (<http://icsid.worldbank.org/ICSID/FrontServlet>).

Furthermore, a Conciliation and Arbitration Centre was created in Mindelo, Cape Verde; and electronic Integrated Management System for Arbitration and Conciliation and a Mobile Platform Support for Arbitration and Conciliation to connect various islands via video-conference technology are being set up, as well.

7. Financial Freedom

- Regulations on foreign banks' entry
- Latest statistics on banks totally or partially owned by the government.
- Banking regulations affecting the provision of banking services

Cape Verde's financial sector includes an independent central bank, four commercial banks, two insurance companies, and 13 offshore financial institutions. Two dominant commercial banks account for around 90 percent of assets and deposits. Credit is allocated on market terms and is available to foreign and domestic investors without discrimination. The non-performing loan ratio has improved significantly. Legislation

implemented in 2002 gave more independence to the central bank, promoting its financial intermediary role, and the financial sector has been strengthened by improved regulations and monetary policy autonomy. The government remains active through financial institutions that handle public investment and international aid. The legal and institutional framework for the Cape Verde Stock Exchange has been strengthened. With increasing market capitalization, the stock market has been reinvigorated.

There is a unique set of regulations that for banks' entry, independent of the origin of the capital. For registration new banks must comply with certain conditions, for example minimum capital requirements on adequate management structure, a sustainable business plan, etc. Banks need to follow the Basle core principles, monitored by the banking supervision unit at the BCV. Registration of new banks must be authorized by the BCV. Decree-Law 66/97, Law 43/III/88, and Law 32/V/97 regulate the conditions for the operations of international financial institution (offshore banks). In the banking sector, offshore banks were developed and are in operation.

The Central Bank of Cape Verde has introduced on-line access for its credit information database for financial institutions. The Central Bank changed legislation that impacted negatively, in DB 2010, the coverage by the Public Registry (reinstating the previous legislation) - circular nr. 148/2009. Therefore, the legislation allows for capturing data on all loans below 1% of income per capita (everything above the threshold CVE 1,000 or USD \$11.5 is captured and distributed - CV GNIPC 2009 is USD \$3,010 and 1% is USD \$30.1)

Also, a correction was introduced showing that negative and positive data is distributed.

Banks partially owned by the Government:

Bank	% of Shares
Banco Comercial do Atlântico	10%
Caixa Económica de Cabo Verde ¹	46.4%
Novo Banco	5,0%

New bank regulations on capital ratios, provisioning and loan classification, credit risk assessment, and credit concentration were published in November 2007 and BCV has given banks a 5 year transitional period to meet the new requirement on provisions on non-performing loans. In 2009 the banking sector adopted the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS). At the same time a FSAP (Financial Sector Assessment Program) was carried out with positive results, including stress tests for each bank and the banking sector as whole. This exercise was carried out with the support of the IMF and the World Bank.

8. Property Rights

- Reports on the efficiency and transparency of the court system.
- Reports on the constitutional protection of private property and on the effectiveness of that protection in practice. Reports on the enforcement of business contracts.

- Existence of government expropriation of private property

Private property is well protected. The constitution provides for an independent judiciary, and the government generally respects this provision. The resolution of conflicts in Cape Verde takes place in the courts and the Public Ministry represents the State, exercises penal action, and defends democratic legality, rights of the citizens, public interest and any other interest conferred upon him by the Constitution or the law. He is entrusted with power to participate according to the law, and autonomously, in the execution of the criminal policy defined by the political powers [Article 222 of the Constitution of Cape Verde]. Recently the government has approved an arbitration and mediation law in Cape Verde. As regarding external investments, Article 17 of Law 89/IV/93 of 13 December (External Investments Code) establishes a framework for conflict resolution between foreign investors and the Government of Cape Verde.

The Cape Verde Constitution was revised in 2009, allowing for greater independence of the Courts and better access to Justice. To address the backlog of judicial cases, the Government is introducing an information system aimed at reducing the time for judicial proceedings and the trial process. Thus, the efforts were directed toward removing legislative obstacles and creating the conditions to offer swifter and more efficient justice (by strengthening its administration) to the citizens.

In 2010, the Cape Verde Parliament ratified the country adhesion to the International Centre for Settlement of Investment Disputes – ICSID, in order to provide facilities for conciliation and arbitration of international investment disputes.

Furthermore, a Conciliation and Arbitration Centre was created in Mindelo, Cape Verde; and electronic Integrated Management System for Arbitration and Conciliation and a Mobile Platform Support for Arbitration and Conciliation to connect various islands via video-conference technology are being set up, as well.

As far as the evidence of existence of government expropriation of private property, there is no evidence of any such practices.

9. Freedom from Corruption

- Most recent year's Corruption Perception Index score from the Transparency International
- Estimated size of the informal economy.

According to the latest Transparency International's index, Cape Verde continues to be ranked amongst the most transparent in Africa (3rd place), behind Botswana and Mauritius, and well positioned globally. It ranked 46th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009 and 45th for 2010 (out of 178 countries).

2010 CORRUPTION PERCEPTIONS INDEX

country rank	score	surveys used	confidence range
45	5.1	4	3.4 - 6.6

With regard to the existence of informal market, there is no reason for an extended informal labor market in Cape Verde. Accordingly to a survey conducted by National Institute for Professional Training in 1997 on the informal market in Cape Verde, it shows that some informal activities exist in a few sectors such as: trade, services, liquor's businesses, and restaurants. However, most of those businesses are declared next to municipal authorities in order to get sanitary certifications and other appropriate licenses.

The informal labor market in Cape Verde is not expressive when compared to its peers in Sub-Saharan Africa. According to the World Bank the informal market is offset by the geography of the country and with the new external tariffs should limit the informal market even more.

10. Labor Freedom

- Laws affecting minimum wage, work hours, layoffs, and severance requirements

The Labor Code approved by Decree-Law 5/2007, in October 16, 2007, is a modern legal tool that regulates both individual and collective labor activities.

Yet, based on the lessons learnt from its implementation, the Cape Verdean government and its social partners agreed to partially revise it in 2010 to enhance its response to the national labor reality (Decree-Law 5/2010 dated of June 16, 2010).

According to amendments then introduced, the minimum age to be admitted to a job or an employment is 15 years old (see also Resolution 68/2010, of November 29, 2010 and Notification of Formal Registration of the Convention 138 on the Minimum Age for Admission to an Employment).

The working hours are forty per week (Law 44/V/98 of March 1998).

No minimum wage established.

*Note: *General government refers to a consolidation of all levels of government such as federal, state, and local.*

Country Statistics and other macro-economic indicators

Basic Indicators	2009	2010
Population (million):	0.513	0.496
GDP (millions CVE)	126.086 ³	136.173
Gross Domestic Product (measured by PPP US\$ million)	1,793 ⁴	1,908
GDP real growth	3.0%	5.4%
GDP per capita (US\$ current prices)	3,444	3,064
GDP per capita (measured by PPP current US\$)	3,100 ⁵	3,157

³ Updated (compare with last information provided, e.g. 124,755)

⁴ Updated (compare with last information provided, e.g. 1,793)

Basic Indicators	2009	2010
Unemployment rate:	13.1%	10.7%
Inflation rate (CPI)	1%	2.1%
Foreign Direct Investment (Inflow CVE million)	9,478.4	9,292.0

Sources:

IMF

World Bank

Ministry of Finance Cape

Central Bank of Cape Verde

Dados do World Economic Outlook

African Economic Outlook

⁵ Updated (compare with last information provided, e.g. 3,587)