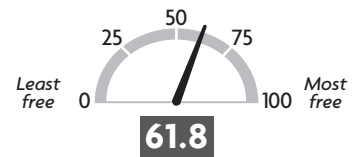


CAPE VERDE

Economic Freedom Score



World Rank: **78**

Regional Rank: **7**

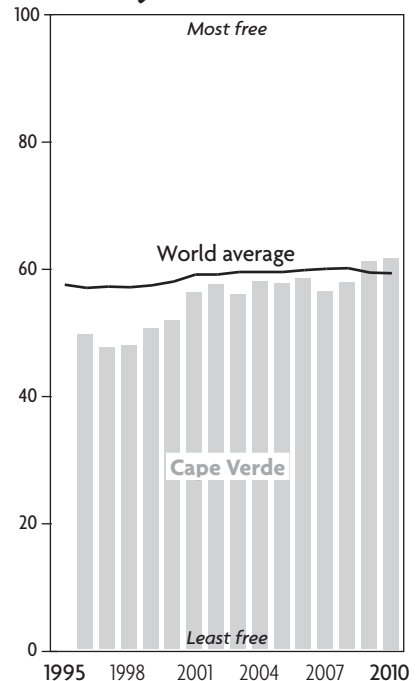
Cape Verde's economic freedom score is 61.8, making its economy the 78th freest in the 2010 *Index*. Its overall score is 0.5 point higher than last year, mainly as a result of enhanced business freedom. Cape Verde is ranked 7th out of 46 countries in the Sub-Saharan Africa region, and its overall score is much higher than the regional average.

Cape Verde has achieved an annual growth rate of close to 8 percent over the past five years. As a result of strong investments in infrastructure and ongoing trade liberalization, the entrepreneurial environment has gradually improved and become more streamlined. Cape Verde scores relatively well in monetary freedom, investment freedom, and especially property rights. Monetary stability is well maintained. Property rights are strongly protected by the rule of law in comparison to other countries in the region.

A number of challenges remain in the ongoing transition to greater economic freedom. High tax rates, inefficient state-owned enterprises, and a rigid labor market impede private investment and entrepreneurship and risk undermining long-term competitiveness.

BACKGROUND: Cape Verde, a West African archipelago, is a multi-party parliamentary democracy. Political power has changed hands peacefully since 1991. The country has few natural resources and is subject to frequent droughts and serious water shortages. The economy is dominated by services, but light industry, agriculture, and fishing employ a majority of the workforce. Cape Verde has close economic and political ties to the European Union, and its currency is pegged to the euro. The EU has granted Cape Verde special partnership status, under which Cape Verde and the EU cooperate to improve governance, security and stability, regional integration, and antipoverty efforts. The World Bank notes that remittances from the many Cape Verdeans who live abroad declined in 2007 and 2008. Cape Verde joined the World Trade Organization in 2007.

Country's Score Over Time



Quick Facts

Population: 0.5 million

GDP (PPP): \$1.7 billion

6.0% growth in 2008

7.7% 5-year compound annual growth

\$3,504 per capita

Unemployment: estimated to be over 15%

Inflation (CPI): 6.8%

FDI Inflow: \$209 million

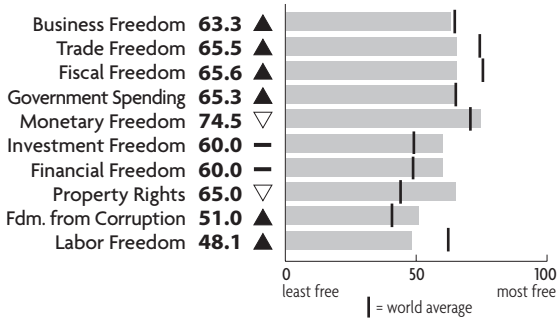
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

CAPE VERDE'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 63.3

The efficiency of Cape Verde's business environment has been improved. Starting a business takes less than the world average of 35 days. Obtaining a business license requires less than the world average of 218 days, but bankruptcy procedures are not fully developed.

TRADE FREEDOM — 65.5

Cape Verde's weighted average tariff rate was 12.2 percent in 2008. Reform has progressed slowly, and import restrictions, services market access restrictions, import fees, inefficient regulatory and customs processes, non-transparent sanitary and phytosanitary regulations, state trade in certain products, weak enforcement of intellectual property rights, and export incentives still add to the cost of trade. Ten points were deducted from Cape Verde's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 65.6

Cape Verde has a high income tax rate and a moderate corporate tax rate. The top income tax rate is 45 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a special consumption tax. The stamp duty on sales and checks was abolished in 2009. In the most recent year, tax revenue as a percentage of GDP was 22.8 percent.

GOVERNMENT SPENDING — 65.3

Total government expenditures, including consumption and transfer payments, are moderate. In the most recent year, government spending equaled 34 percent of GDP. State ownership is high, and nationalized companies are poorly run. The government now plans to re-structure rather than completely divest the national airline and electric companies.

MONETARY FREEDOM — 74.5

Inflation has been moderately high, averaging 6.0 percent between 2006 and 2008. The market determines most prices, but the government controls the prices of water and electricity and regulates some others, including those for petroleum products and basic food items. Ten points were deducted from Cape Verde's monetary freedom score to adjust for measures that distort domestic prices.

INVESTMENT FREEDOM — 60

Foreign investment is officially encouraged and receives equal treatment. Most sectors are open, but all foreign investment requires prior authorization. The government has simplified and expedited registration, opening most privatization to foreign investors. Cumbersome and time-consuming bureaucracy and inadequate institutional capacity and infrastructure undermine investment. Residents and non-residents may hold foreign exchange accounts, subject to some restrictions. Most capital transactions are permitted but are also subject to advance approval by the central bank or other controls.

FINANCIAL FREEDOM — 60

Cape Verde's financial sector has been growing, albeit from a low base. The sector is highly concentrated, and 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. Credit to the private sector has climbed to around 50 percent of GDP. 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. New financial instruments including tax-free government bonds have been introduced. The government remains active in financial institutions that handle public investment and international aid. The legal and institutional framework for the Cape Verde Stock Exchange has been strengthened, and the stock market has been reinvigorated with increasing market capitalization equivalent to around 25 percent of GDP.

PROPERTY RIGHTS — 65

Private property is fairly well protected. The constitutional provision for an independent judiciary is generally respected by the government, but the judicial system is overburdened, understaffed, and inefficient. The case backlog leads to delays of six months or more. Several recently signed treaties provide protection for intellectual property.

FREEDOM FROM CORRUPTION — 51

Corruption is perceived as significant. Cape Verde ranks 47th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Its political and economic governance is generally regarded as Africa's third best, behind Botswana and South Africa. The economy is about 40 percent informal. The government has adopted laws and regulations to make customs corruption criminally punishable.

LABOR FREEDOM — 48.1

Employment regulations are relatively rigid. The non-salary cost of employing a worker is moderate, but the cost of dismissing a worker is relatively high. The effect of a 2008 labor reform aimed at increasing flexibility and competitiveness has been mixed.