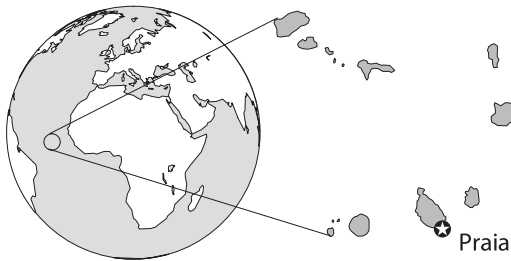


CAPE VERDE



Rank: 88

Regional Rank: 9 of 40

Cape Verde's economy is 58.4 percent free, according to our 2008 assessment, which makes it the world's 88th freest economy. Its overall score is 1.3 percentage points higher than last year, mainly reflecting an enhanced investment climate and less corruption. Cape Verde is ranked 9th out of 40 countries in the sub-Saharan Africa region, and its overall score is slightly higher than the regional average.

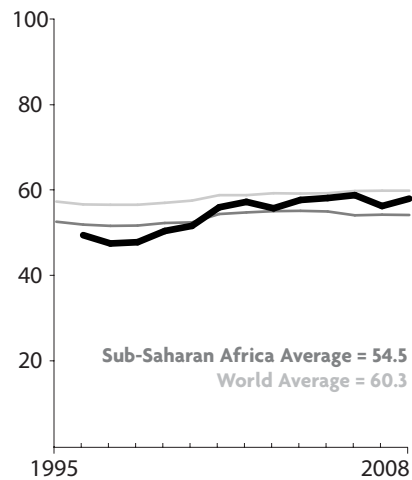
Cape Verde scores well in monetary freedom, investment freedom, and especially property rights, with a score that is 24 percentage points higher than average. Inflation is low, although the government does subsidize some staples. Property rights are very well secured by the rule of law in comparison to the situation in neighboring countries.

Serious challenges, however, overwhelm Cape Verde's advantages. Trade freedom and the overall size of government taxation and expenditure are the main problems, and heavy business regulations are a barrier to investment and entrepreneurship. Trade is hindered by a high average tariff rate and significant non-tariff barriers.

BACKGROUND: The archipelago nation of Cape Verde, located off the west coast of Africa, is a stable multi-party parliamentary democracy in which power has changed hands peacefully since 1991. Cape Verde has few natural resources and is subject to frequent droughts and serious water shortages. The economy is dominated by services, but industry, agriculture, and fishing employ a majority of the workforce. Cape Verde has close economic and political ties to the European Union and is seeking EU associate status. Its currency is pegged to the euro. More Cape Verdeans live abroad than live on the islands, and it is estimated that remittances from this expatriate population contribute well over 10 percent to GDP. Economic growth through market liberalization, good governance, and judicious public investment has earned Cape Verde middle-income status.

How Do We Measure Economic Freedom? See Chapter 4 (page 39) for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

The economy is 58.4% free



QUICK FACTS

Population: 0.5 million

GDP (PPP): \$2.9 billion

5.8% growth in 2005

5.0% 5-yr. comp. ann. growth

\$5,802 per capita

Unemployment: 21.0% (2000 estimate)

Inflation (CPI): 0.4%

FDI (net flow): \$19.0 million

Official Development Assistance:

Multilateral: \$63.4 million

Bilateral: 113.3 million (10.7% from the U.S.)

External Debt: \$325.0 million (2002 estimate)

Exports: \$365.9 million

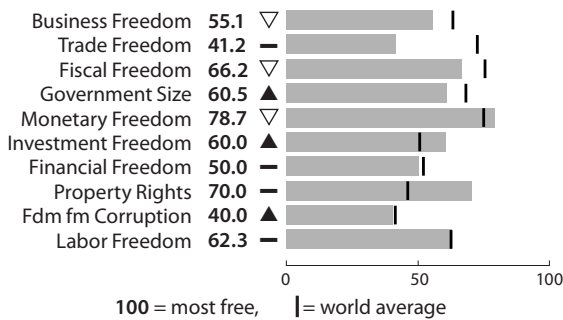
Primarily fuel, shoes, garments, fish, hides

Imports: \$646.1 million

Primarily foodstuffs, industrial products, transport equipment, fuels

2005 data unless otherwise noted.

CAPE VERDE'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 55.1%

The overall freedom to start, operate, and close a business is restrained by Cape Verde's national regulatory environment. Starting a business takes an average of 52 days, compared to the world average of 43 days. In recent years, government has tried to streamline the cumbersome bureaucracy and increase transparency, but obtaining a business license still requires more than the world average of 19 procedures and 234 days. Closing a business is likewise difficult.

TRADE FREEDOM — 41.2%

Cape Verde's average tariff rate was a high 24.4 percent in 2003. Import restrictions, sanitary and phytosanitary regulations, and state trading of pharmaceuticals add to the cost of trade. An additional 10 percentage points is deducted from Cape Verde's trade freedom score to account for these non-tariff barriers.

FISCAL FREEDOM — 66.2%

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. In the most recent year, tax revenue as a percentage of GDP was 21.3 percent.

GOVERNMENT SIZE — 60.5%

Total government expenditures, including consumption and transfer payments, are moderate. In the most recent year, government spending equaled 36.3 percent of GDP. Sales to the private sector have significantly reduced the number of state-owned enterprises.

MONETARY FREEDOM — 78.7%

Inflation is moderate, averaging 3.2 percent between 2004 and 2006. Relatively stable prices explain most of the monetary freedom score. The market determines most prices, but the government controls the prices of water and electricity and regulates some other prices, including those for petroleum products and basic food items. An additional 10 percentage points is deducted from Cape Verde's monetary freedom score to adjust for measures that distort domestic prices.

INVESTMENT FREEDOM — 60%

The government encourages foreign investment, particu-

larly in tourism, fishing, light manufacturing, communications, and transportation, with a variety of incentives. It has simplified and expedited registration, opening most privatization to foreign investors. All sectors are now open, though real estate transactions require central bank approval. Both residents and non-residents may hold foreign exchange accounts, subject to government approval and regulations. Most payments and transfers are subject to controls. Most capital transactions are permitted, but most are also subject to advance approval by the central bank.

FINANCIAL FREEDOM — 50%

Cape Verde's small financial sector has five commercial banks and remains highly concentrated, with the two largest banks controlling 89 percent of total assets and deposits. Banking reform initiated in the 1990s led to privatization of these two banks, Comercial do Atlântico and Caixa Económica de Cabo Verde, although the government retains a large minority stake in the latter. The non-performing loan ratio has improved significantly. The financial sector has been strengthened by improved regulations and monetary policy autonomy. The government remains active in the banking sector through financial institutions that handle public investment and international aid. The insurance sector is small. The stock market, founded in 1999, has been largely inactive, but this is expected to change soon.

PROPERTY RIGHTS — 70%

Private property is fairly well protected. The constitution provides for an independent judiciary, and the government generally respects this provision. The right to an expeditious trial, however, is constrained by a seriously overburdened, understaffed, and inefficient judicial system. The case backlog routinely leads to trial delays of six months or more. Cape Verde recently signed several treaties that provide protection for intellectual property rights.

FREEDOM FROM CORRUPTION — 40%

In Africa, Cape Verde's record of good political and economic governance is generally regarded as second only to Botswana's. This contributes to a relatively low level of corruption. The economy is about 40 percent informal, which correlates with the still-significant poverty rate. Informal activities also correlate with corruption. The government has acknowledged the existence of corruption in the customs department and has adopted laws and regulations to combat corruption, which is criminally punishable.

LABOR FREEDOM — 62.3%

The labor market operates under relatively inflexible employment regulations that could be improved to enhance employment and productivity growth. The non-salary cost of employing a worker is moderate, and dismissing a redundant employee can be relatively costly. The cost of laying off a worker creates a risk aversion for companies that would otherwise hire more people and grow. The labor laws were revised recently to make labor contracts more flexible.