

# Cape Verde



Tali Asias

## **Brief History:**

Cape Verde, an archipelago 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. Cape Verde has close economic and political ties to the European Union, and its currency is pegged to the euro. In 2007, the EU agreed in principle to grant Cape Verde special partnership status, under which Cape Verde and the EU will cooperate to improve governance, security and stability, regional integration, and antipoverty efforts.

Since 1991, the government has pursued market-oriented economic policies, including an open welcome to foreign investors and a far-reaching privatization program. It established as top development priorities the promotion of market economy and of the private sector; the development of tourism, light manufacturing industries, and fisheries; and the development of transport, communications, and energy facilities.

## **Economy:**

Approximately 500 thousand people live in Cape Verde. Total GDP in 2007 was \$1.6 billion, and GDP per capita was \$3,200<sup>1</sup>. In 2007, real GDP exhibit growth of 6.6%, as against 10.8% in 2006. The decline was due in part to lower-than-expected public investment. The strong growth of the past several years has been mainly driven by the huge inflow of FDI, especially in hotels and other tourism-related construction.

The economy of Cape Verde is service-oriented, with commerce, transport, and public services accounting for more than 70% of GDP. Although nearly 70% of the population lives in rural areas, agriculture and fishing contribute only about 9% of GDP. Only 4 of the 10 main islands (Santiago, Santo Antão, Fogo, and Brava) normally support significant agricultural production, and over 90% of all food consumed in Cape Verde is imported. Light manufacturing accounts for most of the remainder. An amount estimated at about 20% of GDP is contributed to the domestic economy through remittances from expatriate Cape Verdeans.

Mineral resources include salt, pozzolana (a volcanic rock used in cement production), and limestone.

Cape Verde has significant cooperation with Portugal at every level of the economy, which has led it to link its currency first to the Portuguese escudo and, in 1999, to the euro. On June 23, 2008 Cape Verde became the 153rd member of the WTO.

## **OVERVIEW OF THE FINANCIAL SYSTEM:**

---

<sup>1</sup> U.S. Department of State

Financial sector institutions in Cape Verde include banks, para-banks<sup>2</sup>, international financial institutions, insurance companies and capital market intermediaries.

### **Banking System:**

The financial sector of Cape Verde has a sound and healthy banking sector. The on-shore banks operating in Cape Verde are Banco Commercial do Atlântico, Caixa Economica do Cabo Verde (CECV), Banco Interatlantico and Banco Caboverdiano de Negocios. The first three of these institutions are branches of foreign banks. Banco Caboverdiano de Negocios has majority local ownership and a Portuguese bank, which holds 46 percent of its share capital, has an option to purchase an additional 5 percent to give it majority ownership.

Private sector ownership of financial institutions is a relatively recent phenomenon in Cape Verde. Up to 1993, the BCV was both the monetary authority and the sole commercial banking entity. In 1993, BCV ceased its commercial banking activities which were taken over by Banco Comercial do Atlantico.

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 climbed to around 50% of GDP in 2006.

The strength of the banking sector is evident in their lending operations, which have seen an impressive improvement of the ratio of non-performing loans, down from 30% in 1997 to 6.3% as of end-2005.

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.

### **Insurance Companies and Other Financial Institutions:**

There are two insurance companies in the Cape Verde. Prior to 1990, insurance business was only conducted by a government entity. In 1990, this entity was privatized to become Garantia, one of the two insurance companies currently operating in Cape Verde.

Motor insurance represents the largest segment of insurance business conducted in Cape Verde, accounting for approximately 50 percent of annual premium income. Other significant segments of the insurance market include accident, fire, construction, maritime, transport, and civil liability. Pure life insurance represents a very small segment of the market (approx 2%) and insurance companies report that many persons who purchase this product do so only because it is a requirement for collateral for certain types of loans.

---

<sup>2</sup> Para-banks are financial institutions that are not allowed to accept deposits from the public

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 is constrained by an overburdened, understaffed, and inefficient judicial system.

## International Financial Institutions

The framework for IFIs in Cape Verde is set out in Law 12/2005. This law provides for the establishment of a wide range of financial institutions namely banks, financial service firms, Insurance entities and mutual fund entities.

There are 13 entities licensed to operate as IFIs, 7 of which were actually in operation. Five of the banks that are in operation are majority owned by Portuguese financial institutions and one is in majority owned by an Angolan bank. The remaining six institutions that have been licensed but were not yet in operation are owned by groups of individuals. Two of these entities appear to have passed the maximum period allowed by the law (360 days) for institutions to commence operations after receiving a license.

Below is a list of the licensed international financial institutions

Name of Institution	Operational	Status Ownership
Banco Insular	Active	Portuguese Financial Institution
Banco Sul Atlantico	Active	Angola Financial Institution
Banco Portugus de Neg—cios	Active	Portuguese Financial Institution
Banco Motepio Geral-Cabo Verde	Active	Portuguese Financial Institution
Banco Espirito Santo	Active	Portuguese Financial Institution
Caixa Central de Crdito Agricola Mutuo	Active	Portuguese Financial Institution
Banco Fiduciario Internacional	Active	Portuguese Individuals
Banco Internacional Trading	Inactive	UK Individual
Eurofin	Inactive	Cape Verde and Portuguese Individuals
Banco Internacional de Investimentos	Inactive	
Arwen Investments Limited	Inactive	UK Financial Institution
CA-Finance -Gestao	Inactive	Spanish Individuals
Banco Privado Internacional	Inactive	Portuguese Individuals

## Central Bank and its Role in the Economy

The central bank of Cape Verde, Banco de Cabo Verde (BCV), is responsible for the supervision of the financial sector, the setting of interest rates, and price stability (the primary policy objective).

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. A law, passed in May 2002 eliminated budget deficit financing by the central bank.

Inflation is relatively moderate, averaging 4.3 percent between 2005 and 2007. 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.

### **Stock Market:**

A stock market, Bolsa de Valores de Cabo Verde (BVC) was established in 1999. It currently has listings of 44 government treasury bonds and 4 local companies. The listed entities are Banco Comercial do Atlantico, CECV (commercial banks), Seceded Cabo Verde de Tabasco, and Enroll Empress de Combusttneis.

The only members of the stock exchange are the four commercial banks that operate in the domestic market. The exchange uses a Euronex platform and an operational model that combines both auction and quote driven systems. The securities traded on the stock exchange are dematerialized and all transactions are conducted through the banking accounts of the members.

The stock exchange is owned by the government, which hopes to privatize it within the next two years.

### **Para-banks:**

There are four entities licensed as para-banks in Cape Verde. They are Promotora, a venture capital company, Cotacambios, and ECV, which operate-exchange bureaus; and, Sociedade Interbancaria e Sistema de Pagmentos, which operates-an international payment system. Para-banks are not allowed to accept deposits from the public.

### **Remittances Services:**

A unique feature of financial sector activity in Cape Verde is the role played by emigrant remittances, which represent a significant portion of the liabilities of the banking system. With more nationals living outside of the country than within, financial institutions receive a steady stream of remittances from the Cape Verdean diaspora. All available evidence suggests that the funds come directly into the banking system as the authorities have no evidence that there is an informal funds transfers system. The law requires remittances services to be provided by either banks or para-banks.

Remittance services in Cape Verde are undertaken by four institutions under agency arrangements with Western Union. These institutions are Banco Comercial do Atlantico and CECV (banks), and ECV and Cotacambios (para-banks). The relatively high concentration of these services, given the small size of the country, is an indication of the important role that remittances play in the Cape Verde economy.

## Fixed Income Market:

Cape Verde has a relatively active Treasury bond market, comprising of government bonds with maturities extending up to 2014. No corporate debt exists in the market. [Corporate issuers Plans are in place for corporate bonds issuance by the end of 2007. These securities will be listed on the Stock Exchange

In term of government securities, outstanding government bonds amounted to CVE 20.5 billion (USD 245 billion) at year end 2006. Securities are cleared through an electronic securities clearing and settlement platform.

## Services Provided through the Post Office:

CECV is one of four commercial banks in Cape Verde. Its predecessor, the Caixa Económica Postal (CEP), was an institution of the Cape Verde Postal and Telecommunications Service, which provided limited banking services. The CEP ceased operation in 1986 and was replaced by the CECV, which was established as a banking institution. Due to the strategic location of many post office branches, CECV entered into an arrangement with the Post office to use its branch network for the delivery of banking services. This is usually done in areas where CECV does not have branches. The post office staff provides services on behalf of CECV. When opening accounts they collect information from the customer and send it to the CECV branch with which it is affiliated. The due diligence is performed by the CECV branch and not by the post office.

## Cross-Ownership of Domestic Financial Institutions

A notable feature of Cape Verde's financial sector is the significant cross-ownership among a number of financial institutions as indicated below:

Shares Held By	Type of Entity	Shares	Shares Held In	Type of Entity
CGD (Portugal)	Commercial Bank	70%	Banco Interatlantico	Commercial Bank
CGD (Portugal)	Commercial Bank	52%	Banco Comercial do Atlantico	Commercial Bank
Banco Comercial do Atlantico	Commercial Bank	35%	Garantia	Insurance Co.
Garantia	Insurance Co.	13%	Banco Comercial do Atlantico	Commercial Bank
Montepio Geral (Portugal)		27%	Caixa Econ—mica de Cabo Verde	Commercial Bank
Impar	Insurance Co.	12%	Caixa Econ—mica de Cabo Verde	Commercial Bank
Banif (Portugal)		46%	Banco Caboverdiano de Neg—cios	Commercial Bank

## Foreign investment:

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. Residents

and non-residents may hold foreign exchange accounts, subject to approval and regulations. Most payments and transfers are subject to controls. Most capital transactions are permitted but are also subject to advance approval by the central bank.

### Foreign Exchange:

The Cape Verde Escudo is pegged to the Euro. The parity is EUR 1=CVE 110.2651. Current account transactions, investment in securities and foreign lending and borrowing pertaining to current transactions have been liberalized. However, foreign investors have important guarantees such as privately managed foreign currency accounts that can be

### Summary of the Structure of Financial Sector (2007)

<b>Institutions</b>	<b>Number of Institutions</b>	<b>Total assets (\$ million)</b>	<b>Authorized/Registered and supervised by:</b>
Commercial banks	4	135	BCV
Mortgage banks	-	-	-
Investment companies	-	-	-
Collective investment associations	-	-	-
General Insurance companies	3	25	BCV
Company pension funds	-	-	-
Savings institutions	-	-	-
Credit cards etc.	-	-	-
Postal services	1	-	-

credited only in foreign currency from abroad or from other foreign accounts in Cape Verde.

### SOURCES:

1. [http://en.wikipedia.org/wiki/Cape\\_Verde](http://en.wikipedia.org/wiki/Cape_Verde)
2. <https://www.cia.gov/library/publications/the-world-factbook/geos/cv.html>
3. <http://www.state.gov/r/pa/ei/bgn/2835.htm>
4. <http://www.infoplease.com/ipa/A0107395.html>
5. <http://www.heritage.org/Index/Country/CapeVerde>
6. <http://74.125.47.132/search?q=cache:0A7cMdjKT4J:www.afdb.org/pls/portal/url/ITEM/3B3087CDB80D8FC5E040C00A0C3D1434+Cape+Verde+financial+system&hl=en&ct=clnk&cd=10&gl=us&client=firefox-a>
7. <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/CAPEVERDEEXTN/0,,menuPK:349629~pagePK:141159~piPK:141110~theSitePK:349623,00.html>
8. <http://store.eiu.com/product/50000205CV/wf-ssb-articles.html>
9. <http://www.afdb.org/en/countries/west-africa/cape-verde/>