ISLANDS IN THE SUN HAVE STRONG INVESTMENT APPEAL

Cape Verde is enjoying a new investment cycle, trading on its international attractiveness as a politically stable tax regime, tourist haven, target for infrastructure investment and proponent of sustainable energy

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Political stability, high public administration standards and tourism are often the features used to describe Cape Verde. These features have been portrayed by governments and multilaterals as sound reasons to fund in-country public and private initiatives and show Cape Verde as the champion of African development, particularly on the west side of the continent.

The investment targets were much-needed infrastructure projects such as airports in the main islands to respond to the influx of tourists, mainly coming from Europe. As a result, the need to capture and maximise investment opportunities has been stretched to a point where public spending and state debt are no longer sustainable. Public spending is no longer a virtue and the country was put on notice by the IMF. Either the country's debt slims down or the risk of sovereign insolvency becomes real.

More than ever, the political stability with which the country is familiar and a well prepared public administration will have to excel. The government will have to lead the way towards a less state-dependent economy.

Privatisation

The country will have to privatise its economy, induce efficiency in key production factors, such as electrical power, and keep taxation costs within acceptable levels. Is the privatisation of some sectors and indebted state-owned companies an option subject to ideological debate or a one-way street without a U-turn? At this juncture, those occupying the political spectrum seem to agree that the latter leaves no room for debate.

To sustain future growth and keep the state budget palatable to international creditors, a new privatisation programme is in motion (the first privatisations took place in 1991, leading to the creation of a market economy). Part of the country's port infrastructure is being privatised through a sub-concession model, where the concession remains within the state realm.

Private investors are keen to invest in the existing port infrastructure, taking into account its domestic and beyond-borders hinterland in close neighbouring countries. Privatisation of airports will have to follow, irrespective of the model elected to protect public interest. Control of the ports and airports of an archipelago country on the west coast of Africa cannot be designed as a threat to its sovereignty. Financial modelling and political concerns will have to walk side by side to find a privatisation model that works. As part of this equation, Cape Verdeans will also have to find a solution to the debt of the national airline company (TACV).

The air transportation business in Cape Verde is divided between inter-island transport, which is driven and justified by public interest, and international flights, where immigrants residing in the US and Europe, and an increasing number of tourists, are arriving to use new hotel units that are under construction or being planned. This activity should bolster a long term and sustainable market. Would a single company be capable of embracing both markets and still be profitable enough to attract private investors? It will be certainly a challenge.

The likely privatisation of Electra, the State-owned power company, cannot be separated from the plans of the government to increase the use of green energy sources. In 2008, the government put forward a strategic plan (Cape Verde Energy Policy) to reduce the country's reliance on imported fossil fuels and increase the output of renewable energy sources. By 2013, Cape Verde had developed a mix of wind and solar power plants with an installed production capacity of 33.5

megawatts, representing 23.8 per cent of all electricity generated. The Renewable Energy Action Plan targets 2020 as the year the country will only rely on renewables.

Investment attractions

Unlike other countries in the region, local content is not seen as sacred. What matters is to attract good, stable investment and keep the economy running and growing. Principles of equality between local and foreign investors are written law and practice followed by the authorities.

The country has a welcoming tax regime. Investments in health, environment, tourism, industry, air and sea transportation, ports and airports, renewables (including the manufacturing of equipment), ID and IT may enjoy a 50 per cent tax credit in terms of corporate income tax (CIT), while investment in other sectors may have a credit of 30 per cent. To deleverage financing costs, stamp duty is not charged on loans used in the investments and the latter also enjoy custom exemptions on the imports of materials, equipment and other goods. Property tax is also exempted on the acquisition of property used in investments. Customised incentives may be discussed and agreed for relevant investments (those exceeding a threshold of CVE550m (£4.2m), creating at least 10 direct jobs or considered important for the economy by the government).

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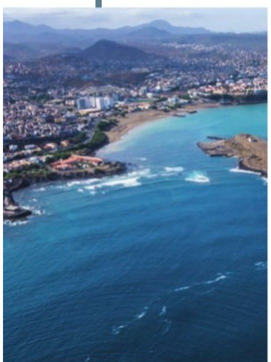
Investments in the securities market, IFI, holding companies and in the Cape Verde International Business Centre (CIN) may also have access to tax breaks. The CIN comprises (i) the International Industrial Centre (Industrial Free Zones), (ii) the International Centre for Commerce (Commercial Free Zones), and (iii) the International Centre for the Provision of Services, and may benefit from CIT reduced rates of 5 per cent, 3.5 per cent and 2.5 per cent.

The country's investment promotion agency – now known as Cape Verde Trade Invest (CVTI) – has recently been restructured, and amendments are being activated, with the support of the Word Bank, to implement the country's tourism diversification agenda and improve the government's skills and tools to better stimulate, attract, facilitate and retain investment.

The judicial system works. Cape Verde has recently ratified the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, which places the country in the list of countries favouring arbitration for solving disputes. The banking system is small but efficient and diversified. The absence of exchange-rate risk in relation to the euro (pegged at a rate of CVE110.27 per euro since 1999) has provided unparalleled currency exchange stability.

Upon completion of this new investment cycle, the economy will be more market-centric.



ATLANTIC SETTING BRINGS POLICY ADVANTAGES

Realtors usually say that 'location, location and location' sets the price of a property. One cannot say that, in economic terms, Cape Verde's location compares with the price of a one-bedroom condo in the outskirts of a mid-town European city. Yes, it's an island state, which creates natural barriers and inescapable costs and inefficiencies. Yet, the fact that it is halfway to Africa, Europe and America is an advantage.

Here are three instruments that unfold from Cape Verde's geographic location in the Atlantic: the Economic Community of West African States (ECOWAS), the United States of America's African Growth Opportunity Act and, last but not least, the Special Partnership Agreement through the Generalised System of Preferences (GSP+) – which allows preferential access to all Cape Verdean exports to the EU, free of tariffs and quotas.

But proximity to Europe and America is not only a matter of physical distance. Without losing its African identity, Cape Verde has the ability to peg its policies to best international practices followed in the northern part of the Atlantic, as you may see in terms of regulation, government and banking.