FEASIBILITY OF A LEASING SECTOR IN CAPE VERDE

March-April 2007
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References

- Bibliographic References
- Direct contacts and interviews in the field in Cape Verde and Portugal
- Internet Sources

Glossary
1. EXECUTIVE SUMMARY

--The scope of the work is to analyze the feasibility of leasing operations and leasing industry in Cape Verde. The SOW is mainly limited to financial leasing and more precisely to “full payout Assets leasing” to finance productive investments in order to contribute to the economic development of the country.

Cape Verde strengths and weaknesses pertinent to this leasing feasibility review.

Strengths

• Stable political system with no ethnic or religious tensions.
• High level of education, good job training and productivity.
• Services-based economy ( > 70% of GDP).
• Low reliance on commodity exports.
• Exchange-rate pegged to Euro.
• Good progress in liberalization and privatization.
• Strong inflow of remittances coming from the Cape Verdean emigrants.
• Increasing inflow of foreign direct investments
• High level of banks liquidity that should allow financing productive investments.
• Strong support from international organizations and donor countries.

Weaknesses

• High dependence on imports.
• Low domestic production base and low level of exports.
• High trade deficit.
• Important dependence on external aid and emigrants remittances.
• Island economy spread around 10 islands (complex transportation system and access; delays; high costs, etc.).
• Small population and low local demand (low per capita GDP) – absence of economies of scale implying limited potential for the development of mass industrial production.
• Scarcity of natural resources.
• Relatively high level of external public debt.
• Concentration of the financial market (2 banks representing 90% of the market).
• High level of credit risk.
• A limited number of equipment providers in the country except for the automobile market.

However, the country is prospering rapidly and the fast development of the tourism sector will stimulate the creation of services companies or supply businesses.

The conclusions made by CODAVEN on the feasibility of the leasing sector in Cape Verde are the following:

I) Legal, regulatory and fiscal feasibility :

In the domain of “legal, regulatory and fiscal feasibility” the conclusion is favorable provided that some modifications and clarifications are made according to the recommendation contained in the chapter “Legal feasibility of leasing”.

II) Economic feasibility of the leasing sector :
There is an unsatisfied market for financing of investments. Currently Cape Verdean Entrepreneurs have an extremely difficult access to medium-term financing for their projects and productive investments.

The economic feasibility of the leasing sector is "limited" for the following reasons:

1/ Market:
The potential leasing market in Cape Verde is estimated at a level of 9.000.000 $ in 2006 and 10.000.000 $ in 2007, to which we will add an estimated growth of 20 % per year (based on the historic equipment imports and investments data).

The main reasons for choosing the conservative market forecast are the following:
- Traditionally Cape Verdean Banks face an almost permanent excess of liquidity: if the main banking and leasing legislation evolves in the future and the leasing licensing rules change, Banks could become direct and indirect challengers of Lessors (see below “competition”).
- The funding constraints mentioned below.

2/ Licensing of Lessors: taking into account the above figures, Codaven is of the opinion that in Cape Verde two Lessors (small sized with a reduced team of employees) would barely reach their break-even point. Hence, BCV should avoid granting more than two leasing licenses over the next five years.

3/ Targeted sectors: the economic sectors potentially interesting for leasing would be mainly construction, public infrastructure, transportation, cars, local industries and, in a few years, the renewal of certain hotel equipments and the financing of investments for new support services related to the tourism sector.

4/ Targeted lessees and types of operations: As a consequence of the small market size, a Lessor would only be able to reach the break-even point if it targets:
- The large companies as well as some eligible SME.
- The “large” ticket operations as well as some small ticket operations.

5/ Domains excluded in the estimated figures below:
- Leasing for ships and aircrafts which would require from a Lessor a high amount of capital (see legislation: Minimum Capital) and huge funding needs. Furthermore, the repossessing of such assets is extremely difficult.
- Agriculture and fishing industries are domains that require specialization (risk policy) and are too difficult to control (credit management) on the side of the Lessor.

6/ During the first two-three years of activities business operations will not be easy for the two Lessors, while waiting for the market to reach a satisfactory level. This will depend on (i) the rhythm of economic development, (ii) the volume of equipment’s renewals, and (iii) the level of the leasing skills obtained by the Lessors in order to advance to “real state leasing” which will help them reach a reasonable size.

7/ Funding and profitability. Funding will be a serious limitation. Considering the limited availability of local funding (prudential rules), access to foreign funding will be essential. The estimated profitability of the Lessors, - consequently their start up - will depend on the net margin which depends on the cost of funding.
**Recommendation:** Specific international lines of credit (duly monitored by foreign financing institution) with appropriate interest rates and credit risk specific standards as well as Governmental loans guarantee programs (or credit insurance programs) would be very useful to launch the leasing sector over the next 4 or 5 years.

8/ **Competition:**
- Cape Verdean Banks: in the future, under the pressure of Lessors the banks may adapt or increase at any moment their medium term financing offer. (see also paragraph “Market” above).
- Other competition: “Long term car rental” already in place.
- Foreign financing: The funds for financing large projects are frequently obtained abroad. Hence, in these large projects leasing will be merely used for some small unforeseen assets and for renewal of equipment.

9/ **Technical assistance.** The leasing skills and leasing management are basically unknown in Cape Verde. An important TA effort would be necessary to promote the leasing sector and increase public awareness about leasing. Capacity building will probably be too expensive for small sized Lessors.

Those are the reasons why the economic feasibility of leasing in Cape Verde is "limited".

Note: A Portuguese version of the executive summary is enclosed at the end of this document.

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**ACKNOWLEDGEMENTS**

Many thanks to all those persons who kindly shared their time with our team and for their helpful contributions.
2. INTRODUCTION

2.1. Scope of the work (sow) and limitation.

The scope of the work is to analyze the feasibility of leasing operations and leasing industry in Cape Verde. The SOW is mainly limited to financial leasing and more precisely to “full-payout Assets leasing” to finance productive investments in order to contribute to the economic development of the country. This is the orientation chosen by Cape Verdean authorities. This feasibility review has been carried out by CODAVEN Consulting Group from March to April 2007.

The leasing activity will constitute a completely new activity for the country’s market with all the advantages and difficulties incumbent to a pioneer product in a market.

In this report we will examine the following aspects:
- The global feasibility.
- The positive and negative points.
- The obstacles and pitfalls to avoid.
- The key figures of the market.
- Some recommendations.

2.2. Background

History. Cape Verde became a Portuguese colony in 1460, at the beginning its strategic location in the Atlantic Ocean made the archipelago a transit port for Portuguese ships going to Brazil. It quickly became a strategic emplacement for black slavery trade between Africa and America which ended in 1866. In 1951 Cape Verde became an outer sea state of Portugal which gave it a special status - not completely considered an independent country – but with some degree of self ruling rights. Finally on July the 5th 1975 Cape Verde became an independent state.

Population. By 2005 the archipelago had an average population of 500,000 inhabitants, representing a density of 126 per km². The average population growth rate is estimated at 2.3 % per year. The female gender represents 52 % of the population Vs 48 % for men and the majority (55 %) of the population resides in Santiago Island. More Cape Verdians live abroad than in Cape Verde, with significant emigrant Cape Verdean communities in: the United States (500,000 Cape Verdians), Portugal (80,000) and Angola (45,000). Ethnicity is divided as follows: Creole (mulato) 71%, African 28%, European 1%.

Geography. Cape Verde is the most southern archipelago of the Macronesia (which includes Açores, Madera and the Canarias Islands) and the only one of this group not to be part of the EU. It is located in the meridian 14° 55’ 0” N, and the parallel 23° 31’ 0” W its closest mainland neighbor is Senegal at 580 km. The location and the way the 10 islands are arranged gives them a strategic geographical position which enables a 700,000 km² economic zone. The total surface of the archipelago is 4034 km² grouped in 10 islands (9 of them inhabited) and 8 islets.

Basic Needs. Access to water/gas and electricity. Although Cape Verde is surrounded by water, fresh water is considered a rarity. In fact one out of four families has access to “clean” fresh water - the other families have to find fresh water in wells or access it by other means. Even in the Capital of the country access to fresh water is restricted: 24 families out of 100 have access to fresh water in their houses.¹

¹ Source INE-Instituto Nacional de Estatística em CV
Access to gas has been a synonym of progress for the country, about two thirds of the population (91 families out of a 100) use gas for cooking. Nonetheless, one third of the population is still relying on wood, which has dramatically affected wood reserves in the islands and increased further dryness.

In terms of electricity, about 50 % of the Cape Verdean families have access to electricity. Even in the Capital only one third of the inhabitants do have electricity. Many hotels have dealt with this problem by having their own electricity generators - which are very expensive (and are potentially interesting for leasing) – but even in some cases they fail to supply the energy required in peak time demand.

**Health Care.** Quality of health population has always been a major concern for the successive governments of Cape Verde; in fact substantial investments have been made throughout the years. For example, in 2005 a total of 10.4 million Euros were spent for health care (7 % of the total state investments, equal to 1.5 % of GDP estimated for the year 2004). The Life expectancy was 63 years in 1975 and it is now 71,6 years (67 for men and 75 for women).

The Cape Verdean health system is the following:
- There are 2 Central Hospitals (1 in Praia – Santiago, and 1 in Mindelo- S.Vicente)
- 3 regional Hospitals (1 assomada Sta Catarina – Santiago, 1 in San Felipe in Fogo, and 1 in Santo Antão).
- 19 medium size health care centers spread across the country.
- 5 centers for reproductive health. (These are centers for helping people to deal with maternity issues, child care, and family planning).
- 23 small health care facilities spread all across the country.
- 117 Health care basic units located in small villages across the country.

The health sector counts with 197 doctors and 420 nurses who correspond to 1 doctor per 2.203 habitants and 1 nurse for 1.033 habitants.

The health care system in Cape Verde can be considered well regulated and controlled, it allows private and public health centers to exist and it controls the import of medicines. There is as well a government agency in charge of regulating the pharmacies and drugstores sector.

**Demographic facts.**

**Age structure:**
- 0-14 years: 37.9% (male 80,594/female 79,126)
- 15-64 years: 55.3% (male 113,450/female 119,423)
- 65 years and over: 6.7% (male 10,542/female 17,844) (2006 est.)

**Age Ratio:**
- Total: 19.8 years  
  - male: 19 years  
  - female: 20.7 years (2006 est.)

**Population growth:**
- 0.64% (2006 est.)

**Birth Rate:**
- 24.87 births/1,000 population (2006 est.)

**Death rate:**
- 6.55 deaths/1,000 population (2006 est.)

**Net migration rate:**
- -11.91 migrant(s)/1,000 population (2006 est.)

**Sex ratio:**
- At birth: 1.03 male(s)/female
- under 15 years: 1.02 male(s)/female
- 15-64 years: 0.95 male(s)/female
- 65 years and over: 0.59 male(s)/female
- total population: 0.95 male(s)/female (2006 est.)

**Infant mortality rate:**
- Total: 46.52 deaths/1,000 live births
- Male: 51.63 deaths/1,000 live births
- female: 41.26 deaths/1,000 live births (2006 est.)

**Life expectancy at birth:**
- Total population: 70.73 years
- Male: 67.41 years
- female: 74.15 years (2006 est.)

**Total fertility rate:**
- 3.38 children born/woman (2006 est.)

**Literacy:**
- Definition: age 15 and over can read and write
- Total population: 76.6%
  - male: 85.8%
  - female: 69.2% (2003 est.)
Language. The official language of Cape Verde is Portuguese. However, most of the inhabitants of the islands speak Cape Verdean Creole, and the third spoken language is French. In 2005 Creole was recognized as the national language in Cape Verde.

Religion. Cape Verde is a secular state and the Constitution provides for freedom of religion and the separation of church and state and prohibits the state from imposing any religious beliefs and practices. Basically the religious affiliation are: Christians (93.2%), others (6.8%).

Politics. Since reaching independence on July 5th 1975, the country enjoyed a democratic government. Cape Verde has today a plural democratic system with seven parties involved, where the PAICV (Partido Africano para Independencia de Cape Verde) created in 1956 and MpD (Movimento para a Democracia) are the two biggest and influential ones. Since 1975 the PAICV ruled the country for 15 consecutive years but in 1990 a constitutional amendment legalized opposition. Then in 1991 the MpD won the first multi-party elections in the country. In 1996 the first legislative elections took place where the MpD was victorious confirming its party status and its position as an alternative democratic force. One year later the MpD won the presidential election further reaffirming the emergence of a stable opposition. Then in 2001 a new political shift arose, after 10 years in power the MpD loose to the PAICV the parliament and the presidency. Then the last elections in January 2006 were a repetition of the ones in 2001 giving majority – but not all - of control to the PAICV.

A feature of the political parties, unlike many in Africa, is that they are based not on ethnic rivalries but - especially in their early days - on different views about state involvement in solving economic and social problems. Despite their ideological differences there has been a relative continuity in government programs allowing the country a steady development. In fact, both main parties have pursued economic liberalization policies like privatization, incentives to foreign investors, restrictions on union rights, closer trade links with Europe and Africa, and high investment in education.

In its political structure Cape Verde is a semi-presidential system, with a powerful prime minister who directs the government.

The National Assembly has 72 members, elected for a five-year term. The electoral system follows the Portuguese one. Hence, the right to vote is strictly individual, personal, direct, actual, private and universal. In Cape Verde the legal age for voting, and be actively involved to run for any political position is 18 years old. The basic condition to exert the right to vote is to be registered in the census.

Although close to Africa geographically, the Cape Verdeans are trying to get closer to the EU in many aspects of their state legislation and policies mainly due to its affinity to Portugal. A concrete example is that most of their legal framework is based and notably resembles the Portuguese one, particularly in the field of leasing.

Foreign Relations. Cape Verde pursues a nonaligned foreign policy and seeks cooperative relations with all states. Angola, Brazil, China, Cuba, France, Portugal, Senegal, Russia, and the United States maintain embassies in Praia. Several others, mostly European countries, maintain honorary consulates. In addition, Cape Verde maintains multilateral relations with other Lusophone nations and holds membership in many international organizations. The tight bundle that exists between Portugal and Cape Verde comes from the past, after the independence of Cape Verde the close bundle has been kept. Furthermore, this link has grown stronger over the years, covering many domains such as:

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Source: UNESCO


5 (Davidson 1989; Andrade 2002); (Chabal 2002 : 71)
Portugal has become one of the most solicited emigration destination for Cape Verdeans (more than 50’000 in 2002) with the possibility to obtain a status of Portuguese citizens by many different legal ways encouraged by Portuguese authorities.

Economic partnership: Portugal has become the major business partner of Cape Verde with many investments and development projects being executed in Cape Verde. The many bilateral cooperation agreements with Portugal have also been transformed into multilateral agreements with the EU, UNESCO, etc. These agreements contributed to the macroeconomic stability: for instance, it paved the way for the consolidation of governmental institutions, the promotion of human resources, culture and history of the country and the development of infrastructure and of the industrial sector. Indeed, in 2005 exports to Portugal represented 51,6 % of the total exports, and 45,6 % of imports (Direcção Geral de Alfandegas).

Many Cape Verdean students do their superior studies in Portuguese universities.

Cape Verde has also intensified its relation with China in the China-Africa axle which focuses on creating the condition for Cape Verde to become China’s number one partner in the western coast of Africa. The bilateral relations started in April 1976 with the establishment of diplomatic relations between the two countries. From that time Cape Verde has received technical and economic support, for example the construction of governmental buildings, the Parliament and the national library among other projects. A more recent event has been the construction of a dam by China and other events such as the negotiations for the construction of another dam and a football stadium around Santiago and some industries (ceramic and fishery).

The cordial relations between the United State and Cape Verde have historical roots dating back to the early 18th century. The first U.S. consulate in sub-Saharan Africa was established in Cape Verde in 1818. The United States recognized Cape Verde on its independence day and supported its admission to the United Nations. Cape Verde assigned one of its first ambassadors to the United States, and a resident U.S. ambassador was posted to Cape Verde in 19837. The United States provided emergency humanitarian aid and economic assistance to Cape Verde in the period immediately following Cape Verde's independence, as well as after natural disasters,. Cape Verde is also eligible for trade benefits under the African Growth and Opportunity Act (AGOA), and has signed an Open Skies agreement to facilitate air travel safety and expansion. On July 4, 2005, Cape Verde became the third country to sign a contract with the U.S. Government-funded Millennium Challenge Corporation (MCC); the three-year assistance package is worth over $110 million in addressing rural economic expansion, infrastructure development, and development of tourism and a community college system8.

One of the most important achievements of Cape Verde in its 30 years of existence as an independent state has been the cultivation of fruitful and solid multilateral foreign relations with a broad pallet of partners. The country is currently working to accede to the World Trade Organization9. The Cape Verde government is currently in the preliminary negotiation phase with the EU to become a special partner with some of the privileges of an EU state. The country is also expanding its foreign policy efforts in order to establish relationships with NATO.

Cape Verde has made a strategic commitment towards the development of the country and to leave the Less Developed Country status whilst entering the WTO.

Contrary to some of its African neighbors, the country has managed in a balanced and productive way the international economic contribution that it receives.

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7 http://www.state.gov/r/pa/ei/bgn/2835.htm (may 2006)
8 http://www.state.gov/r/pa/ei/bgn/2835.htm (may 2006)
9 http://www.state.gov/r/pa/ei/bgn/2835.htm (may 2006)
3. CAPE VERDEAN ECONOMY

3.1. Introduction

Cape Verde has a small but open economy which relies heavily on foreign aid, on remittances from Cape Verdeans living abroad and on tourism. Nonetheless, economic growth has been spurred by a steady pace of structural reforms initiated in 1993, aimed at making the economy more responsive to market incentives, comprised of privatizations (including all the commercial banks), tariff reforms, and the liberalization of stable commodity markets. In addition, the country counts on a highly qualified labor force which in conjunction with an evolving economic and political framework encouraging a free market economy has given it a competitive advantage compared to its sub-Saharan neighbors.

The development of agriculture, tourism and industry are priority areas for economic growth and are highly dependent on a reliable infrastructure framework. The services sector represented approximately 70% of GDP in 2005 (and approx 65% in 2006). The industry sector - mainly light manufacturing - represented less than 20% of GDP. Industrial growth is constrained by high factor costs and the absence of economies of scale, but encouraged by the availability of qualified labor and a steadily improving investment climate. Agriculture, which represented less than 10% of GDP in 2005 but employs most of the rural population, is severely constrained by the scarcity of water, lack of rainfall, the soil type, and problems with inter-island means of reliable transport to bring products to the domestic market. As a result, Cape Verde is highly dependent on food imports.10 Customs and port procedures are relatively inefficient and lengthy, further discouraging exporting. Physical isolation and distance from major shipping routes also affects exporting.

Considering that the scarcity of natural resources is a major weakness for the country, Cape Verde has flourished by concentrating its activities mainly on the services sector: Government spending, tourism – considered the most relevant one -, transport and commerce which account for 73% of the GDP11. In fact, a study made by the Heritage Foundation12 ranked Cape Verde 46 among 50 countries (globally) considered to have the most free market economies. Moreover, Cape Verde will no longer have a “Low Income Country” status and will graduate to “Middle Income Country” status in January 2008.

GDP growth has been strong over the past five years, averaging 6.3 percent (Source: World Bank)

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10 (Source: World Bank Infrastructure Reform, Regulation and Competitiveness; June 2006)
11 Source: World bank, Note Number 27, August 2006
12 www.heritage.org/index (May 2006)
Since independence the country has enjoyed a steady growth, with a recent growth rate of 5.7% in 2000-2005 (see Figure 1) and a growth rate of 6.3% in 2005\(^\text{13}\). Forecast for 2006 was +5% and has been reviewed to 5.5% recently by the IMF. This rate of GDP growth corresponds to the Government of Cape Verde’s target of 5 to 7 percent per year. GDP forecast is estimated to rise 6% for 2007 and 6.5% for 2008. (source: EIU Cape Verde October 2006)

Below are some important figures to better illustrate the healthy condition of Cape Verden economy.

**GDP per capita (US $)**:

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
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<tbody>
<tr>
<td>2005</td>
<td>1,192,6</td>
<td>1,304,5</td>
<td>1,648,5</td>
<td>1,914,7</td>
</tr>
</tbody>
</table>

Despite its healthy growth rate, Cape Verde faces many challenges due to its geographic position and geomorphologic characteristics\(^\text{14}\). Moreover, Cape Verde has a 22% unemployment rate and income distribution is pretty uneven with 37% of the population considered poor. As an island economy it depends heavily on importation of commodities and goods, and its small capacity to produce goods has created a large trade deficit\(^\text{15}\).

Another factor explaining the wellbeing of the Cape Verden economy is the great source of money sent by Cape Verdeans living abroad. The remittances of the emigrants represented more than 12% of the GDP\(^\text{16}\) in the year 2005. It is important to notice that during the recent years this represented more than the income from tourism activities (see chapter : financial sector).

### Foreign Direct Investments (FDI)

Foreign Direct Investment has been one of the major contributors for the growth of the economy. Between 2001 and 2004 FDI has been steady (less than 5% of GDP) but in mid semester of 2004 it increased enormously (more than 40% of GDP by 2006) (see figures Chapter : financial sector).

### 3.2. Economic Indicators for Cape Verde

**GDP per capita forecast.**

IMF Projection for GDP per capita

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase % of GDP per capita</td>
<td>+4,6%</td>
<td>+5,0%</td>
<td>+5,2%</td>
<td></td>
</tr>
</tbody>
</table>

Total GDP (figures in millions US $).

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
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<tbody>
<tr>
<td>Total GDP</td>
<td>550,15</td>
<td>616,25</td>
<td>797,18</td>
<td>948,16</td>
</tr>
</tbody>
</table>

(Source: IMF Statistical Appendix july 2006).

**Total GDP forecast.**

IMF projection of % GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of total GDP</td>
<td>+6,5%</td>
<td>+7,0%</td>
<td>+7,2%</td>
</tr>
</tbody>
</table>

(Source: IMF Statistical Appendix 2006).

**Inflation Rate = 0,4% (year 2005)**\(^\text{17}\)  **Inflation Rate = 5,4% (year 2006)**\(^\text{18}\)

\(^{13}\) Source : World bank, Note Number 27, august 2006

\(^{14}\) This is because Cape Verde has a very limited capacity to be self reliable in many sector such as food production, energy, and basic needs among others.

\(^{15}\) Source : World bank, Note Number 27, august 2006

\(^{16}\) Câmara de Comércio, Indústria e Turismo Portugal Cabo Verde

\(^{17}\) Source : Cape Verde Central Bank

\(^{18}\) Source : CV government and EU
Total Imports of Goods for 2006: 47578.9 Millions of CVE.
Imports in (millions of Cape Verdean Escudos)

<table>
<thead>
<tr>
<th>Years</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total merchandise imports, c.i.f.</td>
<td>29.974</td>
<td>32.269</td>
<td>34.213</td>
<td>34.326</td>
<td>38.245</td>
</tr>
<tr>
<td>Total merchandise imports, f.o.b.</td>
<td>28.535</td>
<td>32.583</td>
<td>33.403</td>
<td>31.293</td>
<td>34.749</td>
</tr>
<tr>
<td>Ratio of imports c.i.f. to imports f.o.b. (in %)</td>
<td>105</td>
<td>99</td>
<td>102</td>
<td>110</td>
<td>110</td>
</tr>
</tbody>
</table>


Total Exports of Goods for 2006: 6759.6 millions of CVE.
Exports in (millions of Cape Verdean Escudos)

<table>
<thead>
<tr>
<th>Years</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Exports</td>
<td>4162.9</td>
<td>4550.1</td>
<td>4810.1</td>
<td>4851.7</td>
<td>8105.9</td>
</tr>
</tbody>
</table>


Balance of payments (see ANNEX R page 22).

Unemployment Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>8.5</td>
<td>8.7</td>
<td>8.9</td>
<td>8.6</td>
<td>7.8</td>
</tr>
</tbody>
</table>

Investment on equipments figures are shown below (see chapter leasing).

Net International Reserves (in millions CVE),

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net international reserves</td>
<td>3221</td>
<td>5100</td>
<td>7984</td>
<td>7528</td>
<td>10524</td>
<td>15109</td>
</tr>
</tbody>
</table>

(Source: IMF Statistical Appendix Sept. 2006)

Net International Reserves forecast (in millions CVE),

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast</td>
<td>22160</td>
<td>25670</td>
<td>30082</td>
<td>35360</td>
</tr>
</tbody>
</table>

(Source: IMF Statistical Appendix Dec. 2006)

Net International reserves and Foreign debt.

Cape Verde has been Rated 106 of 117 countries (worldwide) for human development in 2006
Country risk
Fitch Ratings has ranked Cape Verde with an Overall B+.
Ratings:
Foreign Currency: Long-Term ..B+ Short-Term...B Outlook.........Stable
Local Currency: Long-Term ...... BB Outlook............Stable
Country Ceiling ........B+

Currency: Cape Verdean Escudo (CVE), pegged to the Euro.
Cape Verdean Escudos (CVE) → Euro 1 = 110,3 CVE (fixed rate); US $ 1 = 88,7 CVE (exchange rate for 2005).

3.3. Conclusions of the chapter “Cape Verden Economy”.
Since independence the country has enjoyed a steady growth. Cape Verde has a small but open economy which nowadays relies heavily on foreign aid, deposits made from Cape Verdians living abroad and tourism. The commitment of the Cape Verden authorities to maintain a continuity of the economic and financial governmental sound policies brought, so far, positive results. The modernization of the country and the economic performance of Cape Verde is basically improving and business confidence is good.
The strengths and weaknesses of the Cape Verden economy are mentioned in more detail in the Executive Summary above and in the chapters below.
Strengths: Stable political system; High level of education, good job training and productivity;
Services-based economy (> 70% of GDP); Low reliance on commodity exports; Exchange-rate pegged to Euro (1€ = 110,3 CVE); Good progress in liberalization and privatization.
Weaknesses: High dependence on imports; Low domestic production base and low level of exports;
High trade deficit; Important dependence on emigrants’ remittances and external aid; Island economy;
Small population and low local demand (see GDP per capita); No economies of scale; Scarcity of natural resources.
4. FINANCIAL SECTOR.

4.1. Introduction.

During the past twenty years the financial sector in Cape Verde went through profound changes such as:

- A new Banking Law in 1996 (ANNEX A).
- New prudential regulations (ANNEX D).
- Development of a Supervision Department in the BCV.
- Privatizations mainly from 1990 onwards. The Cape Verdean state chose to rely on the Portuguese Central Bank and Portuguese financial institutions related to the official and social Portuguese sectors. The Cape Verdean State keeps a share in the privatized institutions directly or indirectly for instance through the INPS (social insurance institute) or the Postal bureau among others.
- An offshore financial center.
- New para-banking activities, etc.

The result has been a constant evolution of the financial system and a progressive modernization backed by a clear determination of the Cape Verdean authorities and their international partners.

4.2 The legal framework.

The financial legislation is contained in the Law 03/V/96 dated July 1st 1996 (Banking Act) (ANNEX A) largely inspired from the recommendations and criteria of the international banking community.

This law 03/V/96 defines 3 main sectors:

- The financial institutions (Banks, and specialized loan institution).
- The para-banking institutions among which are the leasing companies.
- The International Financial Institutions (IFI).

The law 03/V/96 contains the precise and classic definitions of those different financial activities. These three sectors are briefly described below.

The main rules are essentially:

The licensing conditions for any new financial institutions are defined in articles N°8, 10,11 and 12 among others, and have to be implemented within a 6 months period after the authorization date.

- The adaptation of the project to the financial, economic and monetary policy of Cape Verde.
- The new financial company has to be a Ltd company.
- A minimum Capital which differs depending on the type of financial institution.
- The proof of the competences and qualities of the promoters, administrators, directors etc...(Resume, references etc.).
- The presentation of a Business plan (minimum for the first 3 years).
- The proposed company charter.

These rules are applicable to any leasing project.

The other provisions of the Law are essentially:
- Special registration.
- Administration.
- Internal Control.
- Own Capital.
- The participation rules to form the Capital of a loan institution.
- Reserves.
- Provisions for overdue loans.
- Supervision
- Infringements and sanctions, etc...

### 4.3. The Central Bank.

The supervision institution is the Central Bank BCV (Banco de Cabo Verde).

Its role, attributions and obligations are defined in the Decree 10/VI/02 dated July 15th 2002 *(ANNEX K)* which replaces the decree 2/V/96 and the regulations 17 and 18/200 of July 3rd 2000.

The BCV is the institution in charge of making CVE money (coins and bills) (see chapter II of the Law 10/VI/02). *(CVE = Cape Verdean Escudo)*.

The functions of the BCV (see chapter III of the Law 10/VI/02) correspond to those of most central banks.

They are among other:

- a) To maintain price stability.
- b) To assure a rigorous control and the correct functioning of the financial system.
- c) To elaborate the regulations applicable to the financial system.
- d) To collaborate with the government - mainly the Minister of Finance – in many domains such as: the economic policy, the monetary policy, and the currency exchange policy.
- e) To manage the international reserves of Cape Verde.
- f) To advise the Government.
- g) To manage the international reserves of Cape Verde.
- h) To make financial and economic statistics, data, etc…

The law mentions clearly the autonomy of the BCV and fixes the ruling period of the head of the Bank (Gobernador), the administrators, the advisory fiscal board, the external auditors, advisory council etc…

### 4.4. The supervision of financial institutions. The prudential regulations.

The compliance of the financial system and the correct application of the laws are embedded in specific prudential regulations *(ANNEX D)* which are also applicable to leasing.

This function is entrusted to the banking supervision department which makes a monthly follow up of the data provided by the financial institutions and insurance companies.

This department counts on highly qualified human resources and other required resources which allow a comprehensive degree of effectiveness and professionalism when performing the supervision and control duties.
4.5. Description of the Cape Verder financial system.

Commercial Banks.

A) The BCA (Banco Comercial do Atlantico) comes from the privatization and division of a former public financial organization. Its main shareholder is the CDG (Caixa Geral de Depositos de Portugal).

B) The CECV (Caixa Economica de Cabo Verde) linked to the group Montepio Geral (Portugal).

These two banks have a 90% market share in terms of deposits and in terms of loans. The remaining 10% belongs to the following two banks:

C) BCN (Banco Caboverdiano de Negócios) created in 2004 from the BTCV (GrupoTotta Bank) has become the first bank owned by local Cape Verdeans shareholders.

D) The BIA (Banco Interatlantico) owned mainly by the CGD (Portugal).

E) Note: We can also mention the BES representation office (Group Espirito Santo - Portugal) that deals mainly with large projects.

The following table presents the increase of the banking networks in Cape Verde:

<table>
<thead>
<tr>
<th>Banks</th>
<th>BCA</th>
<th>CECV</th>
<th>BI</th>
<th>BCN</th>
<th>TOTALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>21</td>
<td>11</td>
<td>4</td>
<td>3 (BTCV)</td>
<td>39</td>
</tr>
<tr>
<td>2004</td>
<td>23</td>
<td>12</td>
<td>4</td>
<td>3</td>
<td>42</td>
</tr>
<tr>
<td>2005</td>
<td>25</td>
<td>15</td>
<td>5</td>
<td>3</td>
<td>48</td>
</tr>
<tr>
<td>2006</td>
<td>25</td>
<td>15</td>
<td>5</td>
<td>7</td>
<td>52</td>
</tr>
</tbody>
</table>

Para-banking institutions (Leasing is found in this category).

Para-banking institutions are described in article 4 of the Law 03/V/96 dated July 1st 1996 (Banking Act) (ANNEX A) already mentioned. Also covered under this Law 03/V/96 are the investment firms, risk Capital firms, regional development agencies, currency exchange agencies, investment funds brokers, factoring companies, credit cards companies etc….

Among the para-banking institutions, there are mainly: one Risk Capital company (A Promotor; BCA/BIA), two currency exchange companies (Cabocâmbio Lda et Câmbio 24 horas Lda), a company issuing credit cards SISP (Sociedad Interbancaria de systemes de pagamento), and an authorization to create a leasing company not yet implemented.

International Financial Institutions (IFI). Basically this domain does not affect leasing. It is about an offshore banking activity (exclusively for the non-residents) and foreign holding companies.

Other Financial Activities.

➢ Insurance.
This activity is also supervised by the BCV. There are two insurance companies: Asseguradora Garantia (BCA, BIA, INPS, Correios) and Impar. This is an important domain for leasing, and in particular for security reasons:

A) A Lessor can become, at any time, either a direct client of an insurance company or an indirect beneficiary through insurance contracts signed by the Lessees. If an asset is destroyed or if it disappears, the probability for a Lessor to be compensated will be higher if the insurance company is a AAA company.

B) The fact that there are only two insurance companies in Cape Verde could represent a confidentiality problem in terms of the Lessors’ list of clients.

C) Insurance companies may be susceptible to buy bonds issued by Lessors (see paragraph about Cape Verdean Stock Exchange, further down).

- MFI (microfinance institutions) and financing of SME.
- Cape Verdean Stock Exchange. The Cape Verdean Stock Exchange was created under the law of 51/V/98 dated 11 of Mai 1998 and had only limited activity so far. This domain is particularly attractive for leasing activities because Lessors can raise funds by means of bonds. The market is ruled by the “Market’s Code for Movable Assets” stated in law of 51/V/98 dated 11 of Mai 1998.

- The Inter-banking Market. There is limited activity in this field due to the tiny dimension of the market and the high level of concentration of bank activity. According to BCV, the rate of inter-banking transactions in 2005 fluctuated between 5% and 7%.

According to the Law, leasing companies are allowed to enter this market only in case of cash surplus (see chapter: Leasing Legal Framework, law 45/95, article 5 paragraph 2 and recommendations). However, if the leasing legislation evolves, Lessors (particularly an independent Lessor) could need to enter the inter-banking market for short term needs and within prudential limits.

- The exchange market. This has little impact on the daily activities of a Lessor which is not supposed to take risks in any currency exchange activities. The funding and the leasing contracts are done in CVE currency. Equipment imports are done according to the Incoterms and the final investment is finalized in CVE. The exchange system is free of any restrictions and the CVE has been pegged to the Euro since January 1999 at a rate of 110,3 CVE per 1€.

4.6. Key figures and indicators of the financial sector.

The key figures of the sector are shown below.

BCV 2000 to 2005
Table 13. Cape Verde: Summary Accounts of the Bank of Cape Verde, 2001–05
(Millions of Cape Verde escudos, unless otherwise indicated)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net foreign assets</strong></td>
<td>4,053</td>
<td>5,945</td>
<td>8,632</td>
<td>8,086</td>
<td>10,084</td>
<td>15,308</td>
</tr>
<tr>
<td>Of which: net international reserves</td>
<td>3,221</td>
<td>5,100</td>
<td>7,684</td>
<td>7,628</td>
<td>10,524</td>
<td>15,102</td>
</tr>
<tr>
<td><strong>Foreign assets</strong></td>
<td>4,212</td>
<td>6,115</td>
<td>9,135</td>
<td>8,818</td>
<td>11,526</td>
<td>16,523</td>
</tr>
<tr>
<td><strong>Foreign liabilities</strong></td>
<td>-160</td>
<td>-170</td>
<td>-503</td>
<td>-730</td>
<td>-828</td>
<td>-1,215</td>
</tr>
<tr>
<td><strong>Short-term foreign liabilities</strong></td>
<td>-128</td>
<td>-138</td>
<td>-407</td>
<td>-645</td>
<td>-772</td>
<td>-1,151</td>
</tr>
<tr>
<td><strong>Medium- and long-term foreign liabilities</strong></td>
<td>-32</td>
<td>-32</td>
<td>-96</td>
<td>-85</td>
<td>-57</td>
<td>-63</td>
</tr>
<tr>
<td><strong>Net domestic assets</strong></td>
<td>9,489</td>
<td>8,856</td>
<td>7,805</td>
<td>9,201</td>
<td>7,790</td>
<td>5,829</td>
</tr>
<tr>
<td><strong>Net domestic credit</strong></td>
<td>10,867</td>
<td>9,976</td>
<td>9,728</td>
<td>10,651</td>
<td>9,439</td>
<td>9,089</td>
</tr>
<tr>
<td><strong>Trust Fund claims</strong></td>
<td>4,167</td>
<td>4,107</td>
<td>4,167</td>
<td>4,605</td>
<td>4,005</td>
<td>4,005</td>
</tr>
<tr>
<td><strong>Net claims on central government</strong></td>
<td>4,444</td>
<td>4,183</td>
<td>4,103</td>
<td>4,424</td>
<td>3,594</td>
<td>1,903</td>
</tr>
<tr>
<td>Credit to central government</td>
<td>5,043</td>
<td>4,657</td>
<td>5,302</td>
<td>5,373</td>
<td>4,779</td>
<td>4,779</td>
</tr>
<tr>
<td><strong>Deposits of central government</strong></td>
<td>-598</td>
<td>-676</td>
<td>-1,199</td>
<td>-948</td>
<td>-1,184</td>
<td>-3,685</td>
</tr>
<tr>
<td>Of which: project accounts</td>
<td>-211</td>
<td>-331</td>
<td>-397</td>
<td>-393</td>
<td>-277</td>
<td>-351</td>
</tr>
<tr>
<td>Of which: foreign currency deposits</td>
<td>-272</td>
<td>-256</td>
<td>-290</td>
<td>-456</td>
<td>-426</td>
<td>-1,347</td>
</tr>
<tr>
<td><strong>Claims on local government</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Credit to the economy</td>
<td>1,157</td>
<td>1,189</td>
<td>1,104</td>
<td>1,212</td>
<td>1,196</td>
<td>1,163</td>
</tr>
<tr>
<td>Credit to public enterprises</td>
<td>82</td>
<td>82</td>
<td>72</td>
<td>72</td>
<td>61</td>
<td>54</td>
</tr>
<tr>
<td>Credit to private sector</td>
<td>1,075</td>
<td>1,106</td>
<td>1,112</td>
<td>1,107</td>
<td>1,106</td>
<td>1,094</td>
</tr>
<tr>
<td><strong>Claims on nonbank financial institutions</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>33</td>
<td>30</td>
<td>15</td>
</tr>
<tr>
<td>Credit to commercial banks</td>
<td>1,099</td>
<td>438</td>
<td>275</td>
<td>410</td>
<td>44</td>
<td>27</td>
</tr>
<tr>
<td><strong>Other items (net)</strong></td>
<td>-1,368</td>
<td>-1,341</td>
<td>-2,123</td>
<td>-1,451</td>
<td>-1,649</td>
<td>-1,081</td>
</tr>
<tr>
<td>Assets</td>
<td>2,276</td>
<td>2,616</td>
<td>2,345</td>
<td>2,396</td>
<td>2,438</td>
<td>2,482</td>
</tr>
<tr>
<td>Liabilities</td>
<td>3,644</td>
<td>3,657</td>
<td>4,468</td>
<td>3,847</td>
<td>4,086</td>
<td>3,543</td>
</tr>
</tbody>
</table>

| **Reserve money (M0)**                                                           | 13,552| 14,581| 16,237| 17,289| 18,489| 21,136|
| Currency outside banks                                                            | 6,458| 6,703| 6,469| 6,516| 6,705| 7,034|
| Cash in vaults                                                                    | 597  | 650  | 1,013| 808  | 1,072| 1,058|
| Deposits of commercial banks                                                      | 6,498| 7,227| 8,704| 9,904| 10,830| 12,443|
| Deposits of private sector                                                        | 0    | 0    | 0    | 0    | 0    | 0    |
| Deposits of other financial institutions                                           | 1    | 1    | 1    | 0    | 21   | 2    |
| Deposits of public sector (local govt and FSE)                                    | 15.8 | 7.8  | 11.4 | 6.5  | 6.9  | 14.3 |

Sources: Bank of Cape Verde, and staff estimates and projections.
## Commercial Banks 2000 to 2005

### Table 14. Cape Verde: Summary Accounts of Commercial Banks, 2001–05

(Millions of Cape Verde escudos, unless otherwise indicated)

<table>
<thead>
<tr>
<th>Commercial banks</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net foreign assets</td>
<td>3,086</td>
<td>3,612</td>
<td>2,989</td>
<td>2,386</td>
<td>3,089</td>
<td>6,581</td>
</tr>
<tr>
<td>Foreign assets</td>
<td>5,031</td>
<td>5,374</td>
<td>4,706</td>
<td>4,616</td>
<td>5,388</td>
<td>11,028</td>
</tr>
<tr>
<td>Foreign liabilities</td>
<td>-1,945</td>
<td>-1,702</td>
<td>-2,007</td>
<td>-2,248</td>
<td>-2,297</td>
<td>-4,445</td>
</tr>
<tr>
<td>of which: Nonresident deposits</td>
<td>-1,551</td>
<td>-1,353</td>
<td>-1,650</td>
<td>-1,847</td>
<td>-2,022</td>
<td>-3,259</td>
</tr>
<tr>
<td>Net domestic assets</td>
<td>32,155</td>
<td>35,481</td>
<td>43,199</td>
<td>48,000</td>
<td>52,964</td>
<td>58,428</td>
</tr>
<tr>
<td>Net domestic credit</td>
<td>57,410</td>
<td>41,993</td>
<td>49,964</td>
<td>54,625</td>
<td>59,582</td>
<td>66,016</td>
</tr>
<tr>
<td>Net claims on general government</td>
<td>12,091</td>
<td>13,315</td>
<td>16,521</td>
<td>16,531</td>
<td>17,485</td>
<td>19,165</td>
</tr>
<tr>
<td>Trust Fund claims</td>
<td>6,453</td>
<td>6,453</td>
<td>6,453</td>
<td>6,453</td>
<td>6,453</td>
<td>6,453</td>
</tr>
<tr>
<td>Other government deposits (INPS)</td>
<td>-466</td>
<td>-614</td>
<td>-1,166</td>
<td>-402</td>
<td>-495</td>
<td>-569</td>
</tr>
<tr>
<td>Net claims on central government</td>
<td>7,180</td>
<td>7,493</td>
<td>10,285</td>
<td>10,433</td>
<td>11,472</td>
<td>13,324</td>
</tr>
<tr>
<td>Loans and overdrafts</td>
<td>5,056</td>
<td>5,483</td>
<td>6,704</td>
<td>7,302</td>
<td>7,872</td>
<td>9,057</td>
</tr>
<tr>
<td>Holding of government securities</td>
<td>2,083</td>
<td>3,015</td>
<td>4,540</td>
<td>4,423</td>
<td>4,835</td>
<td>5,609</td>
</tr>
<tr>
<td>Deposits of central government</td>
<td>-859</td>
<td>-1,005</td>
<td>-979</td>
<td>-1,291</td>
<td>-1,234</td>
<td>-1,941</td>
</tr>
<tr>
<td>Net claims on local government</td>
<td>-57</td>
<td>3</td>
<td>8</td>
<td>67</td>
<td>75</td>
<td>-24</td>
</tr>
<tr>
<td>Claims on local government</td>
<td>289</td>
<td>261</td>
<td>266</td>
<td>239</td>
<td>209</td>
<td>232</td>
</tr>
<tr>
<td>Deposits of local government</td>
<td>-347</td>
<td>-258</td>
<td>-259</td>
<td>-172</td>
<td>-134</td>
<td>-269</td>
</tr>
<tr>
<td>Credit to the economy</td>
<td>18,326</td>
<td>21,230</td>
<td>23,941</td>
<td>27,731</td>
<td>30,430</td>
<td>33,378</td>
</tr>
<tr>
<td>Credit to public enterprises</td>
<td>73</td>
<td>133</td>
<td>158</td>
<td>108</td>
<td>101</td>
<td>422</td>
</tr>
<tr>
<td>Credit to private sector</td>
<td>18,252</td>
<td>21,099</td>
<td>23,778</td>
<td>27,619</td>
<td>30,325</td>
<td>32,945</td>
</tr>
<tr>
<td>Claims on nonbank financial institutions</td>
<td>0</td>
<td>7</td>
<td>6</td>
<td>4</td>
<td>14</td>
<td>11</td>
</tr>
<tr>
<td>Net claims on the Bank of Cape Verde</td>
<td>5,994</td>
<td>7,438</td>
<td>9,502</td>
<td>10,363</td>
<td>11,658</td>
<td>13,473</td>
</tr>
<tr>
<td>Total reserves</td>
<td>7,093</td>
<td>7,677</td>
<td>9,777</td>
<td>10,772</td>
<td>11,702</td>
<td>13,500</td>
</tr>
<tr>
<td>Vault cash</td>
<td>697</td>
<td>650</td>
<td>1,013</td>
<td>808</td>
<td>1,072</td>
<td>1,058</td>
</tr>
<tr>
<td>Deposits with central bank</td>
<td>6,496</td>
<td>7,227</td>
<td>8,704</td>
<td>9,984</td>
<td>10,630</td>
<td>12,443</td>
</tr>
<tr>
<td>Required reserves</td>
<td>6,343</td>
<td>7,037</td>
<td>8,262</td>
<td>9,570</td>
<td>10,095</td>
<td>11,052</td>
</tr>
<tr>
<td>Excess reserves</td>
<td>536</td>
<td>175</td>
<td>342</td>
<td>403</td>
<td>555</td>
<td>1,381</td>
</tr>
<tr>
<td>Credit to the Bank of Cape Verde</td>
<td>-1,089</td>
<td>-438</td>
<td>-275</td>
<td>-410</td>
<td>-44</td>
<td>-27</td>
</tr>
<tr>
<td>Other items (net)</td>
<td>-5,256</td>
<td>-6,513</td>
<td>-6,765</td>
<td>-6,625</td>
<td>-5,588</td>
<td>-7,587</td>
</tr>
</tbody>
</table>

| Deposit liabilities to nonbank residents              | 35,241    | 39,092    | 45,898    | 50,368    | 56,083    | 65,009    |
| Local currency deposits                                | 33,043    | 38,887    | 43,796    | 48,135    | 53,402    | 61,050    |
| Demand deposits                                       | 13,672    | 14,056    | 16,161    | 16,473    | 17,640    | 21,084    |
| Of which: emigrant deposits                           | 1,381     | 1,785     | 2,133     | 2,202     | 2,561     | 3,264     |
| Quasi money                                           | 19,371    | 22,531    | 27,636    | 31,662    | 35,762    | 40,566    |
| Time deposits                                         | 18,081    | 21,802    | 25,857    | 29,963    | 34,313    | 38,360    |
| Of which: emigrant deposits                           | 10,016    | 12,672    | 15,817    | 18,918    | 21,521    | 23,825    |
| Other quasi-monetary deposits                         | 1,290     | 1,130     | 1,779     | 1,079     | 1,449     | 2,176     |
| Foreign currency deposits                             | 2,198     | 2,106     | 2,101     | 2,232     | 2,682     | 3,359     |
| Of which: emigrant deposits                           | 1,075     | 1,148     | 1,092     | 1,033     | 979       | 1,109     |

| Memorandum items:                                     |           |           |           |           |           |           |
| Emigrant deposits (ratio to total deposits)           | 0.30      | 0.34      | 0.36      | 0.39      | 0.40      | 0.39      |
| Other deposits (ratio to total deposits)              | 0.70      | 0.68      | 0.64      | 0.61      | 0.60      | 0.61      |
| Composition of emigrant deposits                     | 1.00      | 1.00      | 1.00      | 1.00      | 1.00      | 1.00      |
| Local currency                                       | 0.01      | 0.03      | 0.04      | 0.05      | 0.06      | 0.06      |
| Demand                                               | 0.11      | 0.11      | 0.11      | 0.10      | 0.10      | 0.12      |
| Time                                                  | 0.80      | 0.81      | 0.83      | 0.85      | 0.86      | 0.84      |
| Foreign currency                                      | 0.09      | 0.07      | 0.06      | 0.05      | 0.04      | 0.04      |

Sources: Bank of Cape Verde, and staff estimates and projections.
It is important to note the enormous importance for the Cape Verdean banks of the following:

A) **Emigrants remittances**: the amount of those remittances is estimated to represent approximately 12.9% of the GDP.

Year 2004: 9017.6 millions CVE, equivalent to 109.5 millions US $ (1US$ = 82.36 CVE)

Year 2005: 11.776.3 millions of CVE equivalent to 126.6 millions US $ (rate 1US$ = 93.02 CVE). According to the IMF, in 2006 these amounts represented 40% of banks funding. It is important to note that for the recent years this represented more than the income from tourism activities:

### Remittances from emigrants (millions of CVE)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005x6</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remittances from emigrants (millions of CVE)</td>
<td>10,529.2</td>
<td>9,923.2</td>
<td>9,017.6</td>
<td>11,776.3</td>
<td>11,478.3</td>
</tr>
<tr>
<td>Remittances from emigrants (% of GDP)</td>
<td>14.5</td>
<td>12.5</td>
<td>10.9</td>
<td>12.6</td>
<td>11.4</td>
</tr>
</tbody>
</table>

(Source: BCV Indicadores economicos e financieros 2006). (CVE: Cape Verdean Escudos)
B) Activities concerning housing loans (see below: loan activities).

Other important indicators:

C) The growth of the FDI (foreign direct investment), particularly for the Tourism investments. Foreign Direct Investment has been one of the major contributors to the growth of the economy. Between 2001 and 2004 FDI has been steady (less than 5% of GDP) but in mid semester of 2004 it attained enormous amounts (more than 40% of GDP by 2006).

The investments authorized by “CV INVESTIMENTOS” are extremely important as shown below:

**Direct Investments (in millions of CVE):**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Executed</th>
<th>Total Envisaged</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>1,249.40</td>
<td>2,022.60</td>
</tr>
<tr>
<td>2002</td>
<td>2,456.60</td>
<td>4,473.60</td>
</tr>
<tr>
<td>2003</td>
<td>2,716.30</td>
<td>4,548.60</td>
</tr>
<tr>
<td>2004</td>
<td>1,835.10</td>
<td>4,307.20</td>
</tr>
<tr>
<td>2005</td>
<td>2,427.90</td>
<td>18,927.60</td>
</tr>
<tr>
<td>2006</td>
<td>4,655.50</td>
<td>44,790.00</td>
</tr>
<tr>
<td>Total</td>
<td>15,340.80</td>
<td>79,069.60</td>
</tr>
</tbody>
</table>

(Source: BCV Statistics 2006).

**Forecast for Foreign Direct Investment in Tourism:** So far statistics show that the amounts dedicated for tourism projects - which have been approved but not yet executed - are distributed as follows: The main countries investing in Cape Verde for the period between 2000 and 2005 were:
- Spain with more than 115.000 millions US $ (Tourism: 100.204 millions US $).
- Italy with more than 140.000 Millions of US $ (Tourism: 137.016 millions US $).
- Portugal with more than 40.000 millions US $ (Tourism: 41.414 millions US $).
- Germany with less than 20.000 millions US $ (Tourism: 14.119 millions US $).
- Other countries with more than 120.000 millions US $ (Tourism: 97.223 millions US $).

(Source: Cabo Verde Investimentos statistical report 2006)

Total: approximately about 440.000 millions US $ for a period of 5 years. Most of these Direct Investments - (about 89%) – have been made in the tourism sector.

**FDI Executed/Envisaged (BCV statistics 2006)**

![Graph of FDI Executed and Envisaged](image)

D) Rising international reserves (see more figures and forecast above: chapter “CV Economy”).

**Loan activities / Loan risks / The constraints.**

Cape Verdean banks have important liquidities for investments financing.

Loan activities are essentially aimed at:

A) The loans for housing, which constituted about 53% of the overall loans to the economy in 2006 (and 44% in 2005) and other Long and Medium term credits.

B) The loans for the commercial sector (hotels and restaurants included): The loans for commerce increased to 25% in 2005. The importance of commerce is obvious for an
economy which is highly dependent on imports and with about 70% of the GDP generated from the service sector (on the contrary loans for industries decreased in 2005).

C) Financing for large projects comes mainly from abroad, in particular for tourism and public projects.

D) **The credit risk in Cape Verde is very high.** Non Performing Loans were close to 8% of the total loans in the past (2002 and 2003), and decreased to 7% in 2004 and 6.3% in 2005.

In the field of financing of investments which is pertinent to leasing, this high level of credit risks in Cape Verde has been confirmed in the Capital risk activity.

As regards the level of risk, the banking spread in 2005 was according to the BCV 7.93% for loans of less than 181 days and 7.63% for loans between 181 days and 1 year. The rates vary but the general tendency is towards a decrease.

**Evolution of BCV interest rates**

![Image of BCV interest rates chart]

(Source: Relatorio annual BCV 2005)

**Evolution of banks deposits and lending rates**

![Image of banks deposits and lending rates chart]

(Source: Relatorio Annual BCV 2005).

In consideration of the above mentioned credit risk situation, the banking spread and the high liquidity of the financial system, it is not a surprise that banks would place more than 20% of
their funds in treasury bonds and treasury bills (see above “Commercial banks forecast 2007 to 2009). This percentage is very different between CECV and BCA. Even though considered to be a small size bank, the BCN seems to be better positioned in this aspect than the others Banks.

Credits to the economy and claims on government (in millions CVE)

<table>
<thead>
<tr>
<th>Years</th>
<th>2005</th>
<th>2006</th>
<th>2007p</th>
<th>2008p</th>
<th>2009p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net domestic credit</td>
<td>60 193</td>
<td>64 372</td>
<td>68 694</td>
<td>74 869</td>
<td>82 197</td>
</tr>
<tr>
<td>Net Claims on general government</td>
<td>25 652</td>
<td>24 206</td>
<td>22 233</td>
<td>21 876</td>
<td>22 240</td>
</tr>
</tbody>
</table>

(Source : BCV and IMT staff estimates and projections (IMF report Dec 2006)

Besides the more solicited sectors (housing and commerce), the loan activity is relatively limited and reserved to those able to give a real guarantee. Most banks do not lend without strong collaterals (cash deposits or real state assets guarantees).

Loans Structure:

For the two biggest banks (BCA and CECV) short term loans represent less than 20 % of the loans because the biggest share of loans are medium and long terms credits (mainly loans to emigrants for housing purposes).

Other limitations and constraints:

A) Sometimes businessmen and managers are not ready or do not have enough knowledge on how to effectively apply for loans.

B) Sometimes experienced entrepreneurs are blocked by the limitation of their real estate assets and thus loose contracts and growth opportunities - perhaps to the advantage of foreign competitors -.

C) Sometimes clients applying for loans limit themselves to apply for short term loans even if the purpose is to finance a long term projects, incurring by consequence in transformation risk.

D) The size of the market and the banks’ own Capital in the case of large project financing indicated above (credit limit for a single client or group is maximum 25% of own funds).

4.7. Conclusions of the chapter financial sector.

The financial system of Cape Verde is aligned with the main international norms and is steadily improving in most aspects: own funds, liquidity, deposits and loans.

With respect to investments financing, which are pertinent to leasing, the mains aspects are the following (see Executive Summary):

• High level of banks’ liquidity that should allow to finance productive investments.

• Concentration of the financial market (2 banks represent 90% of the market).

• High level of credit risk.

• A 100 % of the businessmen interviewed and even some bankers agree that the access to loans is very difficult and expensive in Cape Verde.

Hence, there is an urgent need of a new growth engine and a catalyst event to make evolve the situation primarily in the field of productive investments. Leasing is an appropriate tool to play that role.
5. CAPE VERDEAN ECONOMY AND LEASING FEASIBILITY

5.1. The Cape Verdean economy.

The economy of Cape Verde presents some important characteristics to assess the supply of, and demand for, a leasing sector, such as:

- A modernizing country with steady growth since its independence (see construction, imports, investments etc.).
- A stable political system with no ethnic or religious tensions.
- A services-based economy (> 70% of GDP).
- A Strong inflow of remittances.
- An increasing inflow of foreign direct investments.
- A high level of banks’ liquidity that should allow financing of productive investments.
- A strong support from international organizations and donor countries.

- A high dependence on imports.
- An island economy spread around 10 islands (see transportation imports and investments.).
- A small population and low local demand (see GDP per capita) - absence of economies of scale implying limited potential for the development of mass industrial production.
- High concentration of the financial market (2 banks representing 90% of the market).
- High level of credit risk.
- The limited number of equipments providers in the country except for the car market.

5.2. GDP by sector.

The GDP by economic sector is indicated below.
The service sector is dominant and has oscillated in the last 5 years between 65 % and 75 % of the Total GDP. The dominant sectors are mainly:

- A) Transports : 20% of total GDP in 2004 and 2005.
- B) Construction : near 8 % of total GDP in 2004 and 2005.
- C) Tourism has represented 10% of total GDP in 2005.

<table>
<thead>
<tr>
<th>Sector</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>7,075.00</td>
<td>6,990.00</td>
<td>7,869.00</td>
<td>4,782.70</td>
</tr>
<tr>
<td>Fishing</td>
<td>1,005.00</td>
<td>993.00</td>
<td>1,035.00</td>
<td>850.60</td>
</tr>
<tr>
<td>Industry and energy</td>
<td>5,520.00</td>
<td>6,128.00</td>
<td>7,530.00</td>
<td>7,592.80</td>
</tr>
<tr>
<td>Construction</td>
<td>6,100.00</td>
<td>6,358.00</td>
<td>9,112.00</td>
<td>6,903.60</td>
</tr>
<tr>
<td>Commerce</td>
<td>14,892.00</td>
<td>15,515.00</td>
<td>18,200.00</td>
<td>NA</td>
</tr>
<tr>
<td>Hotels</td>
<td>1,716.00</td>
<td>1,644.00</td>
<td>2,088.00</td>
<td>NA</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>17,124.00</td>
<td>17,169.00</td>
<td>18,621.00</td>
<td>NA</td>
</tr>
<tr>
<td>Banks and insurance</td>
<td>3,258.00</td>
<td>3,370.00</td>
<td>3,727.00</td>
<td>NA</td>
</tr>
<tr>
<td>House renting</td>
<td>4,146.00</td>
<td>4,223.00</td>
<td>5,048.00</td>
<td>NA</td>
</tr>
<tr>
<td>Public service</td>
<td>10,300.00</td>
<td>10,006.00</td>
<td>11,813.00</td>
<td>NA</td>
</tr>
<tr>
<td>Other services</td>
<td>1,682.00</td>
<td>1,755.00</td>
<td>2,078.00</td>
<td>NA</td>
</tr>
<tr>
<td>Intermediary Banking Services</td>
<td>-2,510.00</td>
<td>-2,788.00</td>
<td>-2,756.00</td>
<td>NA</td>
</tr>
<tr>
<td>Taxes on Imports</td>
<td>9,219.00</td>
<td>10,751.00</td>
<td>13,773.00</td>
<td>NA</td>
</tr>
</tbody>
</table>

% of the GDP by Sector.

<table>
<thead>
<tr>
<th>Sector</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, and livestock</td>
<td>8.9</td>
<td>8.5</td>
<td>5.2</td>
<td>4.8</td>
</tr>
<tr>
<td>Fishing</td>
<td>1.3</td>
<td>1.2</td>
<td>0.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Industry and energy</td>
<td>6.9</td>
<td>7.5</td>
<td>8.3</td>
<td>7.6</td>
</tr>
<tr>
<td>Construction</td>
<td>7.7</td>
<td>7.7</td>
<td>7.5</td>
<td>6.9</td>
</tr>
<tr>
<td>Commerce</td>
<td>18.7</td>
<td>18.9</td>
<td>18.9</td>
<td>NA</td>
</tr>
<tr>
<td>Hotels</td>
<td>2.2</td>
<td>2</td>
<td>2</td>
<td>NA</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>21.5</td>
<td>20.9</td>
<td>20.9</td>
<td>NA</td>
</tr>
<tr>
<td>Banks and insurance</td>
<td>4.1</td>
<td>4.1</td>
<td>4.1</td>
<td>NA</td>
</tr>
<tr>
<td>House renting</td>
<td>5.2</td>
<td>5.1</td>
<td>5.1</td>
<td>NA</td>
</tr>
<tr>
<td>Public service</td>
<td>13</td>
<td>12.2</td>
<td>12.2</td>
<td>NA</td>
</tr>
</tbody>
</table>

(Source: BCV 2006).

5.3. Imports statistics.

Imports statistics confirm the above figures. The importation statistics concerning assets potentially related to leasing are presented below.

Total Imports of Goods for 2006: 47,578.9 Millions of CVE (Source: Directorate of Customs Services Statistics 2006)

<table>
<thead>
<tr>
<th>Years</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total merchandise imports, c.i.f.</td>
<td>29.974</td>
<td>32.269</td>
<td>34.213</td>
<td>34.326</td>
<td>38.245</td>
</tr>
<tr>
<td>Total merchandise imports, f.o.b.</td>
<td>28.535</td>
<td>32.583</td>
<td>33.403</td>
<td>31.293</td>
<td>34.749</td>
</tr>
</tbody>
</table>

(The Source: IMF Statistical Appendix Sept. 2006)

The statistics of cars registration are equally significant and are presented below:

Indicators (years) 2003 2004 2005 2006

<table>
<thead>
<tr>
<th>Nb of Vehicles In circulation (31/Dec)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal</td>
<td>23,811</td>
</tr>
<tr>
<td>Heavy</td>
<td>5,032</td>
</tr>
<tr>
<td>Motorcycles</td>
<td>1,924</td>
</tr>
<tr>
<td>Total</td>
<td>30,767</td>
</tr>
</tbody>
</table>

(Source: Direcção Geral dos Transportes Rodoviarios 2005).

Registered Vehicles Total

<table>
<thead>
<tr>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal</td>
</tr>
<tr>
<td>Heavy</td>
</tr>
<tr>
<td>Motorcycles</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

(Source: Direcção Geral dos Transportes Rodoviarios 2005).

5.4. Investments.

Private investments are mainly focused on the following activities:

- The tourism hotels and other activities related to tourism.
- Real state projects for summer residences targeting international clients.

These investments are made in the islands of SAL, SÃO VICENTE and SANTIAGO.
The other investments made on productive assets potentially related to leasing are essentially located in the following sectors:
- Construction.
- Transports.
- Services.
- Cars.
- Industries.

The Gross Capital Formation statistics as well as the investments figures are presented below:

**Gross Capital Formation (in millions CVE)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>21 985</td>
<td>26 150</td>
<td>24 735</td>
<td>30 224</td>
<td>33 019</td>
</tr>
<tr>
<td>Non government</td>
<td>17 279</td>
<td>19 448</td>
<td>19 617</td>
<td>22 201</td>
<td>22 907</td>
</tr>
</tbody>
</table>

(Source: National Institute of Statistics and IMF report Set.2006) (c = Total corrected)

**Gross Capital Formation: Percent of GDP**

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>31,7</td>
<td>35,8</td>
<td>31,0</td>
<td>36,8</td>
<td>37,9</td>
</tr>
<tr>
<td>Non government</td>
<td>6,8</td>
<td>9,2</td>
<td>6,4</td>
<td>9,8</td>
<td>11,6</td>
</tr>
</tbody>
</table>

(Source: National Institute of Statistics and IMF report Set.2006)

Less than one third of the Cape Verden Gross Capital Formation comes from Governmental investments.

**Gross Capital Formation 2006 and forecast 2007 to 2009: Percent of GDP**

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of GDP</td>
<td>39,4</td>
<td>42,9</td>
<td>46,6</td>
<td>49,8</td>
</tr>
</tbody>
</table>

(see ANNEX R page 19) (IMF report Dec.2006)

**Investments on equipments (in millions CVE)** (Source: BCV)

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Goods</td>
<td>5.171,50</td>
<td>6.536,10</td>
<td>8.302.10</td>
</tr>
<tr>
<td>Equipments</td>
<td>2.882,60</td>
<td>3.295,70</td>
<td>5.088,70</td>
</tr>
<tr>
<td>Agriculture Equipments</td>
<td>40,30</td>
<td>19,70</td>
<td>22,8</td>
</tr>
<tr>
<td>Industrial Equipments</td>
<td>126,50</td>
<td>318,00</td>
<td>246,90</td>
</tr>
<tr>
<td>Construction Equipments</td>
<td>208,90</td>
<td>222,00</td>
<td>627,30</td>
</tr>
<tr>
<td>Telecommunications Instruments</td>
<td>298,40</td>
<td>202,80</td>
<td>305,40</td>
</tr>
<tr>
<td>Transportation</td>
<td>1.941,80</td>
<td>2.770,10</td>
<td>2.556,40</td>
</tr>
<tr>
<td>Vehicles</td>
<td>321,20</td>
<td>276,70</td>
<td>401,40</td>
</tr>
<tr>
<td>Planes</td>
<td>0,00</td>
<td>0,00</td>
<td>0,00</td>
</tr>
<tr>
<td>Ships</td>
<td>539,50</td>
<td>1.170,40</td>
<td>206,20</td>
</tr>
<tr>
<td>Transportation &amp; Construction Vehicles</td>
<td>777,80</td>
<td>914,90</td>
<td>1.322,90</td>
</tr>
<tr>
<td>Engines</td>
<td>347,20</td>
<td>470,40</td>
<td>656,90</td>
</tr>
</tbody>
</table>

5.5. **Investment niches potentially related to leasing.**

The steady evolution of the Cape Verden economy is partly based on its political stability, its sound economic and financial policy and its high literacy level (76.6% of the population). Its geographical location and year round sun generosity have paved the way for the opening of
new market opportunities in particular in the services sector. **The most prominent sector over the next 5 to 10 years will be tourism.**

Other potentially interesting sectors for a future leasing market are **construction, transportation, cars and industry.** Such sectors are outlined below. **NOTE:** Those sectors will be presented in details in separate and independent reports of other consulting firms.

**Tourism** (Source: BCV Relatorio Annual 2005).

According to BCV it represents an average of 10 % of total GDP.

- Year 2003: 8.306,1 Millions CV escudos (10.4 % of Total GDP).
- Year 2004: 8.495,6 Millions CV escudos (10.1 % of Total GDP).
- Year 2005: 9.565,9 Millions CV escudos (10.4 % of Total GDP).

In 2005 the capacity of this sector increased by 52.3 % (number of hotels increased 22.2 % and number of beds increased by 42.6 %). There is an expected increase in the number of tourist coming to Cape Verde over the next 5 years (between 20% and 30 %).

This has had a tremendous impact on local economy due to the enormous amount of housing facilities being constructed to this aim. Thus, a great amount of construction materials and machinery has been imported and deployed to undertake such projects. The economy has been flourishing and opening more opportunities for business diversification due to the expected affluence of people that will be immigrating to the islands on a permanent or temporal base.

Along this promising activity, parallel or collateral businesses will surge, paving the way for more investments pertinent to leasing and more business opportunities such as goods and people transportation and activities derived from tourism in general.

**Forecast of number of guests sleeping in tourist facilities.**

![Evolution of Number of Guest and Sleeps from 2000 to 2011 calculated with a prevision of 20% increase.](image-url)

**Construction.**

There has been a steady increase in this sector mainly through public and private sector, representing 6.9 % of GDP in 2006.
### Table: GDP Growth and % of GDP 2001–2005

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (Millions of CVE)</td>
<td>5.134</td>
<td>5.888</td>
<td>6.1</td>
<td>6.358</td>
<td>6.903,6</td>
</tr>
<tr>
<td>% of GDP</td>
<td>7,4</td>
<td>8,1</td>
<td>7,7</td>
<td>7,7</td>
<td>6,9</td>
</tr>
</tbody>
</table>

(Source: Estadisticas BCV 2006)

### Transportation & Communication

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP in Millions of CVE</td>
<td>4,193</td>
<td>4,255</td>
<td>4,338</td>
</tr>
<tr>
<td>% of GDP</td>
<td>19,5</td>
<td>19,0</td>
<td>17,4</td>
</tr>
</tbody>
</table>

(Source: Estadisticas BCV 2006)

### Industry 7,1% of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP in Millions of CVE</td>
<td>6.489,5</td>
<td>7.592,8</td>
<td>7.592,8</td>
</tr>
<tr>
<td>% of GDP</td>
<td>7,7</td>
<td>8,3</td>
<td>7,6</td>
</tr>
</tbody>
</table>

(Source: Estadisticas BCV 2006)

### Agriculture 5,2% (-21% reduction in 2005).

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP in Millions of CVE</td>
<td>6.108,1</td>
<td>4782,7</td>
<td>4782,7</td>
</tr>
<tr>
<td>% of GDP</td>
<td>7,3</td>
<td>5,2</td>
<td>4,8</td>
</tr>
</tbody>
</table>

(Source: Estadisticas BCV 2006)

### Fishery 0,9% (represents a reduction of 13%) for Year 2005.

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (Millions of CVE)</td>
<td>1,005.00</td>
<td>993.00</td>
<td>1,035.00</td>
<td>850.60</td>
</tr>
<tr>
<td>% of GDP</td>
<td>1,3</td>
<td>1,2</td>
<td>0,9</td>
<td>0,8</td>
</tr>
</tbody>
</table>

Fish-processing facilities have been constructed in Mindelo, and the government has initiated programs to modernize the fishing fleet."19.

Note: For more informations on those sectors please refer to the separate reports of other consulting firms which performed sectoral reviews in Marc-April 2007 in Cape Verde.

### 5.6. Financing investments in productive assets in Cape Verde.

The supply of loans for the economy has been addressed above. The demand for financing of sectors mentioned above is primarily satisfied through:

1) **Cape Verdean banks and access to credit.**
   They normally offer any kind of short, medium and long term loans.
   However, 100% of the businessmen interviewed and even some bankers agree that the access to loans is very difficult and expensive in Cape Verde.

2) **Financing from abroad.**
   Foreign Banks: The financing of large tourism projects, of supplies for public construction machinery and for other large operations comes frequently from abroad. This possibility is not available for smaller companies.

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19 http://encarta.msn.com/encyclopedia_761558999/Cape_Verde.html
Foreign Lessors. In the case of Cross Border leasing operations, the rentals are subject to a 20% withholding tax at the source, excluding the case where there is a bilateral convention to avoid double taxation. Over the past few years, the Cape Verdean Fiscal Authorities have become increasingly aware of the correct application of the withholding tax rule. If there is no bilateral convention to avoid double taxation - which is the case for most foreign countries - a cross border leasing will not be viable as the mentioned 20% rate would be probably claimed by fiscal authorities on the basis of the total amount of each rental. Furthermore, cross border leasing concerns mainly big ticket leasing contracts. Thus, cross border leasing should not represent a strong competition for domestic Lessors.

3) Private financing.
Sometimes enterprises, even medium companies, have access to private financial resources by informal ways when access to banks is difficult or delayed.

4) The financing of cars is assured by the banks and more recently by long term rental companies.

5) The leasing sector.
The leasing sector does not exist yet in Cape Verde. Nonetheless, there is a great interest from decision makers, entrepreneurs and government officials to develop this sector. Key issues for consideration are the following:

A/ The first license approval has been lost due to regulation issues. The investors are planning to reactivate the process. This is a project of an “independent leasing company” (non-bank Lessors). It is important to note that an independent and private company (non-bank Lessor) - offering mainly leasing products - could be as competitive as a subsidiary of a bank group because:
- Both solutions are more or less equivalent in terms of costs.
- Leasing is not the main product and priority of a banking group.
- A non-bank Lessor would be keener on marketing and selling leasing.
This has been the case in other countries in Africa (for instance: Cameroon, Ivory Coast, Tunisia, Mauritania, etc..) where an independent leasing company (non-bank Lessor) has helped boost not only the nascent leasing industry, but also the medium term credit market.

B/ A second authorized project has not been implemented yet.

C/ As mentioned in the “financial sector” chapter, the credit risk in Cape Verde is very high: Non Performing Loans were close to 8% of the total loans in the past (2002 and 2003), and decreased to 7% in 2004 and 6.3% in 2005 vs a banking spread in 2005 of 7.93% for loans of less than 181 days and 7.63% for loans between 181 days and 1 year according to the BCV.

5.7. Conclusion.
Taking into account the preceding comments on the access to credit, the credit risk, the constraints of the banks and the difficulties for the applicants of credit, the expectations of the market are obvious: the clients, the service companies and suppliers expect from leasing to be an uncomplicated product, with fast, efficient and user-friendly procedures.
The indicators presented above as well as the economic and financial parameters show a clear but limited potential for the creation of a dynamic leasing sector in Cape Verde dedicated to financing investment of productive assets and cars.

The multiple working hypotheses as well as the various methods of approach and forecasts induce to keep only the lowest assumption for potential market - which is 10,000,000 US $ in 2007, and up to 20,000.00 millions US $ in 2010.

Other key issues:

- **Licensing of Lessors**: taking into account the above figures Codaven is of the opinion that in Cape Verde 2 Lessors (small sized with a reduced team of employees) would barely reach their break-even point. Hence, BCV should avoid granting more than 2 licenses over the next 5 years.

- **Targeted sectors**: The economic sectors potentially interesting for leasing would mainly be the following: Construction, public infrastructure, transportation, cars, local industries and, in a few years, the renewal of certain hotel equipments and the financing of investments for new support services and collateral or related activities of the tourism sector.

- **Targeted lessees and types of operations**: As a consequence of the small market size, a Lessor would only be able to reach the break-even point if it targets:
  1) The large companies as well as some eligible SME.
  2) The “large” ticket operations as well as some small ticket operations.

- **Domains excluded in the estimated figures below**:  
  1) Leasing for ships and aircrafts which would require from a Lessor a high amount of Capital (see legislation: Minimum Capital) and a huge funding. Furthermore, the repossession of such assets is too difficult.
  2) Agriculture and fishing industries are domains that require specialization (risk policy) and are too difficult to control (credit management) for the Lessor.

- **During the first two/three years of activities** business will not be easy for the two Lessors, while waiting for the market to reach a satisfactory level. This will depend on:
  1) The rhythm of economic development.
  2) The volume of equipment’s renewals.
  3) The level of the leasing skills obtained by the Lessors in order to advance to "real state leasing" which will help them reach a reasonable size.

- **Funding and profitability**: Funding will be a serious limitation. Considering the limited availability of local funding (prudential rules), access to foreign funding will be essential. The estimated profitability of the Lessors, - consequently their start up - will depend on the net margin which depends on the cost of funding. So far, the legislation - article 4 of the Decree 45/95 - does not provide enough detail about funding possibilities. It states that a leasing company is considered as any other company. Hence, it has the possibility to organize its funding via the banking system or the stock market. It also has the possibility - in cash surplus situations - to enter the interbank money market and the interbank securities market. It is important to note that on one hand the law contains many restrictions and limitations, but on the other hand it does not provide interesting advantages for the leasing industry to develop.
Recommendation 1: In the short term the law should consider offering advantages to increase the potential of leasing as a development instrument. For instance, it could be a possibility for a leasing company to fund its activities via long term notes (two years maturity minimum, for example).

Recommendation 2: Specific international lines of credit (dually monitored by foreign financing institution) with appropriate interest rates and credit risk specific standards as well as Governmental loans guarantee programs (or credit insurance programs) would be very useful to launch the leasing sector over the next 4 or 5 years.

Finally, as the credit risk is high in Cape Verde, it is important to precise the following rule: “a Lessor in Cape Verde, as anywhere else, does not intend to approve credits refused by a bank”, and the ownership of an asset does not change this rule.

Credit underwriters agree that a loan is not approved on the basis of a good guarantee (or ownership of financed assets in the case of leasing). A loan decision is based on a series of parameters and criteria, and the guarantee factor comes in last place.

If the Lessor intends to ensure the solidity and profitability of its portfolio as to be able to offer sustainable credit facilities to the Cape Verdean companies, the criteria for credit decisions will be generally the same for Cape Verdean Lessors as for the other financial institutions.
6. LEGAL FEASIBILITY OF LEASING

6.1. Introduction

6.1.1. Scope of the Work (SOW) and limitation.

The scope of this chapter is to analyze the legal feasibility of leasing operations and leasing industry in Cape Verde. The SOW is mainly limited to financial leasing and more precisely to “full-payout Assets’ leasing” to finance productive investments in order to contribute to the economic development of the country. This is the orientation chosen by Cape Verdean authorities to create their leasing legislation.

At the present time, in Cape Verde a rather modern set of legal instruments is in place to pave the way for the development of a sound leasing industry. Basically, the current judicial, fiscal, and legal framework is favorable to the development of the leasing sector, with the exception of some aspects. These aspects, which will be considered in greater detail later in this report, mainly involve:

- **Wording clarifications** and improvements of some legal provisions to avoid the risk of misunderstandings with the Lessees, the professionals and the public organizations. This is especially important in a new domain - like leasing - in Cape Verde, where generally leasing techniques and leasing legislation are unknown to the majority of the population.

- **Modifications to some legal provisions** in order to avoid the risk of conflicts or lawsuits between the Lessors and the Lessees (ex.: Art.1. and/or 24 of the Decree 37/2000; art.10 paragraph 2, art.4 (modification 1/2003), art. 29 and art. 32-A (obligation to provide a guarantee - cash deposit in the Court or equivalent - before repossessing an Asset) of the same Decree).

The legal leasing framework in Cape Verde is very similar to the one in Portugal for two main reasons:
- The fact that they have a common language and the Portuguese presence for a long period of time.
- For decades most magistrates and lawyers have studied Law in Portugal.

The experience and maturity of the Portuguese leasing industry could facilitate further improvements of the legal framework.

6.1.2. Major strengths of the current legislation.

The main strength regarding the Cape Verdan legal framework is the Assets’ repossession procedure in the event that the Lessee does not comply with its obligations, and in particular if the Lessee fails to pay the rentals.

The Assets’ repossession procedure is a fast and effective non judicial process. Concretely, it is an “order issued by a judge outside of court proceedings” similar to the one in Portugal and specific for leasing, which avoids further delays and brings at the same time a solution to the issue of Assets registration. In fact, the Assets’ registration protects on one hand the Lessors’ ownership of the Assets but, on the other hand, it complicates the judiciary procedures for repossession and greatly delays the selling of repossessed assets.

From the very beginning the Cape Verdan authorities have wisely taken a step forward in treating the leased assets’ repossession and selling issue while in Portugal it took more than five years of efforts to solve it.
Hence, a sound base for repossession and selling of leased assets is in place as indicated below in a chapter dedicated to this issue. Obviously, the practical implementation of this strong judicial tool will greatly depend on:

The rigorousness, simplicity, clarity of leasing contracts and of other conclusive documents.
The effectiveness of the stakeholders to enforce their rights.


The essence of the legislation is gathered in the texts below:


These different texts, procedures and norms are examined in the following chapters.

6.2. Legislation of the leasing sector: Decree-Law 45/95.

6.2.1. Introduction.

The Cape Verdean legislation of the leasing sector is gathered essentially in the following texts:

- Law 3/V/96 (Banking Act) which regulates the whole financial sector (particularly the definitions of “specialized financial institutions”: art. 4 paragraph C). (ANNEX A)
- The modification of the minimum Capital requirement (MCR) (regulation 19/2005 dated March 14\(^{th}\), 2005. (ANNEX C)

6.2.2. Organizational setup of the leasing industry “law 45/95”.

The country’s authorities have made the following choice : Only specific companies - leasing companies having a “specialized financial institutions” status - are allowed to practice this activity in Cape Verde. Consequently, a specialized department within a traditional commercial bank should not enter directly in leasing at this stage.

An independent and private company (non-bank Lessor) - offering mainly leasing products - could be as competitive as a subsidiary of a bank (For more details on “non-bank Lessor” see chapter “Cape Verdean economy and leasing”, paragraph “Financing investments in productive assets in Cape Verde”).

An independent and private company (non-bank Lessor) - offering mainly leasing products - could be as competitive as a subsidiary of a bank group, because :

- Both solutions are more or less equivalent in terms of costs.
- Leasing is not the main product and priority of a banking group.
- A non-bank Lessor would be keener on marketing and selling leasing.

This has been the case in other countries in Africa (for instance: Cameroon, Tunisia, Mauritania, etc..) where an independent leasing company (non-bank Lessor) has helped boost, not only the beginning leasing industry, but also the medium term credit market.

6.2.3. Other provisions of the law 45/95.

The other provisions of the law 45/95 are in line with the traditional leasing legislation and do not deserve additional commentaries :

Objective or scope of a leasing company.
Structure.
Funding (art. 4) (See below next paragraph).
Other operations: A) renting (or selling) repossessed Assets; B) enter on the interbank money market or interbank securities market in cash surplus situations.
Classical limitation and prohibitions.
Controls and Supervision by the Central Bank (BCV).
Licensing (Law 3/V/96 (Banking Act) and Regulation 19/2005 dated March 14th, 2005).

6.2.4. Funding

(see funding recommendations : chapter Cape Veredean Economy and Leasing).

The legislation on LEASING CONTRACTS and leasing operations is essentially contained in the executive Decree with law rank 37/2000 dated 28/8/2000 published in the Official Gazette N° 26 of 2000 (ANNEX E). It is similar in many aspects - essentially in the definition of the operation - to the one in Portugal where this activity is very dynamic and modernly regulated. It is important to note that this Decree will not be read only by experienced professionals - many of whom are not very familiar with leasing - but also by a wider public not acquainted with the legislation, the legal documents and leasing.

The decree 37/2000 also serves as a basis for leasing companies that will elaborate their generic leasing contracts, and its wording should be absolutely clear as to avoid any misinterpretation by the magistrates. Therefore, it is crucial to have a “CRYSTAL CLEAR” Decree.


**Generic provisions (Chapter I).**
Leasing definition (art. 1); Assets (movable) leasing (art.2); Real State Leasing (art.3); limitations to the stakeholders’ autonomy (art.4); good will (art 5).

**Establishment and commencement of the contract (chapter II).**
The stakeholders (art. 6); Lessee’s request for credit (art.7); Contract forms (and formalities) (art. 8); Advertisement (art. 9); Rentals and purchasing price of the Asset (art.10); Duration (art. 11 and 12); Contract commencement (art.13); Transfer of Lessor’s rights (art.14); Transfer of Lessee’s rights (art.15); New contract (art. 16).

**Lessor and Lessee’s legal status (Chapter III).**

Section I. Legal status of the Lessor: General principle (art.17); Rights related to the leased Asset (art.18); Obligations towards the Lessee (art.19); Assets having hidden defects (art.20).

Section II. Lessee’s legal status: Generalities (art.21); Rights related to the Asset (art.22); Relation between the Assets’ seller and the Lessee (art. 23); Specific obligations of the Lessee (art. 24); Risks (art. 25).

**End of contract and guaranties (Chapter IV).**

Section I. Different ways to end a contract (art.26); Expiration date of the contract (art.27); Acquisition of the rented Asset at expiration date (art. 28); Specific delay and execution (repossession) (art. 29); Termination, notice, revocation (art. 30 to 32).

Section II. Guaranties: Rentals and purchasing price (art. 33); Rentals paid in advance (art.34).

**Final provisions (Chapter V).**
Previous events to the contract (art. 35); Accounts (art. 36); Contract commencement (art. 37).

Others.

6.3.2. Recommended modifications to Decree 37/2000.

**Art. 1. Definition of leasing:** The legislator has preferred not to mention the supplier of the asset in this definition. Therefore, it would be fundamental to precise that the Lessee freely specifies the Asset to be financed and selects the Supplier. The Lessee freely negotiates the price and other purchasing conditions. This remark can appear either in article 1, 7 or 24 (concerning the Lessee’s obligations).
ART. 4. Limitation to the stakeholders’ autonomy: The establishment of norms by the BCV to calculate the rentals (interest rate fixing) and other aspects of the contract are against contractual freedom. The regulation should come from market competition and not from state imposed regulations. Indeed a modification to the decree 37/2000 was introduced through the regulation 1/2003 (dated 22/9/2003 published in the Official Gazette N° 31 of 2003) (ANNEX F). It establishes too detailed rules that even fixes, for example, limits for the purchasing residual value stated in paragraph 3:

1. Minimum 2% which is not advisable in matters of reduction of outstanding risk and simplification of portfolio management.

2. Maximum 6% which is too low in the case of operating leasing.

This limitation may also damage something essential: the uncertainty of the Lessee’s purchasing option (refer to chapter “Fiscal depreciation of the Asset in the Lessee’s books”).

Recommendation: it would be advisable to apply the contractual freedom principle and remove such rules at least for the first ten years of the sector.

Art. 7. Lessee’s request for credit. Line 4: For the better understanding of unspecialized readers it is advisable to use the word “ASSET” instead of “object” (“coisa” a adquirir, in Portuguese).

ART. 10. Rentals and purchasing price for the Asset. Paragraph 2:

This paragraph is a source of serious conflicts, thus it is essential to modify it because it states that the malfunctioning of the Asset (or its inferior performance to what is expected) will induce a modification (reduction) of the rentals.

By no means, this can be a reason to reduce the amount of the rentals. The responsibility of this kind of problem can be either on the Lessee side - perhaps the Lessee does not use the Asset properly or does not assure proper maintenance - or on the side of supplier/manufacturer/seller of the Asset, but never the responsibility of the Lessor.

It is very important to remember that it is the Lessee who freely selects the supplier/manufacturer and the leased Asset (see suggestion about article 1). The Lessor only buys the ASSET and rents it to the Lessee.

This kind of provision has been a cause of major judicial unsolvable conflicts in other countries. Therefore, this text has to be revoked as it has been revoked in Portugal and elsewhere.

Art. 11. Duration. Paragraph 1: The words “and real state” are probably missing after the words “movable Assets’ leasing” in the version of the Official Gazette 28 dated 28/8/2000 that we have.

Art. 16. New contract. Probably there is a typography error: “findo” (in Portuguese) instead of “ficando”.

ART. 19. Obligations towards the Lessee.

Paragraph a: The words “ou construir” (in Portuguese) “or build” in English) must be removed because the Lessor is not an equipments’ manufacturer or a constructor; on the contrary, it is the Lessee’s obligation to take care of this issue (especially in the case of real estate leasing).

Paragraph c: Probably there is a typography error: the forth word in Portuguese “do” (“of” for English) should be “ão” in Portuguese (“to the” for English).

Art. 24. Obligations of the Lessee. See article 1. It is again fundamental to add: The Lessee specifies the Asset, selects the supplier and negotiates the price and all the other conditions and characteristics, and makes sure that the negotiated conditions are being correctly implemented.
Art. 25.  **Risk**: Probably there is a typography error: “perecimento” (in Portuguese) instead of “preenchimento”.

Art. 28.  Probably there is a typography error: “Locada” (in Portuguese) instead of “_ocada”.

**ART. 29.  Delay of the specific execution.**

This article refers apparently to the specific leasing repossession procedure indicated in the introduction chapter and article 32-A mentioned below. The text of article 29 is not clear enough and it might be misleading. Thus it is important to modify it. The Portuguese words "realização", "descontar" ‘preço de aquisição’ - in English respectively: realization, discount, acquisition price - can lead to many interpretations -.

It also seems that, after the Portuguese word “continuação” (ie. “continuation” or “following” in English), the word “e” (in Portuguese) (ie. “and” in English) is missing.

**ART. 32 A.**  It is about a new article introduced by the Decree 20/2003 dated 23/6/2003 published in the Official Gazette N°19 of 2003, concerning the “repossession of assets”. (see also the chapter dealing with this issue).

Recommendation: It is important to modify this new article and clarify that, in order to repossess an Asset, “the Lessor should provide a guarantee (cash deposit in the Court or equivalent) ONLY if there is a “serious doubt” about the legitimacy of the lawsuit made by the Lessor”.

In fact, in such a case, the Judge should order the Lessor to be more serious and bring the indisputable and necessary evidences. The Judge could also notify the situation to the BCV. (See also below the paragraph “Current tendency in Portugal”).

### 6.3.3. Recommended clarifications to Decree 37/2000.

Art. 10.  **Rentals and purchasing price for the Asset. Paragraph 3**: It would be advisable, for better understanding of unspecialized readers, to add: “subject to the condition that the Lessee has fulfilled all his obligations, specifically the payment of all the rentals, taxes, and other contractual expenses like interests for late payment - if any - etc..”.

Art. 13.  **Contract commencement. Paragraph 2**: The understanding of the term “assignment in favor of the Lessee” is not obvious for unspecialized readers and could be clarified.

Art. 19.  **Obligation towards the Lessee.**

**Paragraph c**: It would be suitable, for unspecialized readers to add: “subject to the condition that the Lessee has fulfilled all his obligations, specifically the payment of all the rentals, taxes, and other contractual expenses as interests for late payment - if any - etc..”.

Art. 22.  **Rights concerning the Asset.**

**Paragraph b**: At the end of the sentence it would be prudent to add “and according to his obligations”.

**Paragraph c**: At the end of the sentence it would be prudent to add “after fulfilling all his obligations”.

Art. 23.  **Relation between the Seller and the Lessee**: Even if this seems evident, it would be advisable to add “the Asset” each time we cite the word “Seller” in this article. Why? Because at the end of the leasing contract the Lessor becomes a Seller when the Lessee purchases the Asset at the residual value (purchase option).

**ART. 24.  Specific Obligations of the Lessee.**

**Paragraph a**: It would be better to say “payment of all the stipulated rentals”.
**Paragraph b:** After the word “authorization” it would be necessary to add “previous and written” otherwise the Lessee could claim that he has obtained verbal authorization.

**Paragraph c:** It would be good to add “all the operational expenses, raw materials, energies and all the expenses with no exception”.

**Paragraph e:** The insurance has to be taken with a **first class insurance company acceptable for the Lessor**.

**Paragraph f:** Add (to line 3) the words “the contract” after “the end” (ie. “findo” in Portuguese).

**Art. 30.** Termination. “The anticipation prime” indicated in paragraph 2 is not clear. It is probably penalty for early payment. If it is the case, **the text should be clarified**.

**Art. 33.** Rentals and purchasing price. The text could be clarified.

**Recommendation:** replace “the credits of rentals” by “rentals payments”.


This regulation establishes tariff rules and every Lessor has to communicate them to the Central Bank (paragraph 9). As indicated above with the example of the residual value (art. 4 of Decree 37/2000), this regulation 1/2003 establishes constraining rules.

If the main objective of Cape Verde’s authorities is to use leasing as a tool for economic development, it would be preferable to let the Lessee and the Lessor negotiate freely the conditions and tariffs of each leasing deal.

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**6.4. Legislation for repossession of leased assets : Decree 20/2003.**

As indicated in the Chapter I (Introduction), the procedure for Assets’ repossession (“providencia cautelar” in Portuguese) is the strong point of the legislation. It is a fast and effective non judicial process. Basically, it is an **“order issued by a judge outside of court proceedings”** - similar to the one in Portugal and **specific for leasing**, that reduces the delays and brings at the same time a solution to the issue of “Assets registration”. On one hand the assets registration protects the Lessors’ ownership but on the other hand it creates two disadvantages:

- It complicates the judiciary procedures for repossession of the Asset.
- It greatly delays the selling of the repossessed assets.

The legislation for Assets’ repossession and for the Lessor’s rights protection - in the event that the Lessee does not fulfill its obligations (particularly in the event of unpaid rentals) - is included in the Decree 20/2003 dated 23/6/2003 published in Official Gazette N°19 of 2003 (**ANNEX G**).

**6.4.1. Content of Decree 20/2003.**

This Decree 20/2003 dated 23/6/2003 constitutes an update of the Decree 37/2000 to which it adds the article 32-A. The title of this new article is “order issued by a judge outside of court proceedings for Asset’s restitution and the cancellation of the registration”.

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Paragraph 1. This paragraph explains the right of the Lessor to ask the Court for an immediate restitution of the Asset and the cancellation of the registration of the Asset.

Paragraph 2. This paragraph mentions the Lessor’s obligation to provide all evidences.

**Paragraph 3.** This paragraph deals with two topics:

1. Obtaining an immediate “order issued by a judge outside of court proceedings” if the evidences presented by the Lessor are sufficient.

2. **Possibility for the judge to require a bank guarantee (or cash deposit in the Court or equivalent) from the Lessor.**

   **Note:** As recommended previously in the analysis of the Decree 37/2000 above, the Lessor should not be obliged to provide a guarantee (cash deposit in the Court or equivalent) as he is a “Financial institution” strictly controlled by the BCV. There are other solutions to avoid abuses ([See below the paragraph “Current tendency in Portugal”](#)) and this paragraph 3 should be modified.

   **Recommendation:** It is important to modify this paragraph (and ART.32-A) and clarify that, in order to repossess an Asset, “the Lessor should provide a guarantee (cash deposit in the Court or equivalent) ONLY if there is a “serious doubt” about the legitimacy of the lawsuit made by the Lessor”. In fact, in such a case, the Judge should order the Lessor to be more serious and bring the indisputable and necessary evidences. The Judge could also notify the situation to the BCV.

Paragraph 4. This paragraph refers to the right for Lessor to sell the repossessed Asset.

Paragraph 5. This paragraph refers to the Code of Civil procedures.

### 6.4.2. Explanation of the specific procedure for repossession of leased Assets.

In the Cape Verdean Code of Civil procedures (as well as in the Portuguese one), this **specific procedure, designed exclusively for leasing,** is an “order issued by a judge outside of court proceedings” which **constitutes a “provisional anticipation”** of the “effects of a final Court decision”.

This judicial measure is decided by a Judge when - during a lawsuit - there is a risk of damage that could be caused to the Lessor due to the inevitable delays of the Courts.

In leasing we have too many examples of risks of damages to the Lessor: The disappearance of the Lessor’s Equipments/Assets (in particular if it is a vehicle), its deterioration due to a lack of maintenance, its excessive wearing out caused by an abusive use, its fraudulent sell, its destruction, in particular if the Lessee has stopped to pay the Asset’s insurance or the rents etc - this is usually very frequent with movable Assets -. Therefore, all these situations require a FAST and URGENT protection for the LESSOR applicable exclusively to the leased Asset.

### 6.4.3. Brief History. Interest and justification of the procedure.

Historically Portuguese leasing companies were confronted to immense difficulties to repossess the leased Assets: blocking maneuvers, dilatory measures and delays caused by the Lessee that could last many months and even years.

In Portugal some Assets (like cars) are subject to a main registration (as in Cape Verde) on the name of the owner (that is the leasing company), and supplemented by a specific registration on the name of the Lessee. Consequently, in the case of repossession and physical seizure of the Asset from the Lessee, the Lessor was not able to sell it before a final sentence of the Court.
The association APLEASE (the Portuguese association of leasing companies), after many years of discussions with the public administration, has obtained a specific legislation. Nowadays, Judges are entitled to issue a specific “order outside of court proceedings” that allows:

- The URGENT repossession of the leased Asset.
- The CANCELLATION OF THE REGISTRATION of the leased Asset.
- The IMMEDIATE SELL of the repossessed Asset.

However, if after the final sentence the Court considers that the Lessor was wrong, the Lessor will be required to compensate the Lessee.

### 6.4.4. Current tendency in Portugal.

In Portugal, there is no obligation for the Lessor to provide a guarantee (bank guarantee, cash deposit in the Court or equivalent) because it is a financial institution subject to the strict controls of the Financial Authorities (Central Bank). (see above Art.32-A recommended text).

Currently, to issue an “order outside of court proceedings (providencia cuatelar)”, the Judge takes the precaution - to avoid any risk of abuse – to request the Lessees to attend an audience within ten days (which in practice the Lessees never do). The statistics do not show any abusive lawsuit against any Lessee, because no Lessor would take such a risk that could lead to a License revocation.

### 6.4.5. The Deadlines.

In theory, the Judge can take the decision in one day. In fact, the decision can take from 10 days, up to several weeks depending on the complexity and work load of the judicial and extra-judicial structures.

### 6.4.6. Best practices.

Firstly, the texts of the Lessor’ agreements (contracts) and all the documents have to be clear, precise, simple and concise because leasing is a new financial tool in Cape Verde. Equally, all data and informations should be absolutely clear on the side of the Lessor to facilitate the Judge’s decision.

Secondly, in order to obtain an “order issued by a judge outside of court proceedings” for the repossession of the Assets, the Lessor has to provide all the necessary evidences and proofs.

Finally, the Lessor has to point out the importance of the Asset’s deterioration.

- It is important to clearly show to the Judge, the depreciation of the Asset (a car subject to many depreciation risks, actually it losses its value every month, even if it is stocked in a storehouse). The Lessor also needs to clearly show:
  - The risk of disappearing (movable assets are by definition “removable”).
  - The deterioration risk. In the case of vehicles for example, the experience shows that the Lessee which does not pay its rentals does not changes the car’s oil, does not do regular maintenance or repairs, etc - contrary to the Lessee’s contractual obligations to take reasonable care of the Asset.
  - There is even a risk of destruction, or illegal sale etc.

These are the reasons that justify the urgent repossession of the Asset.

At the moment of the repossession, the Lessor has to employ all the material (equipments, transportation, etc…) and legal means required to achieve the repossession.
6.5. Accounting norms for leasing. Fiscal depreciation.

6.5.1. Legislation.
The legislation on the accounting norms for leasing is included in the following texts:


These texts determine the fiscal depreciation of leased Assets.

The regulation adopted by the Cape Verdean authorities is generally in line with the international standards and corresponds to the methods currently used in Portugal.

The guiding principle stated in the Decree 21/2003 - mentioned above - is the prevalence of the substance over the form. Therefore, the leased Asset has to be recorded as a “Fixed Asset” only in the balance sheet of the Lessee.

6.5.2. Lessee’s Financial Statement.

The Asset and the correspondent liability.
At the contract signing (and Asset delivery), the Asset is recorded in the balance sheet of the Lessee as an asset in an account “immovable asset”, and for the same amount, a liability is recorded in an account “supplier of leased Asset”.

Amount to be recorded in the Lessee’s book: The Decree 21/2003 contains a calculation method by means of actualization of the rentals (paragraph a and b of the Decree). In practice the amount recorded is the TF price (tax free price) of the Asset, meaning the Capital financed.

The payments of the rentals (paragraph c of the Decree 21/2003 (Annex H).
Each rental is split in two parts: Capital amortization and margin (interests).
The Capital amortization is allocated to liabilities to reduce the outstanding debt.
The margin (interests paid to the Lessor) is booked into interest expenses.

Income tax (IUR - Imposto Unico sobre rendimentos).
The Decree 21/2003 dated 11/8/2003 updates the UTR (unique tax over revenue; IUR in Portuguese) by adding the two principles stated above in the Decree 1/96 dated 15/1/1996 which governs the UTR: a) The interest (margin) included in each rental are recorded by the Lessee as interest expenses (art. 29 paragraph k of the Decree 1/96 already mentioned). b) The Decree emphasizes that the Capital included in rental can never be accounted as an expense by the Lessee (art. 29 paragraph i of the Decree 1/96 already mentioned).

Fiscal depreciation of the leased Asset (letter C of the Decree).
It is possible to accelerate the fiscal amortization. The Asset will be fully depreciated over the term of the leasing contract “if there is no reasonable certainty that the Lessee will obtain the ownership of the Asset at the end of the contract”. This is normally the case because
we do not know for sure if the Lessee will be able to pay all the rentals, and, even if the Lessee does pay, we do not know if the Lessee will exert its buying option at the end of the contract. The Decree 37/2000 ruling the leasing contract puts forward the random side of the outcome of the leasing operation.

The majority of leasing companies draft their leasing contracts to include the above consideration. However, the modification of article 4 of the Decree 37/2000, brought by the regulation 1/2003, paragraph 3 (see the comments in the analysis of Decree 37/2000) about the Residual Value could perhaps alter the uncertainty of the purchasing option. Thus, it would be strongly recommended to apply the contractual freedom principle in order to allow the favorable term of the fiscal depreciation indicated above.

**Excess or Loss value.**

The article 29-A of the Decree 21/2003, already mentioned, discards the possibility of an excess or loss value if the Lessee returns the Asset to the Lessor.

*Note : SME.*

The information about the accounting norms presented above is applicable to companies that follow well structured, rigorous and organized accounting procedures.

In the case of a small and medium sized companies and liberal professions it is likely, that the common practice will simplify the accounting tasks. A leasing operation would be booked as a simple rent if the entire amount of all the leasing contracts of a SME does not exceed a limited percentage of the total Assets of the SME - this percentage will be determined in the future by the common practice in Cape Verde -. The Administration could then make it official.

### 6.5.3. Lessor’s Financial Statements.

The accounting method for the Lessor is coherent with the Lessee’s financial statements.

The principal aspects of the Decree 21/2003 are the followings :

1. **In the Assets column.**
   
   The investment made by the Lessor constitutes a credit that is recorded in the Assets column. The amount recorded is, in practice, the global amount financed that is to say the amount paid by the Lessor to the supplier/vendor/manufacturer of the Asset.

   *Note 1 :* Obviously, in parallel to its leasing portfolio, the Lessor has in the liability column all the “debts” or credit lines that constitute his overall funding.

   *Note 2 :* The Lessor also keeps an account “suppliers” in order to better control its Assets’ purchases.

   *Note 3 :* The Lessor creates a record to control of all the rentals to be collected in the future for all the leasing contracts he handles.

2. **The part of each rental corresponding to the “leasing margin” constitutes an income.**

### 6.5.4. Regulation 14/2003 of 21/7/2003.

6.6. **Leasing tax treatment.**

The Legislation on tax treatment is in harmony with the Decrees 45/95, 37/2000 and 21/2003 already discussed above.

The VAT regulation is contained in the law 14/VI/2 dated September 19th, 2002 and the regulations 21/VI and 22/VI of 2003.

6.6.1. **VAT**

The Head officer of the Cape Verdean Taxation bureau has confirmed that the VAT (Value Added Tax) has to be completely transparent and neutral for leasing operations.

**Practically the VAT is 100 % offsetable.**

**Transaction subject to VAT.**

1. **VAT on Asset’s purchase.**
   
   In the case of transaction subjected to the VAT the Lessor will proceed as follows: He will pay to the supplier / manufacturer / seller “the price of the Asset TF (tax free) plus the VAT (A)”. For example: price TF 1000 CVE (Cape Verdean escudo) plus VAT. The current VAT rate is 15%.
   
   **Hence, the TOTAL VAT PAID is 150 CVE.**

2. **VAT on Rentals.**
   
   The Lessor will calculate the rentals based on the TF amount which is the financed Capital (1000 CVE in the example above).
   
   Then, each month, the Lessor will bill the rentals adding the VAT (B) on the part of each rental which corresponds to the amortization of the Capital, according to a norm to be agreed with the fiscal authorities.
   
   Note: VAT is due as stated in art.8 of the Law 21/VI/2003 regulating the VAT at the moment of invoicing a rental and not at the moment of collection (see below consequences for unpaid rentals).

3. The Lessor will add also the VAT on the residual value at the end of the contract (purchasing option).

4. As the total “residual value + Capital amortization contained in all the rentals” is 1000 CVE (in the example above), the **TOTAL VAT COLLECTED** from the Lessee is 150 CVE.

**Consequently, at the end of a leasing contract, the TOTAL VAT COLLECTED is equal to the TOTAL VAT PAID.**

Each month, the Lessor will send his periodic statement of VAT - as stated by art.25, letter c of the Law 21/VI/2003 regulating the VAT - to the fiscal authorities, detailing all “VAT paid in the month (A)” and all “VAT to be collected (ie. Invoiced) in the same period (B)”.

Obviously, at the start of the leasing company there will be a VAT credit scenario [(A)> (B)]. Thus the leasing company will have to be watchful and diligent to obtain monthly VAT reimbursements from the fiscal authorities to avoid obvious cash flow unbalances.

**Note: unpaid rentals.**

In the case of unpaid rentals the corresponding VAT (B) has to be cancelable (and offsetable) with the condition of satisfying local regulations (for example: precise delay and/or a lawsuit obligations).
Transaction exempted of VAT (and/or customs duties).

In the case of transactions exempted from VAT (and/or customs duties), the Lessor will have to follow applicable procedures in Cape Verde to negotiate the same exemptions enjoyed by the Lessee, under the following rules:

a) The Asset is exclusively destined to be used under a leasing agreement.
b) The Asset cannot be sold by both parties before the normal period of exemption.

From the beginning of the leasing activities in Cape Verde, leasing companies should carefully agree the adequate mechanisms with the fiscal authorities to avoid any wrong doing or penalty to the leasing transaction which consequently will become less viable in those particular cases.

6.6.2. Income Tax (IUR - Imposto Unico sobre rendimentos).

Lessor.

The Lessor is a specialized financial institution subject to the regulations that must be applied in the financial sector in terms of taxation and particularly income taxes. As indicated above no depreciation on Assets is taken into account to determine the fiscal benefits of the Lessor. The Lessor benefits are, in a simplified way, the difference between the “leasing margin or interests received” (which constitutes an income), minus all the expenses (interests paid on the funding, general expenses and others).

Lessee.

In the case of the Lessee, the determination of the tax base considers: 1) the deduction of the fiscal depreciation of Assets financed via leasing; 2) the expenses included in rentals represented by the “leasing margin” (the legal texts foresee the methods for the Lessee to make the corresponding calculations). This subject has been treated in the chapter “accounting norms and fiscal depreciation”.

6.6.3. Customs rights.

Excluding the cases of exemptions, customs rights and import expenses will often be part of the financed Capital.

6.6.4. Cross border leasing operations.

In the case of Cross Border leasing operations, the rentals are subject to a 20% withholding tax at the source, excluding the case where there is a bilateral convention to avoid double taxation.

Over the past few years, the Cape Verdean Fiscal Authorities have become increasingly aware of the correct application of the withholding tax rule. (For more details see chapter “Cape Verdean economy and leasing”, paragraph “Financing investments in productive assets in Cape Verde”).

6.7. Conclusions.

We can conclude that, in order to start the leasing sector in Cape Verde by 2007, the authorities have made the necessary arrangements to encourage a rather effective functioning of this activity in the following fields:

- The legislation of the sector (leasing companies).
• The legislation of the product (leasing operations/leasing contracts).
• The taxation.
• The accounting procedures/methods.
• The fiscal depreciation.
• The repossession of financed Assets under leasing agreements if the Lessee does not comply with its obligations, in particular if the Lessee fails to pay the rentals.
• The selling of repossessed Assets.

The recommendations to improve these fields are included in the above paragraphs (please refer mainly to the chapter “Legislation of the contract and the leasing operation - Decree 37/2000”).

The most immediate issues to deal with are the article 10 (paragraph 2), art.4 (modification 1/2003), art. 29 and 32-A (obligation to provide a guarantee (cash deposit in the Court or equivalent) before repossessing an Asset) of the Decree 37/2000.

Some practical advices from law professionals and leasing experts are contained in this document in a summarized form. These recommendations will be enhanced in a public conference which will be held in Cape Verde in May 2007. This will facilitate the task for the leasing companies (Lessor), Lessees and professionals who participate to the country’s economic and financial activities.

However, it is important to note that practical difficulties will arise like in any other daily business practice, and particularly in the leasing domain which is not yet well known in Cape Verde. Nonetheless, we can testify that the authorities involved with the structuring and framing of the leasing industry are approaching the subject with great openness, goodwill and motivation. This is a good base to start coping with unexpected difficulties, and allows to quickly negotiate private agreements which will further on be recorded in the legal framework.
References

The sources used to prepare this feasibility study of the “legal, fiscal, judicial and regulating framework” are:

- Bibliographic sources.
- Direct contact with stakeholders and informants on the field in Cape Verde and in Portugal.
- Internet Sources.

Bibliographic References.

The main literature sources are essentially the following:

- The Cape Verdean Central Bank (BCV) library and web site [www.bcv.cv](http://www.bcv.cv)
- The documents received at the Judicial Department of BCV.
- The documents received at the Supervision and Control Department of BCV.
- The book “Coletanea (which means compilation in English) 2005”.
- (Davidson 1989; Andrade 2002); (Chabal 2002: 71)
- Relatorio Annual 2005 BCV
- Ficth Sovereign Ratings Cape Verde November 2005 PDF file
- Fonte INE-Instituto Nacional de Estatistica em Cape Verde (CV institute for statistics)
- World Bank Infrastructure Reform, Regulation and Competitiveness; June 2006
- World Bank, Note Number 27, august 2006
- Direccão Geral dos Transportes Rodoviarios 2005 (Ministry of Transportation)
- IMF PDF files: Statistical Appendix September 2006; Dec 2006
- BCV PDF Files: Indicadores Economicos 2006; Estadisticas BCV 2005 y 2006
- Cabo Verde Investimentos Statistical Caderno (report) 2005

Direct contacts and interviews in the field in Cape Verde and Portugal.

All our team members carried out interviews, with a direct participation of our lawyer and our leasing experts, as follows:

- Contacts in Cape Verde (in Praia and Mindelo):
- Many personal interviews have been made with different departments in the BCV.
- Personal interviews with the Tax Department and Customs Department.
- Personal interview with a Court Magistrate chosen randomly.
- Personal interviews with three Law Firms in Cape Verde chosen on the criterion of their competence and reputation.
- Personal interviews with two consulting and auditing firms in Cape Verde (Price Waterhouse Coopers; BDO).
- Personal interview with an Asset registration office (movable and fixed Assets) in Cape Verde chosen randomly.
- Personal interview with a governmental foreign delegation in Cape Verde.
Contacts in Portugal and comparison with other leasing legislation:
- Personal interviews with a Portuguese Law Firm specialized in leasing (and Assets repossession) for more than 20 years.
- Personal interview with an accounting expert in the leasing sector, who was the head of the accounting department of a Leasing company in Portugal for more than 10 years.
- Personal interviews with a credit collection firm specialized in repossession of leasing assets for more than 25 years.

Internet Sources:
- CIA Fact Book website March 2006
- Cape Verdean Central Bank: [www.bcv.cv](http://www.bcv.cv)
- [www.wikipedia.com](http://www.wikipedia.com)
- [www.heritage.org/index (march 2006)](http://www.heritage.org/index)
- Encarta Enciclopedia MSN march 2006
Glossary.

CV : Cape Verde.

BCV : Banco de Cabo Verde (Central bank).

BCV Sistemafinaceiro.htm (ANNEX L) : financial system.

Amortization : Reduction of the outstanding balance of a debt.

STL : Short term loans.

MLTL : Medium and long term loans

CVE : Cape Verde Escudos (CVE is the Cape Verdean currency). Also ECV.

Depreciation : Periodic fiscal offset to income in order recover the amount of a purchased asset.

Full-payout assets leasing : Financial leasing contract of investments in productive assets that permit the Lessor to collect 100% of the financed Capital.

IUR : Income Tax (IUR - Imposto Unico sobre rendimentos) (English equivalent : UTR (Unique Tax Over Revenues i.e.) of Cape Veredean fiscal regime).

Lessor : Finance institution Specialized in leasing operations.

Lessee : Customer of a Lessor and user of a leased asset.

“Providencia cautelar (in Portuguese)” : Procedure for Assets’ repossession. It is a fast and effective non judicial process. Basically, it is an “order issued by a judge outside of court proceedings”.

Residual value : Amount to be paid by the Lessee to buy the leased asset from the Lessor to exert the buying option at the end of the leasing contract provided that the Lessee paid all the rentals, expenses etc…

SME : Small and medium sized company.

Purchase option : Option given to the Lessee to buy the leased Asset at the end of the leasing contract provided that the Lessee paid all the rentals, the expenses and has fulfilled all its obligations.

VAT : Value added tax (in Portuguese IVA (imposto sobre o valor agregado). Currently 15%.

1 Please note that when ever the word “Decree” appears in this text it refers to an executive Decree with Law rank.