SUMMARY

1. An archipelago of nine inhabited islands in the Atlantic Ocean, Cabo Verde is at the crossroads of trade between Southern Europe, Africa, and the Americas and the Caribbean. Cabo Verde has roughly 500,000 inhabitants, and a diaspora almost twice as large elsewhere, living mostly in the United States and Portugal. Portugal and Spain are Cabo Verde's most important trading partners in goods. Cabo Verde's currency, the Cabo Verdean Escudo (CVEsc), is pegged to the euro at a fixed exchange rate of €1 to CVEsc 110.265.

2. Cabo Verde graduated from least developed country (LDC) status on 1 January 2008. It is now classified as a lower-middle income developing economy with a per capita GDP of €2,800 per year. Cabo Verde is generally resource-poor and its merchandise imports, notably of fuels and food, typically exceed exports by ten times (or more) in any given year. Foreign exchange is generated primarily by tourism (€300 million in 2014), followed by air navigation services. The Cabo Verdean diaspora is also a major source of remittances.

3. Long-term growth of real GDP has averaged 7.7% per year (1990-2013), driven by tourism as the principal engine of growth. The global financial crisis led to a relatively mild recession in Cabo Verde. The economy returned to modest growth in 2010 (up 1.5%) and 4% growth in 2011, in part due to higher tourism receipts and a public investment programme, mostly externally financed. Debt sustainability has thus become critical. In 2014, economic growth reached 2.7%. Cabo Verde's growth and development model has relied much on investment in the construction and tourism industry, and current reforms are aimed at broadening the economic base. Cabo Verde's energy policy is geared towards the promotion of renewable energy to reduce reliance on imported fuels.

4. Cabo Verde spans the latitudes of the Sahel with a similar arid climate. Faced with unfavourable natural conditions, agricultural production has traditionally been largely insufficient to meet domestic demand for food. Major public investment has been allocated to the construction of dams to promote irrigation. The fisheries' sector is small (less than 1% of GDP), but generates important export earnings. The manufacturing industry caters mainly for the small domestic market. Services contribute about 60% to GDP. Maritime and air transport are priority sectors for development due to their link to tourism.

5. After independence from Portugal in 1975, Cabo Verde adopted economic policies based on State-led development, followed by a period of economic liberalization. Although the role of the State in the economy of Cabo Verde has been reduced substantially since the early 1990s, 14 public enterprises and 15 para-public enterprises continue to be major players, particularly in utilities, energy, telecommunications, and transportation. The financial requirements of some of these enterprises are significant for the Government. The economic performance of certain enterprises has also been poor, which has hampered efforts to privatize them. Present-day Cabo Verde envisages the State as a regulator of an economy dominated by a private sector led by entrepreneurship and innovation. Four regulatory agencies were created in 2004 in the areas of food security (ANSA), pharmaceuticals and food products (ARFA), communications (ANAC), and economic regulation more generally (ARE). ANSA and ARFA were merged in 2013.

6. This is Cabo Verde's first Trade Policy Review. Cabo Verde acceded to the WTO in July 2008 with certain transitional arrangements, negotiated while Cabo Verde was still an LDC. The majority of these arrangements have now expired, and the last flexibilities will lapse in 2018. Cabo Verde bound all tariff lines at rates ranging from zero to 55%. The simple average final bound rates are 19.3% in agriculture, 15.4% on industrial products, and 15.9% overall. Cabo Verde made substantial commitments under the GATS, including open and non-discriminatory regimes, *inter alia,* for business services, distribution, education, environmental services, and road transport, and "partial" commitments in commercially important financial services, telecommunications, construction and maritime transport. Notifications have been provided in various areas pertaining to the WTO, including agricultural export subsidies, SPS, customs legislation, import licensing, anti-dumping, state trading, and TRIPS. Cabo Verde's intellectual property legislation has not yet been reviewed by the WTO Council for TRIPS.

7. Cabo Verde's applied MFN tariffs are well below the bound level, averaging 12% in agriculture and 10% on industrial products. All rates are *ad valorem* and are set at 0%, 5%, 10%,

20%, 30%, 40% or 50%. The highest average tariffs affect clothing; beverages, spirits, and tobacco; and fish and fishery products.

8. Cabo Verde is a founding member of the African Union, and maintains close links with Angola, Brazil, Guinea-Bissau, Mozambique, São Tome and Príncipe, and Portugal through the Community of Portuguese-Speaking Countries (CPLP). The CPLP does not include the exchange of trade preferences. Cabo Verde joined the Economic Community of West African States (ECOWAS) in 1976, and participates in its structures, such as the common agricultural policy (ECOWAP), but not in the economic and monetary union between eight ECOWAS members (WAEMU). Negotiations between ECOWAS and the European Union (EU) to conclude an Economic Partnership Agreement (EPA) have been finalized, and it will enter into force after signature and ratification.

9. The establishment of a customs union with a common external tariff and internal free trade has been a longstanding ambition within ECOWAS. Although many deadlines have been missed along the way, the preparation of the EPA with the EU provided new impetus to the efforts to finalize the ECOWAS Common External Tariff (CET). The CET did not enter into force in Cabo Verde on 1 January 2015 as originally planned, but may be implemented with a delay of approximately one year. According to the Cabo Verdean authorities, the implications for government tariff revenue have been examined. The simple average applied MFN tariff is set to rise from 10.3% at present to 12.3% with full implementation of the CET. Although applied tariffs will remain well below Cabo Verde's bound rates on average, the CET exceeds Cabo Verde's WTO bindings on more than 500 tariff lines. In addition, Cabo Verde has bound "other duties and charges" (ODCs) at 0.5%, reflecting the current level of the ECOWAS community levy. As this levy is set to rise to 1.5%, Cabo Verde's ODCs will also need to be renegotiated across-the-board. The ECOWAS Secretariat has expressed its readiness to assist its members, including Cabo Verde, in their negotiations with other WTO Members.

10. Customs tariffs are an important source of government revenue in Cabo Verde. In 2013, the customs authorities collected more than CVEsc 5.4 billion (nearly €50 million) in import duties. However, value added tax (VAT) is the single most important source of income for the Government, raising CVEsc 11.5 billion in 2013 and nearly CVEsc 13 billion in 2014. The VAT regime was overhauled in 2013, reinforcing a single-rated VAT of 15% by eliminating a lower rate applicable to the tourism sector and removing effective tax rebates on certain basic goods and services subject to price regulation (petroleum products, electricity, water, telecommunication services, and maritime transport of goods). In addition to customs duties and VAT, government revenue is derived from indirect taxes such as a special consumption tax (levied on selected products such as alcoholic beverages, tobacco and petroleum products), an ecological tax on packaging, stamp duties, and a tourist tax (in effect since 1 May 2013).

11. Non-automatic licensing is applied on imported goods subject to SPS requirements, security measures, or other mandatory restrictions required by law. All other imports are subject to automatic licensing, unless the goods are totally exempt from the licensing requirements (goods without commercial value, goods in transit, temporary imports, re-exports, etc.). Although Cabo Verde agreed to re-examine its licensing regime to ensure full compliance with the WTO Agreement on Import Licensing Procedures by the end of 2008, the regime has remained unchanged since its accession to the WTO. In 2013, Cabo Verde adopted new framework laws governing phytosanitary and veterinary measures. Cabo Verde does not use tariff quotas to regulate imports.

12. Cabo Verde introduced a new Customs Code in 2010. The Code stipulates the transaction value as the principal method of customs valuation, but alternative valuation methods are used quite frequently due to chronic under-valuations and missing or inadequate documentation of the claimed value. In 2013, Cabo Verde introduced a statistical tax on imports and exports to finance the computerization of customs clearance. The basic fee of CVEsc 5,000 per customs declaration is levied on top of a customs user fee of 1.04% of the c.i.f. value of imports. The level and structure of the customs user fee, a subject of discussion during the accession negotiations, is still under consideration. Cabo Verde does not levy export taxes.

13. Cabo Verde introduced a new investment law in 2012. The law provides a general framework of rights and guarantees in a generally open and non-discriminatory investment regime. Fiscal incentives available to investors are outlined in the 2013 Code of Fiscal Benefits. The Code regulates tax benefits accorded under general as well as special regimes such as

International Business Centres and establishments under the Tourism Utility Statute. Although the Code of Fiscal Benefits is designed to provide a unified regime of investment incentives, a major carve out exists for large investment projects. In such cases, the rights and obligations may be spelled out in individually negotiated establishment agreements endorsed by the Council of Ministers. Subsidies provided in the form of grants are uncommon, amounting to just over CVEsc 100 million (less than €1 million) in 2013. By comparison, the estimated revenue foregone from tax and import duty concessions reached more than CVEsc 3.25 billion during the same year.

14. Cabo Verde is neither a member nor an observer of the WTO Agreement on Government Procurement. According to the State budget, CVEsc 3.77 billion was set aside for purchases of goods and services by centrally-funded entities in 2014. A new Public Procurement Law was adopted in early 2015. The law is set to enter into force on 15 October 2015, and will replace the current procurement law from 2007 and its regulation (2009). A regulatory agency (ARAP) was created in 2008 to formulate standards and guidelines for public procurement, oversee the procurement processes, and supervise the implementation of contracts. The stated purpose of the new legislation is to clarify responsibilities among the regulatory, supervisory and procuring entities, ease the administrative burden, and simplify procurement to facilitate the participation of small- and medium-sized enterprises.

15. Cabo Verde has undertaken significant reforms in the financial sector to modernize the legal framework and strengthen institutional oversight. There is a relatively large off-shore banking sector. Institutional and legal reforms were also launched to modernize the maritime and port regimes. Recent efforts to improve the general business environment include online business registration procedures (since 2010), the creation of a single window for investment (since July 2014), the transformation to paperless customs clearance (during 2015), and the ongoing consolidation of customs, port, and trade information systems to create a single window for international trade (JUCE).

16. In the long-term, Cabo Verde's economic growth potential is likely to be determined by (i) efficiency gains in the public sector, (ii) improved economic performance of state-owned enterprises, and (iii) a stronger private sector. Cabo Verde has an ongoing State and Public Administration Reform Programme led by a central agency (*Unidade de Coordenação da Reforma do Estado* - UCRE) working under the direct supervision of the Prime Minister and a coordinating counsellor. The programme envisages a certain rationalization of government structures, affecting some 114 institutions in total.

17. Given its vulnerabilities and disadvantages, such as remoteness from foreign markets and a relatively small population dispersed over a vast area, Cabo Verde's economy has performed remarkably well since the early 1990s. The economy's vulnerability to natural disasters was most recently demonstrated in late 2014 with the volcanic eruption on the island of Fogo. However, most importantly, as policy emphasis has shifted gradually over the years, Cabo Verde has developed a credible track record of political pluralism and stability. This is an important asset underpinning further reform efforts and the economic development of Cabo Verde.