Institutional Stability and Economic Success in Africa: Lessons from Cabo Verde

Hon Cristina Duarte
Minister of Finance and Planning, Republic of Cabo Verde

Chair: Gita Honwana Welch
Associate Fellow, Africa Programme, Chatham House

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Introduction

Cristina Duarte, Minister of Finance and Planning of Cabo Verde and candidate for the presidency of the African Development Bank, spoke at Chatham House on the crucial role of good governance and institutional stability in Cabo Verde.

Both the meeting and the question and answers session were held on the record, and the views expressed are those of the participants. The following summary is intended to serve as an aide-mémoire for those who took part, and to provide a general summary of discussions for those who did not.

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Hon Cristina Duarte

Cabo Verde had very little in the way of resources in the period following independence in 1975. GDP was $190 per head, and was not recognized by a number of countries despite the official declaration of independence. In 1998 Cabo Verde graduated to the status of a middle-income country, and by 2008 it had a GDP of $3,800 per head. Today, the country has a reputation for good governance, and economic and political freedom; while the national literacy rate is 95 per cent. Cabo Verde’s development is a result of good governance and strong policies, rather than a dependence on natural resources.

Following graduation to middle-income status, Cabo Verde seized a unique opportunity from international partners to begin a period of concessional funding. The average interest rate stood was 1.4 per cent. Cabo Verde channelled these resources into both physical infrastructure and institutional infrastructure. A strong regulatory framework, the judicial system and the rule of law were key in terms of institutional infrastructure. Cabo Verde is the closest among African countries to reaching its Millennium Development Goals, having already achieved gender parity in education, as well as a reduced child mortality rate and improved vaccination coverage.

Since the institution of multiparty rule in 1991, Cabo Verde has been politically stable, and is today governed by a president and government from different parties. Economic reforms have entailed strong privatization, and market reforms have enabled the economy to be driven by the private sector. Reform of the public finance management system, as well as the approval of five new fiscal codes in 2014, have further strengthened economic stability in Cabo Verde.

Cabo Verde was described as an internationally competitive business centre. Its money laundering laws and terrorism financing laws have helped achieve this. Companies setting up in Cabo Verde can export to the continent, import raw materials and utilize the low corporate tax rate of 2.5 per cent.

A policy-driven approach is important, as is a credible state. A medium-to long-term strategy has empowering Cabo Verdean civil society has recently been elaborated. As regards inclusive development, there is strong record of poverty reduction in Cabo Verde; as well as plans for further reductions in poverty. Also important are state investment and political freedom. Recent strikes were a pre-election phenomenon.

Strong leadership and capacity-building are key, along with a clear strategic vision and consistency in public policies – with a focus on health, education and infrastructure.
Summary of Questions and Answers

Questions

Is there a specific agenda in terms of concessional financing?

Are companies investing in Cabo Verde typically emerging markets institutions or advanced economic institutions?

Hon Cristina Duarte

There is a need for African governments to give attention to the importance of intangible assets to support investment. An awareness of the importance of intangible assets is present in the ‘made in Cabo Verde’ transformation agenda. There is a role for dialogue in ensuring that partners understand this transformation agenda.

Cabo Verde has received investment from almost every type of institution.

Questions

As presidential candidate for the African Development Bank, how do you respond to the reality of wider economic problems across Africa?

Hon Cristina Duarte

Cabo Verde’s governance model has for the past 10–15 years undergone significant structural transformation. However, 15 years of the ‘Africa rising’ narrative has not benefited everyone; it is clear that unequal economic growth is not enough to end the vicious circle of poverty. Structural transformation in many African states is needed to achieve this.

Question

Cabo Verde is a small country. Was this relevant to the country’s economic success?

Hon Cristina Duarte

Cabo Verde’s economic success is not predicated on the country’s small size. Political will has been the driving factor in its economic transformation. Economic success was achieved despite Cabo Verde’s history of crisis and famine, as well as difficulties including the current context of high commodity prices. Savings that accrued following the slashing of oil and water subsidies in the 2008 budget were redirected into social expenditure; this in turn also helped Cabo Verdean civil society to cope with the economic crisis.

Question

The speaker was asked to comment on Cabo Verde’s relationship with the World Bank.
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Although Cabo Verde was ranked low on the World Bank’s *Doing Business* index (122nd of 189 economies in the 2015 report), the country is making strides in terms of its transformation agenda; this should be seen as more than a summary of construction projects or individual business ventures, for example. Cabo Verde’s institutional infrastructure enables businesses to set up in less than 24 hours, facilitated by a strong focus on communication between businesses and public administration bodies.

Question

Could you elaborate on the role of women in Africa in enhancing development?

Hon Cristina Duarte

Africa in general has lacked capacity to deal with the cycle of poverty, which must be tackled via structural transformation – both in institutions and infrastructure, but also with greater inclusion of women in business. The gender issue in Africa is increasingly seen not only as a human rights issue, but also as an economic issue – where some African countries deny property rights to women, for example. The predominant focus on micro-trade and microfinance for women is a concern; instead, the desire is for greater ambitions, such as women running corporations and NGOs.

Question

The speaker was asked about issues of organized crime, drugs trafficking and transnational criminal networks in Cabo Verde.

Hon Cristina Duarte

Cabo Verde’s geostrategic location one that works well for all actors, both licit and illicit. Cabo Verde is a small nation with no resources to fight the illicit activities it is threatened by, and for this reason the country has built strong partnerships with the UK, the United States, the EU and across West Africa to fight these threats. Cabo Verde has also adopted new laws to prevent money laundering.

Questions

How can Cabo Verde retain its young population?

Can the Cabo Verde transformation model be sold to other African countries?

Hon Cristina Duarte

Historically, Cabo Verde was an emigrant nation; many Cabo Verdeans left for the US in the 1920s. Cabo Verdeans still emigrate, but now the country receives immigrants too, mainly from West Africa. There are new policies to legalize the status of immigrants from West Africa. Three years ago a programme was launched to increase the literacy rate of people from Guinea-Bissau, and there is a policy for other Portuguese-speaking immigrants to qualify for access to education. Another proposed policy supports professional training for new immigrants.
Regarding the retention of youth, education is mandatory up to the age of 14. Plans to raise the mandatory age were put on hold because of the economic recession. Nevertheless, Cabo Verde now has high schools in every municipality, as part of efforts to ensure that people do not have to move to the cities. Added to this is the creation of new universities, as well as a strong professional training system. Young people in Cabo Verde are ready to respond positively to demand from the private sector. However, youth unemployment rate in Cabo Verde is around 24 per cent (compared with a global average of 16 per cent).

‘Selling’ the Cabo Verden model is a problem: Cabo Verde does not know how to promote itself. One former ambassador, for example, had referred to Cabo Verde’s ‘silent development process’.

**Question**

Why are you running for the position as president of the African Development Bank, and what are your chances as the only woman?

**Hon Cristina Duarte**

The motivation is to be part of the process of the structural transformation of Africa. With the prevalence of poverty and non-inclusive growth, Africa needs structural transformation. The African Development Bank has a critical role and a strong advisory role to play. A collaborative approach with Africa and international institutions is also a motivation. The hope is that the competition will be transparent and meritocratic, and not based on gender or political compromises.

**Question**

What do you want to see from foreign direct investment (FDI), and what does FDI want to see from Cabo Verde?

**Hon Cristina Duarte**

The UK is one of the biggest providers of tourism to Cabo Verde, and the tourism sector is one with significant opportunities. There is a need to mobilize FDI from the UK into clusters, such as in the maritime, shipyard or airline industries. Instead of having more than 100 companies in a room, the help of the UK government was requested in identifying companies to which a customized proposal may be delivered.