Remittances sent by international migrants are perceived to enhance the development prospects of low- and middle-income economies, maintain their macroeconomic stability, mitigate the impact of exogenous shocks, and reduce poverty because of the increasing volumes and more stable trends relative to other external flows.\(^1\)

The remittance inflows to Sub-Saharan Africa have been modest compared with those to other developing regions. Remittance flows to Sub-Saharan Africa quadrupled from US$4.6 billion in 2000, to US$21.5 billion in 2010 (World Bank 2011). However, Sub-Saharan Africa attracted only 6.6 percent of total remittances to developing countries in 2010. In many African countries (such as Cape Verde, Lesotho, Mauritius, Nigeria, Swaziland, and Togo), remittances are similar in size to or have outpaced official development assistance (Gupta, Patillo, and Wagh 2009; World Bank 2011).

**Remittance and Emigration Trends**

Cape Verde is one of the top recipients of remittances in Sub-Saharan Africa, receiving high inflows relative to other small island economies that depend heavily on remittances, including the Dominican Republic,
Grenada, and Jamaica. The official data show that 192,000 Cape Verdeans live abroad, more than one-third of the country’s resident population of about 500,000 (World Bank 2011); however, anecdotal evidence suggests that the number of Cape Verdan emigrants exceeds the country’s resident population. As a result, Cape Verde has benefited from significant external financing from its diaspora, which has made remittance flows less volatile than other foreign capital inflows (from foreign direct investment and official development assistance). However, remittances have been declining as a share of total foreign financing—from 46 percent in 1995 to 19 percent in 2007 (IMF 2008), as figure 3.1 shows.

**Remittance Volumes and Economic Impact**
International remittance flows to Cape Verde increased at an average annual rate of 10 percent in the past 20 years, helping to finance the nation’s current account deficit (IMF 2008). The macroeconomic stability devolving from a credible exchange rate peg, the relaxation of foreign exchange controls on the purchase and sale of foreign currencies, and financial sector development encouraged remittance inflows through formal channels. An International Monetary Fund study showed that emigrant deposits did not appear to be affected by events in the source countries,

---

**Figure 3.1  Composition of External Financing for Cape Verde, 1995 and 2007**

<table>
<thead>
<tr>
<th>Year</th>
<th>FDI</th>
<th>ODA</th>
<th>Remittances</th>
<th>Tourism</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>12%</td>
<td>38%</td>
<td>46%</td>
<td>4%</td>
</tr>
<tr>
<td>2007</td>
<td>18%</td>
<td>14%</td>
<td>19%</td>
<td>49%</td>
</tr>
</tbody>
</table>


*Note:* FDI = foreign direct investment. ODA = official development assistance.
such as the introduction of the euro or the events of September 11, 2001, in the United States (IMF 2008).

Remittances represented around 9.3 percent of the Cape Verdean gross domestic product (GDP) in 2007, second to Lesotho among African countries, and higher than the averages of 2.6 percent in Sub-Saharan Africa and 2 percent in all developing countries. Remittances are an important source of foreign exchange, and they support the fixed exchange rate policy through an increase in international reserves. Remittances have accounted for 40 percent, on average, of export earnings in Cape Verde since 2000, and net accumulation of nonresident deposits was around 4 percent of GDP in 2004, or 40 percent of the total bank deposits (IMF 2005). This has stimulated financial sector development and investment, particularly in real estate. The annual growth rate of nonresident deposits has slowed down, but is still around 6 percent (IMF 2008b).

Official remittance figures shown in table 3.1 tend to be underestimated because they do not include transfers through informal channels, such as the amounts that emigrants bring home during their visits to Cape Verde.

Although remittance inflows reached US$155 million in 2008 (World Bank 2011), they appear to have declined in 2009–10 because of the effect of the global financial crisis on Cape Verdaean migrants’ employments and incomes.

Remittances also have increasingly become procyclical. In the 1980s, remittances to Cape Verde were driven mainly by altruism, but after the mid-1990s the remittance flows became more investment driven (IMF 2008). Although they continue to be a reliable source of foreign investment, their growth has slowed, in part because robust economic growth in Cape Verde and increase in incomes of Cape Verdians have relieved pressures on emigrants to supplement their relatives’ incomes directly through remittances.

### Table 3.1 International Remittance Flows to and from Cape Verde, 2001–10

<table>
<thead>
<tr>
<th>Remittance flows</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inwarda</td>
<td>109</td>
<td>113</td>
<td>137</td>
<td>137</td>
<td>139</td>
<td>155</td>
<td>145</td>
<td>144</td>
</tr>
<tr>
<td>Outward</td>
<td>7</td>
<td>12</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>10</td>
<td>10</td>
<td>—</td>
</tr>
</tbody>
</table>


Note: e = estimated; — = not available.

a. 9 percent of GDP in 2009.
Regarding remittance sources, around two-thirds of families receive money from abroad—the highest proportions coming (in order of percentage) from Portugal, France, the United States, and the Netherlands as shown in figure 3.2. Empirical evidence shows that remittances from the United States are markedly procyclical, indicating that investment drivers are increasingly replacing the consumption-smoothing considerations. Meanwhile, the flows from the European countries seem to be largely driven by altruism (IMF 2008). The highest shares of remittance receipts tend to be absorbed by the residents of the island of São Vincente (around 20 percent) and the capital city, Praia (around 17 percent), and are mainly used to fund construction and education.

Typically, inward remittances are normally disbursed in the local currency, the Cape Verde escudo (CVEsc), based on the current exchange rate. Interviews with remittance service providers (RSPs) in Cape Verde

Figure 3.2  Share of 2007 Remittances to Cape Verde by Country of Origin

Source: Central Bank of Cape Verde 2008.
suggest that inward remittance flows are seasonal. Spikes are observed from June to August and from December to January, as remittance inflows aim to support increased consumption associated with summer and winter holidays.

Despite exceptionally high remittance amounts, evidence about the loss in external competitiveness from an appreciation of the exchange rate as a result of these large remittance inflows, or the so-called “Dutch disease,” is weak. Although there is some evidence that an appreciating effective real exchange rate could be attributed to the Dutch disease (Bourdet and Falck 2004), the exchange rate in Cape Verde has been generally in line with fundamental goods while the wages in the nontradable sector do not seem to have an impact on the tradable sector wages (IMF 2008). This is mainly because the nontradable sector is shallow and most of the tradable sector wages are concentrated in the tourism sector (IMF 2008).

**Destinations of Migrants**

Cape Verde is one of the few countries that have experienced large-scale emigration. As of 2010, 192,000 Cape Verdeans lived abroad, representing around 37.5 percent of the population (World Bank 2011). The top migrant destination countries in Africa (from highest to lowest percentages of Cape Verde emigrants) are Angola, Senegal, Mozambique, and Nigeria. The main destinations outside Africa (also in order of migrants’ preference) are the United States, Portugal, Angola, France, Senegal, Argentina, the Netherlands, Italy, Spain, and Luxembourg (IMF 2008; see figure 3.3).

Interestingly, although the largest share of the overseas diaspora lives in the United States (53 percent of the total), those emigrants supply only 16.5 percent of the remittances. One explanation may be that the Cape Verdeans living in the United States are often fourth- and fifth-generation U.S. residents, with decreasing identification as Cape Verdeans. Although the diaspora in Portugal and France is smaller (totaling around 21 percent), the remittance flows originating in these two countries collectively account for more than 52 percent of total remittances.

Emigration of skilled workers is the predominant trend. Cape Verde ranks among the top-10 middle-income economies in the emigration of skilled workers, with an emigration rate of college-educated people as high as 67.5 percent (World Bank 2011). It is also the largest source country of educated emigrants, physicians, and nurses from Sub-Saharan Africa.
This section describes the characteristics of the remittance industry in Cape Verde. It relies on a survey and interviews with Cape Verden RSPs conducted in 2008.

**RSP Firm Types and Coverage**

Among the formal RSPs that facilitate the transfers, five financial institutions—four private banks and one exchange office—dominate the industry: Banco Comercial do Atlântico (BCA), Caixa Económica de Cabo Verde (CECV), Banco Interatlântico (BIA), Banco Caboverdiano de Negócios (BCN), and Cotacâmbios. CECV and BCA have the most extensive network—with 33 and 27 total branches, respectively—covering both urban (including the capital city, Praia) and rural areas. Both CECV and BCA have branches in the islands of Santiago, São Vincente, Santo Antão, Sal, Fogo, and Boa Vista. The third- and fourth-largest RSPs are BCN and BIA, respectively. The smallest of the five—the exchange office, Cotacâmbios—has four branches in Praia.
In the rural areas, however, only CECV and BCN have branches, as table 3.2 indicates. Moreover, there are no microfinance institutions to facilitate remittances in the rural areas.

Two banks facilitated about 92 percent of the reported inward international remittance volume in 2007: BCA and CECV, which processed US$76.3 million (62 percent) and US$37.2 million (30 percent), respectively. BCN facilitated US$0.95 million in 2007 (1 percent) and Cotacâmbios, US$1.0 million (1 percent). BIA, the fifth major RSP, did not provide 2005–07 data on its inward remittance volumes.

**Partnerships and Agreements with Money Transfer Operators**

The four major banks are independent firms, and the exchange office is a branch of an international group, Cotacâmbios Portugal (part of the Group Cota). All five facilitate remittance services to their clients through partnerships with foreign banks, money transfer operators (MTOs), and telecommunications service providers.

The banks usually partner with international MTOs for remittance services. The primary MTOs, as table 3.3 shows, are Western Union and

---

**Table 3.2 RSP Branches in Cape Verde**

<table>
<thead>
<tr>
<th>RSP</th>
<th>Total branches</th>
<th>Urban branches</th>
<th>Rural branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>CECV</td>
<td>33</td>
<td>25</td>
<td>8</td>
</tr>
<tr>
<td>BCA</td>
<td>27</td>
<td>27</td>
<td>0</td>
</tr>
<tr>
<td>BCN</td>
<td>13</td>
<td>11</td>
<td>2</td>
</tr>
<tr>
<td>BIA</td>
<td>6</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Cotacâmbios</td>
<td>4</td>
<td>4</td>
<td>0</td>
</tr>
</tbody>
</table>

*Source: Survey of RSPs in Cape Verde.*

**Table 3.3 Business Partnerships for Remittance Services**

<table>
<thead>
<tr>
<th>RSP</th>
<th>MTO</th>
<th>Correspondent banks$^a$</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCA</td>
<td>Western Union</td>
<td>✓</td>
</tr>
<tr>
<td>CECV</td>
<td>Western Union</td>
<td>✓</td>
</tr>
<tr>
<td>BCN</td>
<td>—</td>
<td>✓</td>
</tr>
<tr>
<td>BIA</td>
<td>MoneyGram International</td>
<td>✓</td>
</tr>
<tr>
<td>Cotacâmbios</td>
<td>Western Union</td>
<td>—</td>
</tr>
</tbody>
</table>

*Source: RSP survey in Cape Verde.*

*Note: — = Not available. ✓ = bank provides inward remittance services but it may not offer account-to-account transfers for outward international or domestic remittances.*
MoneyGram International. Typically, those partnerships are exclusive; for example, if a bank signs a partnership with Western Union for money transfer operations, it cannot enter a partnership with MoneyGram. However, other types of money transfer services (such as account-to-account transfers) involving foreign correspondent banks do not exclude partnerships with Western Union or MoneyGram.

The partnerships with MTOs and correspondent banks include various profit-sharing arrangements. The significant remittance inflows also generate indirect benefits to the RSPs, such as enhancing their capacity and supporting their financial consolidation. Most commonly, these financial institutions benefit from full access to payment infrastructures and distribution networks (particularly in the countries from which remittances originate); access to foreign exchange; and commissions (about 20 percent) charged on remittance payments and receipts.

Other institutions, such as Correios de Cabo Verde (Post Office of Cape Verde), also provide remittance services through Western Union, but data on these inward remittance flows are not available. Overall remittance inflows might be higher than reported because some of the statistics include inflows processed only through formal channels (for example, Western Union). Inflows through informal channels or person-to-person transfers are not captured. This trend confirms the overall assumption that remittance inflows may be underreported in Cape Verde.

**Remittance Products**

Remittance products are well developed in Cape Verde, and all RSPs offer a wide range of services—mainly electronic cash transfers and account-to-account transfers. In addition, as table 3.4 shows, some banks (such as BCA, BIA, and BCN) offer other remittance products, including bank drafts, checks, money orders, prepaid cards for use at designated retailers, prepaid debit cards, and money transfers transmitted by cellular phone.

The settlement system and customer services are effective, and they facilitate the processing of remittance inflows. In the case of electronic cash transfers (using MTOs such as Western Union or MoneyGram), the settlement of international remittance transactions is instantaneous. In the case of international account-to-account transfers, the remittance recipients in Cape Verde normally receive the amounts due within two working days from the transfer date.

Banks do not require customers of remittance services to open an account, thus eliminating their monthly fees for account maintenance. The remittance sender pays all the fees due for the money transfers.
<table>
<thead>
<tr>
<th>RSP</th>
<th>Electronic cash transfers</th>
<th>Account-to-account transfers</th>
<th>Bank drafts</th>
<th>Checks</th>
<th>Money orders</th>
<th>Prepaid cards for use at designated retailers</th>
<th>Prepaid debit cards</th>
<th>Money transfers through cellular phones</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCA</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>CECV</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BCN</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BIA</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Cotacâmbios</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: RSP survey in Cape Verde.
Furthermore, all financial institutions designate one or two staff members to deal with customer grievances, particularly when remittances are not delivered on time or at all. The most common way to address such complaints is by talking to the sending agents. Among the Cape Verde RSPs, customer complaints vary in frequency between once a week and once every two or three months—in some cases, as seldom as once every five months. The customer service is effective because grievances are handled relatively quickly (within one week, often in as little as two days) to resolve customers’ complaints about remittances not being received or delivered.

**Access to Other Financial Services**

Most of the banks providing remittance services in Cape Verde also extend other financial services to remittance receivers and senders, irrespective of whether they are regular banking customers or not. The most common products offered to remittance receivers are deposits, savings products, small and large consumer loans, business loans, educational and vehicle loans, credit cards, and mortgages (however, nonresidents cannot benefit from mortgages). Remittance senders, too, may have access to deposits, savings accounts, business loans, and mortgages.

By facilitating remittances, the banks can also potentially enlarge their customer bases and financial revenues. By developing customized services for remittance receivers and senders, the banks may help to formalize remittance flows, reduce remittance costs, and increase the scope for investment in Cape Verde.

**The Regulatory and Business Environment**

All the RSPs who participated in the survey perceive the regulatory and business environment as conducive to remittance service operations. Sixty percent of the respondents perceive the laws and regulations governing remittances, collectively, as a minor obstacle. The remaining 40 percent do not consider laws and regulations to be an obstacle at all.

The Central Bank of Cape Verde is responsible for the regulation and supervision of commercial banks, offshore banks, and nonfinancial institutions. All commercial banks are subject to standard regulatory requirements (as described in box 3.1), an annual on-site examination, and regular monthly reporting. BCA, CECV, BCN, BIA, and Cotacâmios are registered with the central bank to provide remittance services as well as any other banking or financial services.
The Central Bank's Regulatory and Supervisory Role

The Central Bank of Cape Verde (CBCV) is responsible for the regulation and supervision of commercial banks, offshore banks, and non-bank financial institutions. The law governing the central bank was revised in 2002 to clarify the bank's overriding policy objectives and to bring the law in line with international practices. Among the main revisions were the following:

• Cash advances to the government may never exceed 5 percent of the current revenue collected in the preceding year. Any overdraft account of this kind must be in balance at the end of each year.
• The central bank's independence and accountability was explicitly stated in the law.
• The admissible operations using domestic monetary policy instruments were streamlined.
• Best practices for safeguarding the central bank's capital ("top-up" rules), determining net income, and distributing net profits were introduced.

Under this law, the central bank may provide liquidity support for commercial banks—in particular, by granting short-term credit to commercial banks with the collateral of marketable government securities. Furthermore, to bridge temporary liquidity shortages, it may act as a lender of last resort, but any lending of this type is limited to three times the borrowing entity’s capital and carries a penalty rate of interest determined on a case-by-case basis. The central bank also can issue temporary emergency rules to govern the volume of credit and interest rates applicable to commercial banking operations.

As the regulations of the banking and financial sectors have improved, the central bank has been implementing measures to reinforce its operational and oversight responsibilities by training its staff and modernizing computer systems and internal controls. A framework for internal controls for the commercial banks for anti-money-laundering is part of on-site inspection. The anti-money-laundering legislation (2002) and the accompanying regulations (2003) complete the legal framework. The banks now must comply with a series of prudential regulations, including the following:

• Equity stakes in firms not supervised by the central bank may not exceed certain limits.

(continued)
Among the reporting requirements, banks and nonfinancial institutions must comply with reporting requirements in case of suspicious activities and large currency transactions. They have to notify the central bank of all currency transactions exceeding CVEsc 1 million (approximately US$12,412) as well as all suspicious activities they might detect.

To handle foreign exchange transactions, all these banks and institutions must establish partnerships with correspondent banks, and they may order cross-border transfers freely because the central bank sets no maximum fee or charge for such transfers, nor does it limit foreign exchange holdings or remittance inflows.

The mandatory minimum capital requirement to operate in the banking and financial market is CVEsc 300 million (approximately US$3.7 million). The minimum capital for the exchange offices is CVEsc 35 million (approximately US$434,000 at the time of the survey in 2008). Some banks also indicated that they must comply with a net worth requirement of 10 percent of net results above the minimum capital and a requirement that 5 percent of deposits be in the national currency.

**Entry and Other Barriers to Provision of Remittance Services**

Although laws and regulations do not seem to significantly affect the remittance industry, the RSPs differ in their perceptions of the main

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**Box 3.1 (continued)**

- Equity and loans exceeding 10 percent of the bank’s capital are considered high risk.
- Exposure to any client may not exceed 25 percent of the institution's capital, and the amount of high-risk obligations may not exceed eight times the bank’s capital.
- The minimum capital requirement for a bank is CVEsc 300 million, and the risk-weighted capital adequacy ratio is 10 percent.
- Banks are obliged to set up provisions for overdue loans, general credit risks, retirement pensions, survivors’ benefits, and capital losses on securities and other instruments. (Nonperforming loans are divided into five groups—up to 3 months, 6 months, 12 months, 36 months, and more than 36 months—with nonperforming loans secured by collateral requiring lower provisioning.)

barriers to entry when starting a remittance-related business. Half of the respondents consider the following to be moderate to major barriers: banking license requirements, access to financial infrastructure (payment systems), minimum capital requirements, and access to capital and finance. One respondent considered competition to be a major barrier to entry.

Among the lesser barriers to entry, 75 percent of the respondents perceived access to distribution networks as a minor barrier, and they unanimously considered corruption to be the least important barrier.

In particular, 60 percent of respondents consider capital requirements, anti-money-laundering requirements, and exchange controls to be moderate barriers to providing remittance-related services. Sixty percent also consider license requirements and lack of access to clearing and settlement systems to be minor obstacles. Finally, tax policy, lack of access to banking facilities, and government corruption are perceived as the least important barriers to running remittance-related operations.

Remittance Costs and Identification Requirements

Remittance fees for transfers outside and within Cape Verde do not vary significantly across RSPs. Typically, the fee to send money abroad or within the country ranges between CVEsc 1,500 and CVEsc 2,100 (approximately US$20 to US$28) for money transfer operators’ services, irrespective of the remittance corridor—a scant increase from previous years. For example, BCA reported fixed fees of CVEsc 1,900 (approximately US$24.00) in 2007 and CVEsc 2,000 (approximately US$26.60) in 2008.

The fee for account-to-account transfers at some banks is also fixed at CVEsc 2,500 (approximately US$31). These costs are higher than those to remit from the United States to Mexico or to other Latin American countries through credit unions, which is about US$10 for up to US$300 in remittances (Maimbo and Ratha 2005; World Bank 2006).

The average foreign exchange commission charged by some banks is 0.018 percent for all major remittance corridors. However, because most inflows come from European countries, this commission does not apply to transactions involving an exchange from euro to CVEsc because the exchange rate between the two currencies is fixed. Typically, for receipt of remittances from abroad, banks do not charge any fee for transfers through money transfer operators, but they do charge CVEsc 500 (approximately US$6) for account-to-account transfers. Nevertheless, these costs may be prohibitive for the less wealthy population, thereby fueling the development of informal remittance networks.
Remittance fees are also fixed for destination countries in Africa. People send money from Cape Verde to other African countries primarily through these corridors:

- Northern Africa: Algeria and Morocco
- Western Africa: Burkina Faso, The Gambia, Ghana, Guinea, Guinea-Bissau, Nigeria, Senegal, Sierra Leone, and Togo
- West-central Africa: Cameroon, Gabon, and São Tomé and Príncipe
- Southern and southwest Africa: Angola, Namibia, South Africa, and Swaziland

The growing demand to send remittances from developed financial markets to Cape Verde boosted the development of money transfer services and customized programs in the source countries. In the United States, major commercial banks such as Citizens Bank and Wells Fargo view remittance services as a way to attract a significant number of the unbanked population to their mainstream financial products. In an arrangement with banks in Cape Verde, for example, Citizens Bank offers Cape Verdean migrants a remittance facility that is cheaper than Western Union. In its three years of operations, this program has made more than 1,000 formerly unbanked Cape Verdean migrants customers of Citizens Bank. However, most of such programs require the migrant to open a bank account and are thus unlikely to appeal to undocumented workers (IMF 2008).

The cost of sending money from developed countries to Cape Verde is relatively high, especially for poor migrants. Transferring money to Cape Verde through Western Union and MoneyGram is slightly more expensive than through other operators or services. Fees range between US$10.00 and US$18.60 to send US$100 through MoneyGram International, and the fees for the high-volume corridors (such as France, Portugal, and the United States) are lower than those for low-volume corridors (such as the United Kingdom). These fees through Western Union and MoneyGram are also lower than fees they charge to send money from Cape Verde (see table 3.5).

Nevertheless, such fees may be prohibitive for poor migrants who send home only a few hundred dollars per transaction and may encourage the use of informal channels to facilitate such transfers. These channels charge, on average, 14.3 percent, confirming the generally high transaction costs for Sub-Saharan Africa. Moreover, fees to send remittances from the United Kingdom to Cape Verde and other countries, either within or outside Africa, do not differ substantially.
<table>
<thead>
<tr>
<th>Originating country</th>
<th>France</th>
<th>Portugal</th>
<th>United Kingdom</th>
<th>United States</th>
<th>Transfer speed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remittance amount</td>
<td>€100</td>
<td>€100</td>
<td>£100</td>
<td>US$100</td>
<td>instant</td>
</tr>
<tr>
<td>MoneyGram International</td>
<td>€8³</td>
<td>€12⁴</td>
<td>£12⁵</td>
<td>US$10</td>
<td>instant</td>
</tr>
<tr>
<td>Western Union</td>
<td>€10⁶</td>
<td>n.a.</td>
<td>£14⁶</td>
<td>US$12</td>
<td>instant</td>
</tr>
<tr>
<td>Currencies direct (account-to-account via cell phone, online, telephone)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>£0</td>
<td>n.a.</td>
<td>1–2 days</td>
</tr>
<tr>
<td>Money Line UK (cash to cash via agent branch, cell phone, telephone)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>£10⁷</td>
<td>n.a.</td>
<td>24 hours</td>
</tr>
<tr>
<td>Coinstar Money Transfer (cash to cash via agent)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>£4⁹</td>
<td>n.a.</td>
<td>instant</td>
</tr>
<tr>
<td>ePay (upload to MTO account online)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>£0</td>
<td>n.a.</td>
<td>5 days</td>
</tr>
<tr>
<td>Sole Provider International (upload to ATM card account, online)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>US$3</td>
<td>instant</td>
</tr>
<tr>
<td>iKobo (prepaid credit card via FedEx, online)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>US$8</td>
<td>n.a.</td>
</tr>
</tbody>
</table>


Note: ATM = automated teller machine. n.a. = not applicable.
Typically, to disburse or send remittances outside or within Cape Verde, all RSPs require official identification documents—either a national passport or national identification card—regardless of whether the customers hold an account with the respective banks. Driver’s licenses or utility bills are rarely accepted as identification documents. Only Cotacâmbios reported accepting these two types of identification documents. Letters from the village head or local authorities are not accepted.

Because poor populations or those living in rural areas may not always possess national identification cards or national passports, their access to remittance services and, implicitly, to additional sources of revenue may be limited.

Conclusions and Recommendations

As one of the few countries in Africa that have experienced large-scale emigration, as a share of its population, Cape Verde is among the top recipients of remittances (as a share of its GDP) in Africa.

Summary of findings

However, official statistics often fail to capture informal remittance inflows, including person-to-person transfers, often used for remittances to rural areas and poor segments of the population. In addition, estimates of the volume of remittances sent from other African countries are not easily available.

Four private banks and one exchange office are Cape Verde’s primary RSPs. However, the industry is highly concentrated: Among the five primary RSPs, two banks (BCA and CECV) facilitated around 92 percent of the inward remittance flows in 2007.

Rural areas in Cape Verde remain underserved. Only two banks (CECV and BCN) even have branches in the rural areas. Moreover, no microfinance institutions exist that might facilitate remittances in the rural areas.

The RSPs have established partnerships to facilitate the transfer of remittances—most commonly with MTOs, such as Western Union and MoneyGram International, and with foreign correspondent banks. All RSPs offer one or more of the most common remittance products: electronic cash transfers, account-to-account transfers, bank drafts, checks, money orders, prepaid debit cards or cards for use at designated retailers, and money transfers through cellular phones.
Overall, the remittance settlement system and customer services appear to be effective, and remittance recipients may benefit from a relatively wide range of financial products, including deposits, saving products, loans, credit cards, and mortgages. High remittance levels enhance the RSPs’ capacity and support their financial consolidation, confirming the overall effect of remittances on financial deepening documented in various studies (including Gupta, Pattillo, and Wagh 2009).

The RSPs’ fees for sending remittances abroad and within the country do not vary significantly, but they are high—and the high fees especially limit the poor population’s access to such services. Similarly, the cost of sending money from developed countries to Cape Verde is relatively high, especially for poor migrants. Transferring money from France, Portugal, or the United States through Western Union and MoneyGram appears to be slightly more expensive than through other operators or services. However, fees to send money through high-remittance-volume corridors are lower than fees for low-volume corridors, as observed in other countries.

All RSPs perceive the regulatory and business environment as favorable to conducting a remittance business. There is a mandatory minimum capital requirement to operate in the banking and financial market. Banks and nonfinancial institutions also must comply with the existing regulations on reporting requirements for suspicious activities and large currency transactions. However, laws and regulations do not seem to significantly affect the remittance industry. Most of the RSPs perceive insufficient access to finance for banks and nonfinancial institutions—in terms of availability, costs, and competition from informal sector—as moderate obstacles to doing business.

**Recommendations**

For better leveraging of the impact of remittances on development in Cape Verde, specific actions are recommended in three areas: data collection, remittance transaction costs, and investment and financial products.

**Improve data collection.** RSPs can take the following actions to improve data collection on remittance flows and, hence, to increase the accuracy of national remittance volume estimates and forecasts:

- Streamline statistics on both inward and outward remittance flows (remittances that Cape Verde emigrants send home and those sent by immigrants living in Cape Verde) by keeping separate books for
inward remittances from Cape Verdeans abroad and outward volumes remitted by immigrants.

- Track the within-country remittance flows, and in particular, improve knowledge of the flows remitted into rural areas and to poor segments of the population.
- Improve data collection on remittance flows for the intra-African corridors.

**Reduce transaction costs, and increase access of the poor.** Steps to increase access of the poor to remittance services and to reduce remittance costs include:

- Improve access to remittance services in rural areas by encouraging entry of microfinance institutions to reach poor populations.
- Encourage the use of new money-transfer technologies such as prepaid cards or mobile phones, which are less costly than traditional remittance services and products.
- Stimulate competition among banks and other nonfinancial institutions by reducing barriers to entry of new remittance service providers, which will help reduce overall transaction fees.

**Develop investment and financial products.** Finally, to strengthen the links between remittance flows and investment, financial institutions should implement the following innovative strategies:

- Develop financial products that target the Cape Verdean diaspora, including diaspora bonds.
- Increase awareness of investment opportunities among the Cape Verdean diaspora in both Europe and the United States.
- Use future remittance flows as collateral to improve long-term capital (through securitization of remittances, trade payments, and investment)—a strategy that has already proven effective in other developing countries such as Ecuador, the Arab Republic of Egypt, and Turkey.
Annex 3.A  Financial Sector Development in Cape Verde

Cape Verde’s modern financial sector has developed over the past decade. The central bank, the Central Bank of Cape Verde is responsible for regulation. Four commercial banks are currently the main banking service providers in Cape Verde: Banco Comercial do Atlântico (BCA) (spun off from the central bank in 1995), Caixa Económica de Cabo Verde (CECV), Banco Interatlântico (BIA), and Banco Caboverdiano de Negócios (BCN).8

The financial sector is performing well and is exhibiting a relatively high level of financial intermediation. It is also highly liquid, with broad money representing 72.3 percent of GDP by the end of 2004—one of the highest levels in Sub-Saharan Africa. Credit to the private sector and deposits of commercial banks were 34 percent and 60 percent of GDP, respectively, at the end of 2003. This is much higher than in other low-income countries in Africa and comparable to those of other lower- and upper-middle-income countries (average of 12.4 percent) (IMF 2005).

The bankwide nonperforming loan portfolio, although higher than that in developed countries, has gradually decreased from 9.00 percent in 2002 to 6.31 percent (of the total) in 2005 as a result of improved supervision by the central bank and accelerated collection efforts. The returns to equity appear to be higher than global benchmarks and those in other countries from Sub-Saharan Africa (IMF 2005).

The banking sector is highly concentrated9 and dominates the financial sector, with commercial banks accounting for 87 percent of financial system assets, while the insurance10 and the stock markets11 are relatively small. Altogether, seven nonbank financial institutions (two insurance companies, one venture capital firm, two exchange houses, a leasing company, and the Sociedade Interbancária e Sistemas de Pagamento [SISP]) and four offshore banks are operational.12

The market infrastructure, which is still developing, includes the payment system and interbank market. In addition to SISP, another institution, Sistema Integrado de Compensação Interbancária e Liquidação, was created to integrate compensation of checks and interbank transfers with 24-hour processing operations. SISP integrates VISA services to support tourism and attract foreign exchange and is expanding in some other islands of Cape Verde.

The interbank market is dominated by two big banks and characterized by a limited number of participants, inelastic interest rates, lack of interbank deposits, and temporary excess liquidity in the banking system. The central bank sets reference rates (including those for lending and borrowing facilities) and may use treasury bills of maturities of up to one year in
open-market operations to inject (and absorb) liquidity in the banking sector. However, these instruments have not been used since 1999 because there has been no shortage of liquidity in the banking system (IMF 2005).

Notes

2. Empirical analysis of remittances to Cape Verde shows that the domestic real interest rates were negative in the first part of the 1980s (the inflation rate surpassing the nominal interest rate of 6.5 percent), but after the mid-1990s, returns on deposits increased as special accounts for emigrant remittances were created, yielding 1 to 3 percentage points more than resident deposits (IMF 2008).
3. CECV provided data that included only inward remittances processed through Western Union services. The account-to-account transfers are not included.
4. Based on the annual average exchange rate (2007) of US$1 = CVEsc 80.56.
5. Based on the annual exchange rate (2008) of US$1 = CVEsc 75.27.
6. Based on the annual average exchange rate (2007) of US$1 = CVEsc 80.56.
7. See Gupta, Pattilo and Wagh (2009).
8. BCA and BIA are subsidiaries of the same state-owned bank in Portugal: Caixa Geral de Depósitos. CECV is a subsidiary of two Portuguese banks: Caixa Económica Montepio Geral and Montepio Geral-Assoçiação Multulista.
9. BCA controlled 66.3 percent of the total deposits and the total assets and 55.6 percent of the total loans of the commercial banks at the end of 2004 (IMF 2005).
10. Car insurance accounts for 55 percent of total insurance premiums, providing very limited long-term capital to the market. Life insurance is underdeveloped, representing only 1.3 percent of insurance premiums.
11. The Bolsa de Valores de Cabo Verde was inaugurated in 2005. Several companies (BCA, Garantia, CECV, and a tobacco company) have already been listed, and the government also placed 44 treasury bonds dating back to 1993 in addition to new treasury bills.
12. Five additional offshore banks have requested licenses.

References


