AFRICAN DEVELOPMENT BANK

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BOARD APPROVAL **Lapse-of-time Procedure** **9 December 2019**

FOR CONSIDERATION

MEMORANDUM

TO : **THE BOARD OF DIRECTORS**

FROM : **Vincent O. NMEHIELLE**
Secretary General

SUBJECT : **CABO VERDE – COUNTRY STRATEGY PAPER 2019-2024**

REVISED VERSION*

Following the CODE meeting of November 20, 2019, **basis** the **Revised version** of the above-mentioned Report as endorsed by the Committee please was submitted for your **consideration and approval on a lapse-of time** on 22 November 2019.

Since no objection was recorded by 5.00 pm. on December 9, 2019**, this Revised version is considered as approved.**

Attach.

Cc: The President

*** Questions on this document should be referred to:**

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AFRICAN DEVELOPMENT BANK

REPUBLIC OF CABO VERDE

Cabo Verde Country Strategy Paper 2019-2024

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AFRICAN DEVELOPMENT BANK

REPUBLIC OF CABO VERDE

COUNTRY STRATEGY PAPER (CSP)

2019-2024

WEST AFRICA DEVELOPMENT AND BUSINESS DELIVERY OFFICE

November 2019

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CURRENCY EQUIVALENTS

Cabo Verde currency unit	=	Cabo Verdean Escudo (CVE)
UA 1.00	=	1.368 USD
UA 1.00	=	1.239 EUR
UA 1.00	=	136.27 CVE
USD 1.00	=	99.59 CVE

As of November 2019

WEIGHTS AND MEASURES

Metric System

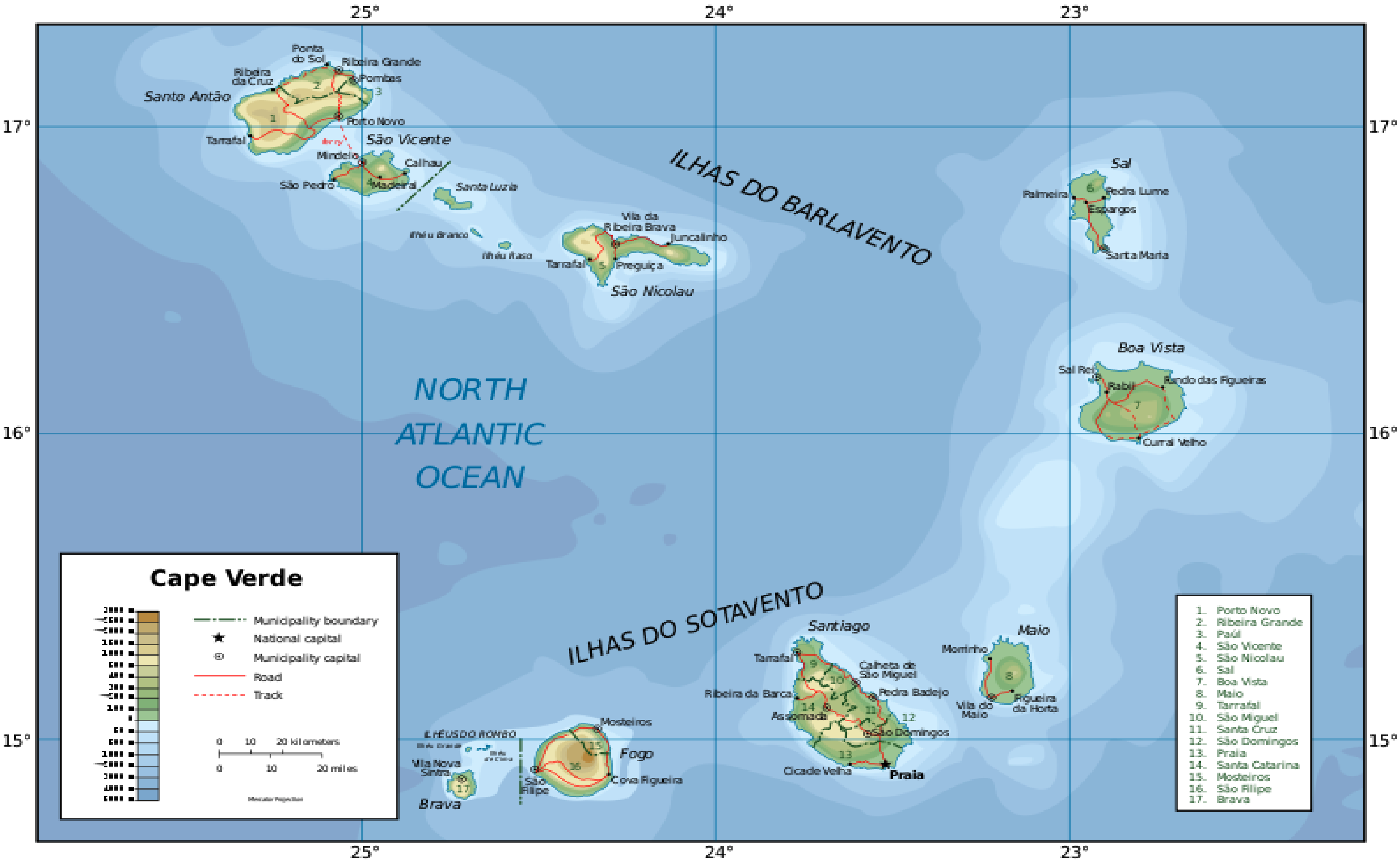
GOVERNMENT FISCAL YEAR

1 January – 31 December

ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
ALSF	African Legal Support Facility
BDEV	Independent Development Evaluation
BCV	Banco de Cabo Verde (Cabo Verde Central Bank)
CPIP	Country Portfolio Implementation Plan
CPIA	Country Performance and Institutional Assessment
CPPR	Country Portfolio Performance Review
CSOs	Civil Society Organizations
CSP	Country Strategy Paper
COSN	Senegal Regional Office
DPs	Development Partners
ECOWAS	Economic Community of West African States
ELECTRA	National Electricity and Water Utility
ESW	Economic and Sector Work
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GCI	Global Competitiveness Index
GoCV	Government of Cabo Verde
GPRSP	Growth and Poverty Reduction Strategy
GCF	Global Climate Fund
GEF	Global Environmental Fund
GAO	Budget Support Group
ICT	Information and Communications Technology
IPP	Independent Power Producers
IIAG	Mo Ibrahim Index of African Governance
INE	National Institute of Statistics
MpD	Movement for Democracy
MSMEs	Micro, Small and Medium Enterprises
MTR	Medium Term Review
MIC TAF	Middle Income Country Technical Assistance Fund
NOSi	Nucleus for Information Society
PCI	Policy Coordination Instrument
PIP	Public Investment Program
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PAICV	African Party for Independence of Cabo Verde
PEDS	Strategic Plan for Sustainable Development
PSC-LED	Private Sector Competitiveness and Local Economic Development Programme
SEFA	Sustainable Energy Fund for Africa
SSA	Sub-Saharan Africa
SDGs	Southern Africa Development Community
SIGOF	Integrated Financial and Budget Management System
SME	Small and Medium Enterprises
TACV	Cabo Verde Air Transport Company
TFP	Total Factor Productivity
UNDP	United Nations Development Program
WB	World Bank

MAP OF CABO VERDE



EXECUTIVE SUMMARY

1. **This report proposes the Bank Group Country Strategy Paper (CSP) for Cabo Verde for the period 2019-2024.** The choice of intervention areas was informed by Cabo Verde's development priorities as detailed in the Strategic Plan for Sustainable Development (PEDS, 2017-2021) and Cabo Verde Vision 2018-2030. The strategy was also informed by extensive consultations with the Government of Cabo Verde (GoCV), private sector, Civil Society Organizations (CSOs), and Development Partners (DPs). The CSP 2019-2024 is prepared following the Bank's new guidelines for transition from the old to new annotated formats of CSPs and therefore the requirement for a Country Diagnostic Note was waived. Nevertheless, the CSP was prepared based on extensive economic and sector work, the recommendations from the Bank's Independent Development Evaluation (BDEV) evaluation of CSPs from 2008-2017, and the lessons learned from the completion report of CSP 2014-2018. The CSP is aligned with the Bank's Ten Years Strategy (TYS, 2013-2022), and reflects the High 5s priorities of the Bank.

2. **Cabo Verde recorded a significant development progress over the past three decades.** Since 1990's, the country adopted an efficiency-driven development model sustained on economic liberalization, public investment in infrastructure, and attraction of foreign direct investment (FDI) in the tourism sector, based on all-inclusive resorts concentrated in 2 of the 10 islands (Boa Vista and Sal islands). In addition, remittances further contributed to the improvement of living conditions. Gross Domestic Product (GDP) per capita has grown from USD 500 in 1986 to more than USD 3,700 in 2018. In 2007, Cabo Verde transitioned to lower middle-income status reflecting strong economic growth and improved social conditions. Incidence of poverty fell from 58% in 2011 to 35% in 2015. Income inequality measured by the Gini index dropped from 0.53 in 2001 to 0.42 in 2015. Successful path was made in the implementation of the Millennium Development Goals (MDGs) and the country is on track regarding the Sustainable Development Goals (SDGs) for eradicating hunger, improving education, ensuring health and gender equality. Despite the progress made over the past three decades more needs to be done to address the country's overarching development challenges of enhancing economic diversification, improve inter-island transport connectivity, reduce unemployment, particularly among the youth and women, and address the risks to climate change which ultimately impact on agricultural productivity and growth.

3. **The Bank's CSP 2014-2018 approved by the Board of Directors on 28th March 2014 was designed to assist Cabo Verde to promote sustainable and inclusive economic growth, infrastructure development and improved governance**. Tangible results were achieved on infrastructure development and governance reforms as presented in the CSP completion report. More specifically, in energy sector the Bank helped build 385.4km of electricity distribution lines in six islands of the archipelago and targeting 10,435 new connections in urban areas and 2,060 people in rural areas. In the transport sector, Bank's investments in the modernization of Praia Airport helped improve air passenger traffic from 400 passengers/hour in 2014 to 1000 passengers/hour in 2018. Bank's approval of various Budget Support and technical assistance grants drove significant reforms in the areas of tax administration, entrepreneurship, and economic competitiveness. The Bank also demonstrated timely flexibility in providing emergency support during the volcano eruption in the Fogo Island in 2015 as well as in fighting the Zika virus outbreak.

4. **The CSP 2014-2018 CR and CPPR was approved by CODE in September, 9, 2019**. CODE members generally agreed with the single priority area of economic diversification but highlighted the need for more clarity and better articulation on what the pillar seeks to achieve; enhance selectivity; and adopt a realistic pipeline of projects. Taking into consideration these recommendations and OpsCom guidance, the proposed CSP 2019-2024 priority area was adjusted to focus on "*support to economic diversification through enhanced agriculture value chains".* Strategic selectivity was improved by limiting interventions on agriculture and blue economy; transport and energy. The indicative pipeline was streamlined from 14 operations (estimated at UA 193.45 million) down to 8 projects amounting to UA 97.65 million, considering the limited allocations for Cabo Verde and absorption capacity. The CSP 2019-2024 pipeline also includes a proposal for Results-Based Framework (RBF) Budget Support operations in line with the General Capital Increase discussions.

5. **An assessment of the country context revealed that Cabo Verde's overarching development challenges today have not changed significantly since the previous CSP was prepared, but greater focus needs to be given to economic diversification for an inclusive and sustainable growth.** Therefore, the new CSP 2019-2024 should give greater attention to initiatives supporting agriculture and blue economy value chains in order to promote job creation and enhance economic inclusiveness. To achieve this objective, the new CSP has been articulated around one single area of priority for Bank support as follows: *"support to economic diversification through enhanced agriculture value chains*". Bank support aims to improve the productivity of critical sectors (e.g. agriculture and fisheries) and strengthen the demand for local production by optimizing the interlinkages with the tourism market, create jobs and bridge inequality gaps. More specifically, the Bank will work with government towards reducing production costs (e.g. enhancing efficiency of the electricity sector); improving inter-island connectivity through modernization of ports and airports; and address other policy and institutional factors impeding value chains development. In addition, the Bank will use a range of instruments including credit guarantees under the Lusophone Compact to invest and catalyse private sector investment in key value chains in agriculture and blue economy. The new CSP also places greater emphasis on mainstreaming crosscutting issues of gender, climate change and governance.

6. **The 2019 Country Portfolio Performance Review (CPPR) concluded that the overall performance of the portfolio is satisfactory with a rating of 3 on a scale of 1 to 4**. As at 1st November 2019, the Bank's active portfolio in Cabo Verde was made up of 8 operations with a total commitment amount of UA 82.05 million distributed in transport (45.5%), ICT (31%), governance (20.5%), agriculture (1.2%), social sector (1%), and water and sanitation (0.8%). Cumulative disbursement rates increased from 46% in December 2018 to 60% in November 2019, and the portfolio has no problematic projects. Overall, the new CSP 2019-2024 takes into consideration the lessons learned from the previous CSP implementation, the current development context of the country, and the following key recommendations from CODE, notably: (i) the need to improve quality-at-entry and disbursements; (ii) provide an update on the recent developments on the country's debt situation; (iii) increase policy dialogue on economic diversification, debt management and domestic resource mobilization and support to address vulnerability to exogenous shocks; (iv) need to pay greater attention to the blue economy given the country's competitive advantage in this area and the opportunities for private sector operations.

7. The Board of Directors is invited to consider and approve the Cabo Verde Country Strategy Paper, 2019-2024.

I. INTRODUCTION

1. **The new CSP 2019-2024 is prepared in a context of government's strong commitment to reforms.** The adoption, since the 1990's, of an efficiency-driven development model sustained on public investment in infrastructure and FDI inflows mostly channelled to the tourism sector successfully helped drive growth and poverty reduction in Cabo Verde. However, the country's dependence on tourism has heightened vulnerabilities to external shocks, notably in 2008, with the global financial and, in 2015, with the Eurozone debt crisis. Overall, the country's overarching development challenges have not evolved significantly since the previous CSP 2014-2018, notably: the issue of inadequate inter-island connectivity, high public debt levels, insufficient economic diversification and lack of value chains; and vulnerability to external shocks. In response to these challenges, this new CSP 2019-2024 takes into consideration CODE recommendations and proposes a single area of priority: "*support to economic diversification through enhanced agriculture value chains*". The main objective of the strategy is to assist the country build the foundations for economic diversification and inclusive growth and contribute to Cabo Verde's long-term Vision 2030 of achieving sustainable growth and full employment.

2. **This CSP responds to the country's emerging needs of promoting job creation and economic inclusiveness by focusing on agriculture and blue economy value chains linked to the tourism sector**. After the introduction, the rest of the report is organized as follows: Chapter 2 presents an update on the country context and prospects; Chapter 3 assess key findings of country portfolio performance review; Chapter 4 presents the lessons learned from the 2014-2018 Completion Report and CPPR; Chapter 5 presents the Bank Group strategy 2019-2024. Chapter 6 presents the conclusion and recommendations.

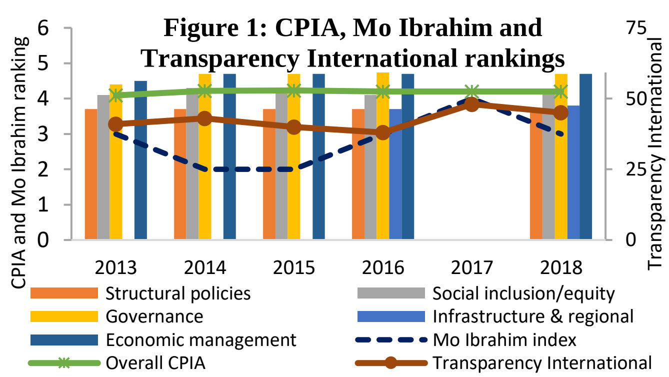
II. COUNTRY CONTEXT AND PROSPECTS

2.1. Political Context and Prospects

3. **The political environment remains stable, free and fair elections at the national and local level are the norm**. After 15 years in the opposition, the Movement for Democracy (MpD) returned to power following the Parliamentary elections of March 20, 2016. Government prioritizes decentralization to address regional economic imbalances and approved a new law on municipal financing in 2018. The law aims to improve the model of allocation of public resources but lack of capacity for project prioritization at municipal level may undermine reform effectiveness. Political stability is expected to prevail in Cabo Verde in 2020-21 underpinned by strong democratic institutions and a decent level of protection of human rights and civic freedoms.

4. **Cabo Verde performs well in key governance indices, but effectiveness of reforms at local level remain a concern**. It ranks 10th out of 54 countries in the AfDB's Country Performance and Institutional Assessment (CPIA) with a score of 4.2 in 2018 up from 4.09 in 2014. Key improvements were made on CPIA ratings for economic management and governance though performance on structural policies, social inclusion and

Figure 1: CPIA, Mo Ibrahim and Transparency International rankings



Source: AfDB Statistics Departnment, Mo Ibrahim Index, and Transparecy International . Note: No CPIA ratings performed in 2017.

equity, infrastructure and regional integration remained below the continental average. The Freedom House consistently ranked Cabo Verde as a free economy over the past five years reflecting the strong quality of its institutions. The country is relatively free of corruption and moved from 43rd/175 in 2014 to 45th/180 on the Corruption Perception Index by Transparency International. Cabo Verde performance in the Ibrahim Index of Governance in Africa (IIAG) changed from 2nd/52 in 2014 to 3rd/54 countries surveyed in 2018 due to slight deterioration in governance effectiveness at local level and regulations for private sector development. Figure 1 displays key governance indices and country's CPIA ratings.

2.2. Economic Context and Prospects

5. **Over the past three decades Cabo Verde has been mainly service-based economy, with little structural change and rather a smaller industrial sector concentrated on fish and tuna processing and clothing and footwear.** Since 1990's, the country has adopted an efficiency-driven economic model financed by high levels of public investment, development assistance and FDI[1] inflows in the tourism sector and remittances[2]. However, GDP growth came to a halt with the 2008 financial crisis, and 2015 debt crisis in the Eurozone as the country's dependence on FDI inflows in the tourism sector exacerbated its vulnerability to external shocks. As a Small Island Developing State, Cabo Verde faces the challenge of insufficient economic diversification, narrow export base and high dependence on imports (e.g. 80% of agriculture products consumed in the archipelago are imported). Lack of adequate inter-island transport connectivity constrains integration in the regional and global markets. The country is also vulnerable to climate change and environmental degradation which impacts negatively on agriculture productivity and growth.

6. **Cabo Verde is committed to inclusive growth reforms and adopted a Policy Coordination Instrument (PCI) with the IMF on July 2019.** Economic growth recovered from 0.9% in 2015 to 5.5% in 2018 (Figure 2) driven by manufacturing output (14.7%); energy (19%), trade and tourism activity (6.8%). Construction and transport sector growth (3.6%) was constrained by lack of financing and operational inefficiencies in the air and maritime transport. Agricultural output (-7.5%) was largely affected by low productivity and perennial lack of rain over the past two and half years. On the demand side, growth has been driven by private investment (8.5% annual average over 2014-2018), exports of tourism services, fish products and clothing and footwear (8.2%). Contribution of private consumption to growth (3.6%) was constrained by slow recovery of per capita incomes while government consumption impact on economic growth remained subdued (1.3%) on account of fiscal consolidation measures. The medium term outlook is positive with growth projected to average 5% over 2019-2021, owing to robust activity in industries, fishery, commerce and tourism. On the demand side, public consumption, private investment and exports are among the main growth drivers. However, risks to economic growth include: impact of uncertainties over Brexit negotiations on tourism revenues as United Kingdom tourists account for one quarter of total demand. Global trade tensions could also hurt Cabo Verde's exports. Climate change, particularly the impact of a prolonged drought could reduce agriculture output while high levels of public debt may reduce government's fiscal space and limit implementation of transformative projects.

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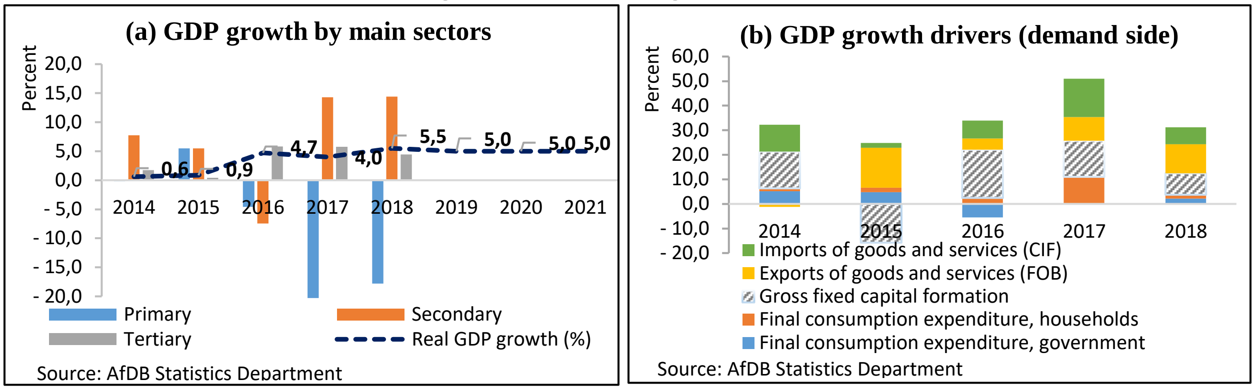
[1] FDI plays an important role in the Cabo Verdean economy accounting for 19.7% of total investment in 2018, with about 73% being absorbed by the tourism sector.

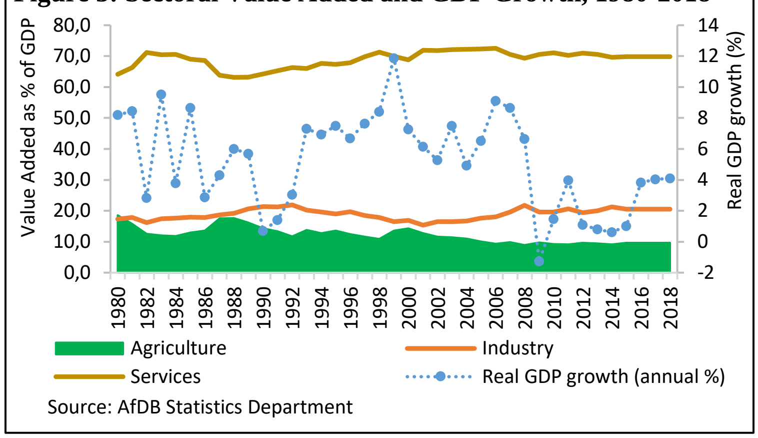
[2] Remittances represent a key financing source and contribute more than 10% of the GDP. After a decrease in 2008, the amount of aid rose from USD 131 million in 2010 to USD 293.6 million in 2014-2018 period (about 16.7% of GDP).

Figure 2: Real GDP growth trends



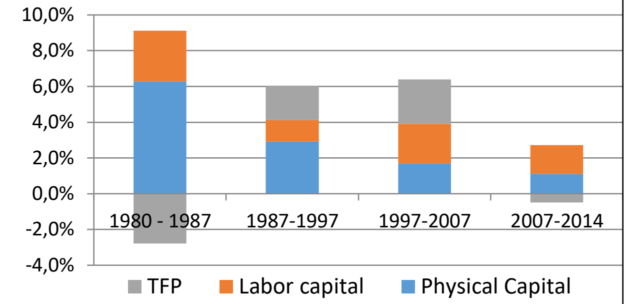
7. **Cabo Verde's economy is yet to achieve diversification and structural transformation.** The structure of the economy had remained relatively unchanged over the past three decades with the services sector accounting for 70% of GDP, followed by manufacturing (20.4%); and agriculture (9.6%) (see Figure 3). Tourism revenues tend to finance higher imports of food and beverage needs (annually estimated at EUR 26 million) and has limited linkages with local production. Agricultural output remains constrained by low productivity, high costs of finance, technological innovation and mechanization, and persistent drought. Overall, the economy has seen a slight shift from low productivity agriculture sector to services as inferred by the slight overall upward trend of service sector value added over the decades. Industrial sector stagnation, in part reflects productivity constraints due to lack of adequate skills, and technology. Lack of linkages between the FDI-dependent tourism sector with local agriculture and manufacturing explains the country's vulnerability to external shocks and high unemployment rate among the youth who are forced to migrate to urban areas to work in low quality jobs mostly in the informal sector. This phenomenon calls for economic diversification and Cabo Verde is undertaking proactive measures in exploring alternative sources of growth and decent formal wage-employment such as agriculture and fisheries value chains linked to the tourism sector, blue economy, commercial logistics hub, and creation of digital and innovation hub.

Figure 3: Sectoral Value Added and GDP Growth, 1980-2018



8. **While transformation remains slow, the economy benefitted from significant productivity gains although with a declining trend.** A decomposition of GDP growth (Figure 4) into three sources, labour, capital and Total Factor Productivity (TFP) indicates that both physical capital and labour had positive contribution over the period spanning from 1980 to 2014, reflecting significant investments in infrastructure and gains from investments in education. In the period 1980-1987 and 2007-2014, the contribution of the TFP was negative. This could be attributed to the impact of slow progress on trade reforms, openness and competition during the 1980-1987, and constrained resources for investment in technological innovation on account of fiscal consolidation during the 2007-2014. Sectoral productivity analysis for the period 2011-2018 (see annex XVI) also point for the existence of significant labour productivity gaps across sectors (e.g. manufacturing is approximately 1.4 times more productive than agriculture, on average). Service sector productivity remained above the national average but experienced a slight decline, in part driven by low investments in technological innovation. In order to reverse the declining productivity trends, the authorities are recommended to improve the allocative efficiency of resources in sectors such as agriculture and manufacturing to become key engines of growth. Policies focusing on human capital and technological adoption by firms are crucial to increase efficiency of labour and drive innovations (e.g. total factor productivity).

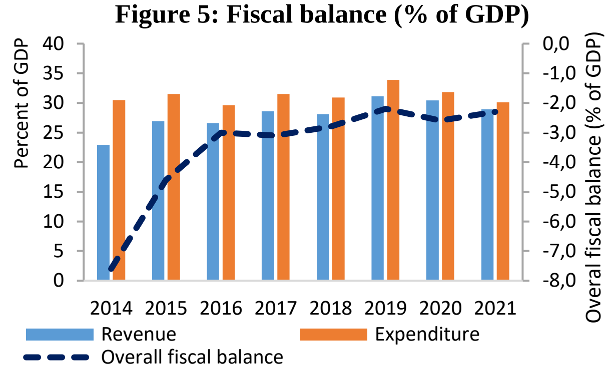
Figure 4: Contributions of labour, capital and TFP on average GDP growth



Source: Arvanitis and Mendes, 2018

9. **Ongoing efforts on fiscal consolidation are paying off, as reflected in the reduction of the deficit from -8% of GDP in 2014 to -3% in 2018:** Notably, government revenue expanded from 22.9% of GDP in 2014 to 28.1% of GDP in 2018 owing to reforms for improved efficiency in revenue collection (e.g. introduction of e-taxation, and simplification of tax payment procedures for SMEs). Total expenditure have declined from 31.4% of GDP in 2014 to 30.9% of GDP in 2018. The increase in government revenues and the restrain on public expenditure led to a reduction of the fiscal deficit from 8% of GDP in 2014 to 3% in 2018 (Figure 5). The fiscal deficit is expected to narrow below 2.4% of GDP over 2019-2021 period as fiscal consolidation gains momentum. The country's fiscal deficit has been financed through a combination of concessional loans (about 75% of total public debt) from bilateral and multilateral lenders, and Treasury bond issuances to commercial banks and other private sector creditors. Government also took prudent measures to limit domestic financing at 3% of GDP as to stimulate private savings and avoid crowding out private investment.

Figure 5: Fiscal balance (% of GDP)



Source: AfDB Statistics Department

10. **Fiscal consolidation is reversing the trajectory of public debt downwards, but significant vulnerabilities will persist in the short term**. Cabo Verde's public debt ratio has declined for the second consecutive year from 128.4% of GDP in 2016 to 127% in 2017 and 123.9% 2018. Public debt is projected to decline further to 121.4% of GDP in 2019. This is driven

primarily by the acceleration in growth, favourable exchange rate movements, and fiscal restraint. According to the latest IMF's latest Debt Sustainability analysis of July 2019, total public debt is expected to fall further to 98.5% of GDP by 2023 owing to reduction of liabilities with non-performing SOEs and improved efficiency in capital expenditure. The country's external debt remains at high risk of debt distress but government is committed to bring it into a downward and sustainable path. Box 1, below and Annex XIV provide a recent update on Cabo Verde's public debt trends.

11. **The Banco de Cabo Verde's (BCV) monetary policy has been consistent with its overriding policy of preserving price stability and protect the exchange rate peg to the euro**. Consumer price inflation currently stands at 1.3% up from 1% by end-December 2018 and is driven by price increases in food and energy costs. Inflation is projected to remain below 2% over 2019-2021 reflecting stable exchange rate which appreciated by 0.9% in 2018 compared to 2017. High interest rates (average 9.4% per annum) and concentration of loan repayments led to a deceleration of credit growth from 7% in 2017 to 3.1% in 2018. Non-performing loans (e.g. 12.2%

Box 1: Public debt management in Cabo Verde and implications for Bank's lending

Cabo Verde's public debt is at high risk of debt distress but it remains manageable. Total debt service to exports (e.g. 10%) remains at reasonable levels (e.g. below IMF threshold of 25%). This is due to high concessional terms (e.g. long maturity profile – average 21 years and low interest rates – average 0.98%). The present value of public and publicly-guaranteed external debt (61.9% of GDP) and present value of total debt (97.2% of GDP) have breached the IMF's thresholds of 55% and 70%, respectively. These ratios are projected to remain above the IMF thresholds in a more extreme scenario of sharp exchange rate deterioration and slow GDP growth in 2020-21. The risk of external and total public debt distress is projected to reduce from high to moderate by 2024 fiscal consolidation results gains momentum. Key measures put in place by government to reduce debt levels include:

(i) Approval of a new Debt Management law in 2018 requiring the State to restrict new short and medium-term debt below 60% of GDP
(ii) Reduction of State liabilities in SoEs through privatizations
(iii) Reduction of subsidies and transfers to municipalities and improved accountability
(iv) Improved efficiency in revenue mobilization
(v) Reduced fiscal deficit from 6.7% of GDP in 2016 to 2.8% in 2018 to minimize new borrowing needs while preserving living conditions of the poor.

The current debt situation in Cabo Verde implies for the Bank, the adoption of a lending program that minimizes debt distress. More specifically, the Bank is proposed to consider: (i) a combination of Budget Support (in EUR terms which remain highly concessional) with Technical Assistance to build capacity; (ii) use innovative financing instruments (PCGs, PRGs, PPPs, Blue Bonds) for financing large infrastructure; and (iii) use the Lusophone Compact to help finance transformative projects in agriculture value chains and blue economy, gradually increase supply of local products to the tourism markets, boost exports and build resilience.

at end-December 2018) remain a concern but BCV is reinforcing banking supervision. Foreign reserves increased by EUR 8 million in 2018 bringing the total stock to EUR 531 million which is equivalent to 5.1 months of imports of goods and services and adequate to maintain the exchange rate peg to the euro.

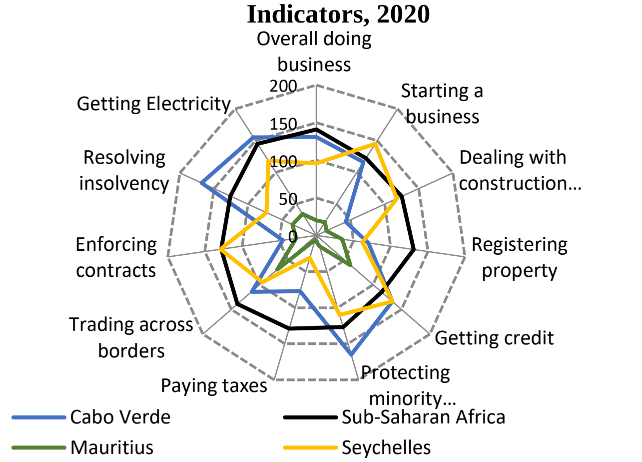
12. **Cabo Verde's external position improved in recent years.** The current account deficit was 9.1% of GDP in 2014 as total imports (66.5% of GDP) exceeded total exports (48.1% of GDP)**:** The current account deficit then narrowed in 2015 (3.2% of GDP) and 2016 (2.7% of GDP) as merchandise exports achieved substantial growth (mainly driven by fisheries products) amid subdued import demand in the aftermath of the Eurozone debt crisis. In the financial account, FDI inflows stabilized and together with concessional loans; tourism receipts and remittances contributed to a positive overall balance of payments. In 2017 and 2018, the current account widened from 7.6% of GDP to 8.1% of GDP reflecting a higher demand for imports and increasing

oil prices. Over the medium term, the current account deficit is projected to narrow below 3.4% of GDP owing to strong export performance, increased remittances, and deceleration in imports demand. The recent signing of an agreement between Cabo Verde and the European Union for fish exports is a positive step to improve the country's external trade position.

13. **Significant progress was made in improving Public Finance Management and Procurement, but institutional capacity remains a challenge:** Institutional and legal framework for Public Finance Management (PFM) was strengthened since the last Public Expenditure and Financial Accountability (PEFA) assessment in 2015 mostly due to the approval of the 2018 PFM law and that of the Supreme Audit Institution. Furthermore, an Integrated Financial and Budget Management System (SIGOF) has been fully deployed to all ministries. An on-site mission on Country Fiduciary Risk Assessment was undertaken in March 2019 as part of the CSP preparation and a new update is planned for 2020. Preliminary findings indicated for moderate risk on the conception, execution and monitoring of the budget, financial audit information and risks of corruption. Overall PFM assessment also identified some gaps, notably: (i) the need for adoption of generally accepted accounting principles; (ii) staffing of revenue and accounting centers at municipal level; (iii) introduction of performance audits and external reviews of public entities, including SOEs, and (iv) strengthening capacity of internal and external control organs. In regards to procurement, there is a need for modernization of the system by deploying e-procurement linked to SIGOF; increase competition and value-for-money by reducing direct award contracts, staff training, and enhance professionalization of procurement functions.

14. **Reforms to improve the business environment and attract private sector investment are key to stimulate growth:** Cabo Verde's private sector is small in size with an estimated 11,060[3] formal firms providing 52,783 jobs and approximately 33,000 informal firms providing close to 40,000 jobs (INE, 2019). About 98% of the firms are MSMEs and entrepreneurship rate is higher for men (21.8%) than for women (16.1%). Only 58% of MSMEs report access to credit from domestic banks (estimated at USD 320 million in 2018). Cabo Verde dropped six places in the World Banks's (WB) 2020 Doing Business now ranking 137th out of 190 countries (Figure 6). The country's business environment ranking is well-above the average for Sub-Saharan region but remains lower than its aspirational peers such as Mauritius and Seychelles. The 2019 Global Competitiveness Index (GCI) ranked Cabo Verde 112th out of 141 countries well behind Mauritius (52nd/141) and Seychelles (76th/141). Major challenges to private sector development in a small island such as Cabo Verde include: (i) difficulties in access to credit due to lack of guarantees/guarantors, or lack of "bankable" projects; (ii) high costs of electricity and transport, and (iii) lack of adequate skills to support manufacturing and value chains development. Government undertook key reforms to stimulate private sector growth, among which: (i) the establishment of mutual guarantee scheme (Pro-Garante with start-up guarantees of USD 10

Figure 6: Cabo Verde: Comparative Doing Business Indicators, 2020



Source: World Bank, Doing Business 2019

[3] For example, Mauritius has 125,543 companies employing 300,000 people.

million co-financed by the WB); (ii) start-up and investor capital (Pro-Capital), (iii) youth start-up technical assistance (Pro-Empresa) which has provided 45 loans amounting to USD 606,000; (iv) creation of One-Stop Shop for simplified business registration; and (v) approval in July, 15, 2019 of new legal framework for insolvencies.

15. **The financial sector remains stable and is dominated by commercial banks, which are liquid but risk averse**. Total assets increased by about two thirds since 2010 to reach 139% of GDP in 2018 (approximately USD 2 billion). The sector is highly concentrated with two out of seven banks controlling 70% of total deposits. Bank liabilities are predominantly deposits from residents, migrants[4], and government. Access to banking services expanded significant and about 57% of adults have a Bank account. Overall, there are 1,847 depositors per 1,000 adults in Cabo Verde compared to 518 depositors per 1000 in lower middle-income countries. Credit to the economy accounted for 65% of GDP in 2018 and was mostly channelled for housing (34%), trade and tourism (12.3%), construction (5.1%) while agriculture and manufacturing received less than 0.3% and 3.3%, respectively.

2.3. Sector Context

16. **Cabo Verde's transport infrastructure platform remains deficient which hinders value chains and private sector development.** The geographic fragmentation of the territory and lack of adequate maritime and air service transportation results in high costs of inter-island connectivity. This erodes the competitive advantage of local firms involved in value chains such as local horticultural, dairy, and fishery products and interrupting their supply chains and access to tourism and export markets. Government invested significantly on the road network which expanded from 1,113 km in 2010 to 2,250 km in 2018 also linking rural and isolated communities. About 36% of the country's road network is asphalted and in good condition compared to the regional average of 18.3%. Overall, Cabo Verde ranks 9th/54 in the 2018 Africa Infrastructure Development Index (AIDI). Transport sector restructuring is ongoing and is aimed at reducing regional asymmetries and improve connectivity to markets. The privatization of 51% of Cabo Verde Air Transport Company (TACV) was concluded in March 2019 and an inter-island maritime transportation concession contract was signed with Cabo Verde Inter-Ilhas. Privatization of national ports company (ENAPOR) and Airport Services Company (ASA) are planned.

17. **Energy**: Access to electricity in Cabo Verde reached 93% in 2018 from 87.1% in 2012 though in rural areas access remains below the national average (83.1%). Renewable energy accounts for 20.3% of total supply and an electricity sector Master Plan (2018-2040) was designed to help achieve 50% of renewable energy generation by 2030. This notwithstanding, the quality of electricity supply remains constrained by ageing power distribution network, and coexistence of networks with different voltages. In addition, lack of investments in technologies for efficient renewable energy storage and insufficient metering equipment also contributes to high losses (estimated at 23% in 2018). Use of expensive fuel imports for thermal power generation increases the operational and maintenance costs which result in high electricity tariffs (e.g. about USD 0.257/KWh compared to USD 0.19/KWh average for residential customers in Mauritius).

[4] The flow of migrant deposits has started to slow down reflecting the narrower interest rate differential between the Cabo Verde and the US but remains sizable. In 2017, the annual flow of migrant deposits was equivalent to 2.3% of GDP, and the stock represented 38% of total deposits (37% of GDP).

18. **Information, Communication and Technology (ICT):** Cabo Verde dropped two places in the 2017 ICT global development index ranking 93rd/176 countries surveyed. Government created a Nucleus for Information Society (NOSi) and plans to transform the country into a digital hub but high electricity costs, low internet bandwidth and weak regulatory regime hinders competitiveness. Despite these challenges, there is potential for development of a competitive ICT services industry based on the country's competitive advantages in the various segments of the ICT ecosystem. Examples of these service niches include: call centers, BPO, multimedia content production, software and web applications for improved agricultural productivity and certification of quality.

19. **Industrial sector/manufacturing:** The industrial sector currently constitutes 20.4% of GDP, and during 2014–2018 grew on average by only 6.9% per year, compared to the annual GDP average growth rate of 3.1%. Cabo Verde's industrial sector is undiversified and with low productivity as compared to the services sector (see Table 2, in annex XVI) and most of its production processes involve low complexity systems relying on imported products. Key sub-sectors include: cement, tuna and crustaceans processing, clothing and footwear, beverages and liquor distillation. There is also potential for development of small light industries such as pharmaceuticals, sugar production and spacecraft industry. The sector is challenged by external competition and inadequate infrastructure connectivity, high cost of electricity, insufficient technology and skills. Ongoing policies to support private sector include the concession of a liberal system of tax incentives, duty-free import of materials and equipment for export production, and provision of industrial land.

20. **Agriculture:** The predominance of unfavourable natural conditions, use of outdated technologies and agricultural intensification drives low productivity in agriculture which is nearly half of total sectoral productivity in the economy (Table 1 in annex XVI). This has limited value chains development and hindered agriculture sector take off to meet expectations of fighting poverty and promoting green growth. Despite an improved legal framework for access to land, fertile land is scarce, and in 2018, only 5% of it was used for irrigated agriculture with 88% of all production units located in the islands of Santiago, Fogo and Santo Antão. Agriculture's contribution to GDP was at 9.6% in 2018 and the sector employs 67.7% of rural employed population (75.8% of women and 62% of men). A substantial dependence on food imports (e.g. 80%[5] of its domestic cereals requirements including rice and wheat), the climatic volatility, low level of agricultural irrigation and high post-harvest losses (estimated at 40%) weakens national food security with 12% of the households currently facing the risk of food insecurity[6].

21. **Blue economy**: Cabo Verde has witnessed an impressive growth in the number of tourists' arrivals from 162,000 in 2001 to 765,000 in 2018, representing an increase of tourism income from USD 40 million in 2001 to USD 376 million in 2018. However, lack of diversification of tourism

[5] Food and Agriculture Organization (FAO) Food security snapshot, January 2018.
[6] Cabo Verde Ministry of Environment, 2014.

products and unreliable transport infrastructure constrains the expansion of tourism services. Most tourists originate from Europe (25% from the United Kingdom), hence the sector is exposed to shocks in the Eurozone, such as the recent bankruptcy of the tour operator Thomas Cook (see Box 2). The Bank supported the preparation of the National Plan for Blue Economy and Investment Framework with technical assistance from FAO and provided inputs to the World Bank's report on Blue Bond in Cabo Verde. The objective is to promote fisheries value chains to boost incomes of the populations living along the coastal areas. It is worth to note that fisheries production increased in recent years from 20,000 tons in 2007 to 34,000 tons in 2015 but its contribution to GDP (1.2% in 2018) and total employment (3% in 2018) remains low.

Box 2: Bankruptcy of Thomas Cook and potential impact on Cabo Verde

- Thomas Cook group represented in 2018 an estimated market share of 7.6% on international tourists' routes from Europe to Cabo Verde (5.8% from Thomas Cook Scandinavia, and 1.8% from Thomas Cook UK).
- Potential impact on tourists' revenues from cancelled bookings during high season remains unaccounted but the bankruptcy of the tour operator could lead to some indirect impacts in the Cabo Verdean economy: (i) Thomas Cook owns Portuguese insurance company Fidelidade, which in turn holds 55.895% of the capital of Cabo Verdean Insurer Garantia.
- As tourism accounts for 21% of GDP, focus on competitiveness and diversification of operators and sources of tourism is critical to mitigate shocks.

22. **Regional integration and trade**: Despite the country's remoteness and insularity which constrains physical connectivity and integration in the regional and global economy, the government has made regional integration a key priority. The country applies the Economic Community of West African States (ECOWAS) protocol on the free movement of goods which is in line with the Bank's Regional Integration Strategic Framework 2018-2025. Cabo Verde is also finalizing an assessment for participation in the ECOWAS Common External Tariff, but is fully compliant with ECOWAS's zero non-tariff barriers such as quotas and prohibitions on intra-regional trade. Cabo Verde signed the agreement establishing the Africa's Continental Free Trade Area (AfCFTA) in March 2018 and established a diplomatic representation in Abuja to deepen dialogue with regional organizations including the ECOWAS and benefit more from intra-regional trade and transit trade. Data from Tralac (2017) shows that Cabo Verde has a trade deficit with Africa as intra-Africa exports were valued at USD 313,000 while imports were over USD 31 million. Major imports consists of raw materials notably, refined petroleum, cement, food and industrial equipment and vehicles. Exports are dominated by processed fish, clothing and footwear parts, scrap iron and spacecraft parts. Spain and Portugal represent the country's largest trade partners accounting for 56.8% of total imports and 80.9% of total exports (INE, 2018).

2.4. Social Context and Cross-Cutting Themes

23. **Poverty:** Cabo Verde witnessed impressive poverty reduction from 58% in 2001 to 35% in 2015 owing to strong economic growth, rising tourism revenues and remittances; and improvements in rural infrastructure. Poverty remains a rural phenomenon (40.9%) compared to 15% in urban areas[7]. Income inequality fell as the Gini index dropped from 0.53 in 2001 to 0.42 in 2015. Human Development Index (2018) improved from 0.57 in 2000 to 0.654 in 2018. Poverty in Cabo Verde bears a female face as nearly 33% of female-headed households are poor, compared to 21% of male-headed households (INE, 2015). Government's target is to reduce poverty to

[7] The significant disparity in poverty levels between urban and rural areas is mostly driven by: (i) unequal access to infrastructure and poor facilitation of supply chains preventing the rural poor from further building their resilience; (ii) fragmented social protection programs; and (iii) lack of sustainable economic opportunities for employment in rural areas which causes migration from rural to urban areas.

28.2% by 2021[8] through decentralized public service delivery targeting women, children and the elderly. Good progress has been made in the implementation of SDGs and Cabo Verde ranks 96th out of 144 countries along the SDG index by the United Nations Development Program (UNDP). Annex XI provides an update on the country's progress on SDGs.

24. **Education, Youth and Unemployment:** Cabo Verde's population is young, with 45.4% of the population aged below 25 and youth between 15-35 years representing 37.4% of the population (INE, 2018). Overall unemployment rate reduced from 15% in 2016 to 12.2% in 2017, but youth unemployment remains high at 32.4%. This is far from the PEDS, 2017-2021 objective which aims to reduce youth unemployment rate from 42.9% in 2016 to 21.5% by 2021. Women are also most affected than men by unemployment (12.8%), underemployment (16.8%) and inactivity (47.9%). Despite the increase in literacy rates among women from 80% in 2012 to 82% in 2017, lack of skills constraints women's access to labour market. Government attaches great importance to skills development and spending on education averaged 5.4% of GDP in 2018, a figure that is above developing countries' level. In order to reap the demographic dividend, the authorities have put in place a policy of subsidized internships with the private sector. Since its inception in 2018, the program has ensured insertion of 5,000 youth in the labour market and it is targeting 10,000 youth by end-2019.

25. **Health, nutrition and social protection systems**: Cabo Verde's health indicators improved significantly over the past fifteen years but operational efficiency concerns regarding vector-borne diseases like it was in the case of Zika virus outbreak in 2015 remain. Public expenditure on health averaged 4.8% of GDP in 2018, which is above the figure for Seychelles but similar to Mauritius. Increased health expenditure led to reduction of maternal mortality from 46/100,000 live births in 2013 to 42/100,000 live births in 2015 owing to increased births attended by trained health personnel (91.4% in total over 2010-2017). Child immunization against measles was high at 92% while undernourishment was low at 13.7% for children under 5 years of age in 2018. Social protection systems currently cover 46% of the population aged 60 years old and over but its outreach in rural areas remains fragmented.

26. **Gender Equality, Empowerment and Climate Change**: Cabo Verde's ranking in the Global Gender Gap index improved from 89th in 2017 to 72nd place out of 149 surveyed. According to the AfDB's 2018 Country Gender Profile, women lead approximately 35% of Cabo Verde businesses, but only 18% of companies have formal accounting. The study also found significant gender gaps in access to assets[9]. Although the country's constitution and the Law on Gender-based violence (*Law n°84/VII/2011 of 10th January*) prohibit discrimination based on sex, customary social norms against women leads to low female participation in labour markets (53.1% in 2017) compared to 68.2% for men and women's engagement in informal sector is high (62.5%) with poorly paid jobs (88.9%). The percentage of women in parliament remained steady at 20.8% but is far below the 40% set by the Cabo Verde Network of Women Parliamentarians. Cabo Verde is vulnerable to climate change and the 2018 World Risk Report placed the country at high risk in terms susceptibility to natural disasters. Cabo Verde is ranked 117th out of 182 countries (a lower rank means higher vulnerability) in the 2018 global disaster index that measures a country's exposure, sensitivity, and capacity to adapt to the negative effects of climate change

[8] PEDS, 2017-2021.

[9] Women asset ownership in Cabo Verde (13.3% according to UNECA, 2017) remain below the continental average, while the proportion of women with Bank accounts stood above the average at 56.7% in 2017.

2.5 Country Strategic Framework

27. **Cabo Verde's Strategic Plan for Sustainable Development (PEDS, 2017-2021) comprises 35 flagship programs that aims at diversifying its economic activities and access to export markets**. The PEDS forecasts an average growth rate of 5.8% over the period 2017-2021 and is underpinned by a longer-term vision for Cabo Verde's sustainable development for the period 2018-2030 that is aligned with the 2030 sustainable development agenda and the SDG goals as means to build a better future for all Cabo Verdeans. The PEDS 2017-2021 notes that while the country achieved some commendable growth rates during the earlier implementation periods of the GPRSP III, 2012-2016, growth was neither sustainable nor inclusive. In addition, public sector has demonstrated to be highly inefficient and incapable of generating the economic dynamism required to foster inclusive growth and employment. The strategy notes as a lesson, the need for a paradigm shift and adoption of a private sector-led development model aiming at improving efficiency and competitiveness of the economy. The PEDS has identified key priority sectors to promote economic diversification and generate employment in Cabo Verde, and these include: *(i) development of economic hubs (commercial logistics infrastructure and services), (ii) tourism, (iii) agriculture, (iv) light manufacturing,* and *(v) infrastructure (transport, energy and water and sanitation)*. Measures to improve the business environment and attract FDI, strengthen public administration reforms, lower energy prices, improve telecommunications, transport, and reforming the health and education systems are among the priorities. The plan also puts greater emphasis on social inclusion as to protect the most vulnerable groups.

2.6 Aid Coordination, Harmonization and Bank Positioning

28. **The architecture of development partners in Cabo Verde is small reflecting the size of the economy.** The National Directorate of Planning in the Ministry of Finance is the entity in charge of coordination framework for investment projects and resource mobilization. Key development partners are Portugal, the United States of America, the European Union, Spain, Japan, Luxembourg, the WB, the AfDB, the Netherlands, France and BADEA (Annex VII). Progress was made in the implementation of the Paris Declaration of Aid Effectiveness (2005); Accra Agenda for Action (2008) and Busan Partnership for Effective Development Assistance Co-operation (2011) but better consultation among DPs remains critical. A Budget Support Group (GAO) was created in 2006 and it comprises: the AfDB; the European Union; Luxembourg; Government of Portugal; and the WB. GAO members conduct joint reviews twice a year with the coordination of the Ministry of Finance. The Bank led the GAO from September 2017 for a mandate of two years ending in November 2019. Bank's comparative advantage was evidenced through investments in the energy sector (UA 8.42 million) co-financed with JICA (UA 34.8 million) and ports and airport infrastructure modernization in Cabo Verde with a total investment of UA 38.18 million complemented by BADEA. Bank's provision of Budget Support in a total amount of UA 57.91 million during 2014-2018 revealed strong comparative advantage compared to other government's financing options, mostly due to its low interest rate (0.4% for EUR loans) and long maturity period (25 years). These loans played a countercyclical role in reviving growth, improving business environment, ensuring public service delivery, and reducing the debt burden. Other Budget Support resources included: the WB (EUR 20 million), Portugal (EUR 0.5 million), LuxDev (EUR 2 million), EU (EUR 7.5 million). The strengthening of the Bank's Office in Senegal (COSN), which also covers Cabo Verde, has helped to promote a closer dialogue with the government and other development partners. In fact, strengthening the team of experts deployed at COSN helped advance private sector support for the Cabo Verde Donors Conference in Paris in December 2018 as well as the Cabo Verde Investment Conference in Sal Island in July 2019.

2.7 Strengths and Opportunities, Weaknesses and Challenges

29. **Despite past achievements on attaining high economic growth, Cabo Verde's overarching development challenge today is to enhance economic diversification and full employment**. As a Small Island Developing State, Cabo Verde is still confronted by several constraints which include: (i) insufficient economic diversification, narrow export base and high dependence on imports, (ii) vulnerability to external price and demand shocks, (iii) small markets due to small economy size, (iv) insufficient integration in the regional/global economy, (v) lack of adequate skills, (vi) vulnerability to climate change and environmental degradation, and (vii) small official development assistance envelopes (e.g. Cabo Verde ranks 94th/166 countries surveyed by the OECD-DAC in 2016, and received USD 152.6 million on official aid compared to USD 677 million for Madagascar that stood at 47th/166). Table 1 below summarizes the country's strengths and weaknesses and emerging opportunities and potential challenges.

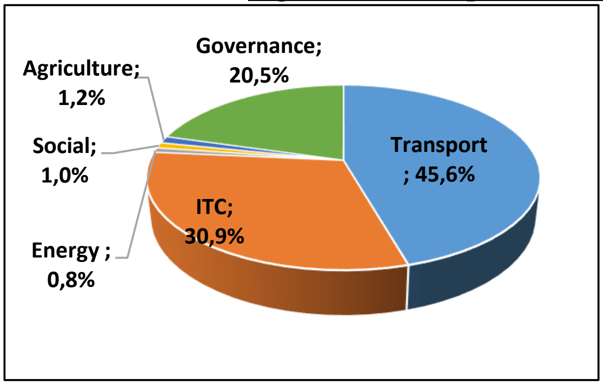
Table 1 – Cabo Verde- Strengths, Opportunities, Weaknesses and Threats

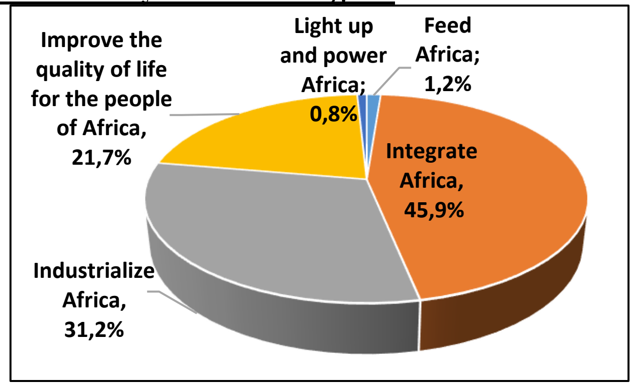
Strengths	Opportunities
• Youthful population • Strong governance performance • Strong potential for development of renewable energy	• Significant potential for a diversified and more inclusive tourism • Potential for development of agriculture and fisheries value chains in support of tourism • Strategic geographic location could position Cabo Verde as a regional hub • Cabo Verde's migrant remittances could be an opportunity for domestic investment financing
Weaknesses	**Challenges**
• Lack of value chains supporting local production and job creation • Inadequate skills to support private sector growth • Inadequate infrastructure (e.g. expensive and unreliable inter-island transportation, inadequate ICT, high electricity costs, limited agriculture irrigation infrastructure) • Fragmentation of the territory and small size of population increases costs of delivering infrastructure to each island • Constrained private sector environment	• Undiversified economy increases vulnerability to external shocks • High public debt levels increases risks of potential macroeconomic instability • Lack of resilience increases fragility to climate change

III. KEY FINDINGS OF COUNTRY PORTFOLIO PERFORMANCE REVIEW

30. **Key characteristics of the Bank Group portfolio**: As at 1st November 2019, the Bank Group's ongoing portfolio comprised 8 operations with a total value of UA 82.05 million and average project size of UA 10.25 million and had disbursed a total of UA 48.82 million (Annex A. 6.1). The first private sector operation funded by the Bank in Cabo Verde (Cabeólica Wind Power Project) was successfully implemented and was disbursed 100% in 2013. The sources of finance of the ongoing portfolio include ADB window constituting 86% and the rest coming from the implementation of previously funded ADF projects in social sector (9%), MICTAF with 4%, Special Relief Fund (1%) and SEFA with 1%. Figure 7 outlines Bank's portfolio distribution by sector and High 5s.

Figure 7: Bank's portfolio distribution by sector and High 5s





31. **Portfolio Composition and Performance**: Overall, the Bank's operations in Cabo Verde supported government's infrastructure development, technology and skills development, and governance reforms. At sector level, energy, transport and governance (Budget Support) received considerable support. In line with government's objective to create sustainable jobs while addressing spatial inequalities, Bank's portfolio programming in the new CSP 2019-2024 will explore synergies with infrastructure investments in energy, transport, and governance reforms and use innovative financing instruments such as the Lusophone Compact (Box 3) for private sector development in support of agriculture and blue economy value chains linked to the tourism sector.

> **Box 3: Lusophone Compact Rationale**
> The Lusophone Compact is an initiative launched by the Bank's President in November 2017 for accelerating investment in African Lusophone countries. It is based on three main anchors: (i) risk mitigation instruments (e.g. with EUR 400 million of risk participation guarantees from Portugal); (ii) investment financing; and (iii) technical assistance for bankable projects. The initiative has identified 70 indicative pipeline projects amounting to USD 6.2 billion in all six African Lusophone countries. In Cabo Verde, the indicative pipeline amounts to USD 470 million covering renewable energy, agriculture value chains, infrastructure, tourism and ICT. The Bank and Portugal are currently finalizing the financing terms for the Compact which include support for small projects of less than USD 30 million.

32. **The performance of the portfolio is rated satisfactory** with an overall assessment score of 3 on a scale of 1 to 4 based on the recently updated supervision ratings. The disbursed amount stood at UA 48.82 million (about EUR 60.5 million) at 1st November 2019 representing a disbursement rate increase from 5.5% in December 2014 to 60% in November 2019. The improved disbursement rate is due to matured projects with large contracts in progress (e.g. Praia Airport; Technology Park project and Governance). The average age of the portfolio has increased to 3.7 years in 2019 from 1.2 years in 2014 due to the extension of two projects (Praia Airport and Technology Park) which are set to reach 7 years by end-2020. The portfolio's age remains lower than Bank's average of 4.3 years and will further improve with the approval of new operations in 2020. Timeframes prior to effectiveness have reduced from 9.7 months in 2014 to 6 months in 2019 and fulfillment of conditions precedent to first disbursement from 16.3 months in 2014 to 9 months in 2019 owing to active engagement of the country teams in Senegal with the authorities in Praia to apply the PD 02/2015 and further dialogue will be pursued to ensure full compliance with all dispositions of the directive during the CSP 2019-2024. Key Performance Indicators of the portfolio from 2014 to 2019 are highlighted in Annex A.6.2. An assessment of the on the evaluation of monthly portfolio performance reports (Portfolio Flashlight Report), indicates that the percentage of projects requiring close watch

reduced from 26% in December 2017 to 13% in November 2019. In addition, the number of satisfactory projects increased in the same time period from 40% to 50%.

33. **Portfolio implementation challenges**: Despite the improvement in the portfolio as shown in the key performance indicators, some challenges were also encountered. The key portfolio issue is the startup delays in fulfilling the conditions for first disbursement, in particular, in infrastructure sector projects. Poor quality-at-entry driven by lack of preliminary and feasibility studies for adequate project preparation; and procurement issues also contributed to implementation challenges.

34. **Portfolio improvement plan**: Following significant progress in the implementation of the action plan established in the 2017 Country Portfolio Improvement Plan (CPIP), an extensive analytical work and consultative process led to the development of the 2019 CPIP (Annex A6.3). There has been significant achievement in the implementation of the 2019 CPIP, particularly in regards to satisfaction of conditions for project effectiveness, monitoring the execution of contracts, and coordination on project implementation. However, performance remains weak in the areas of timely submission of project audit reports (e.g. only 80% submission rate in 2018), and mobilization of national counterpart funding.

IV. LESSONS LEARNED FROM 2014-2018 COMPLETION REPORT AND CPPR

35. **Despite a difficult operating environment, the Bank delivery and performance during the CSP 2014-2018 was globally positive** (Annex A.3.1). The CSP was well aligned with national development priorities and Bank's corporate priorities. The selectivity of the portfolio as implemented was appropriate and the Bank has been a reliable partner for the Government of Cabo Verde providing a substantial and continuous source of financial and technical support for governance reforms and infrastructure development, specifically in the electricity and transport sectors. However, Bank's interventions to support inclusive and green growth, private sector financing and strategy sustainability had mixed results. The implementation of the CSP 2014-2018 has enabled the Bank to also distil lessons for portfolio performance improvement, notably:

- The need to tailor Bank's solutions to the country's specific needs and ensure selectivity to optimize use of ADB money;
- Adopt simplified technical design of projects and adapt procurement methods to local context;
- Strengthen private sector operations through greater focus on improving access to finance and technical assistance for SMEs towards job creation;
- Deepen knowledge and dialogue and provide technical support to organization of local forums (e.g. Cabo Verde Investment Forum) and enhance collaboration with CSOs (e.g. youth entrepreneurship associations, Gender Institute of Cabo Verde, and local academia).

36. ***Lessons for the government***: the review helped draw some lessons for the government. More specifically: (i) the need to accelerate economic diversification and ensure greater supply of national products to the tourism industry, (ii) improve project readiness by ensuring better preparation of quality feasibility studies; (iii) strengthen capacity building and deepen skills of public service staff to ensure better reform coordination, in particular, on private sector development, local development and PFM; and (iv) need for development of pipeline projects in the PIP that are aligned with the country's PEDS 2017-2021 and the Bank's High 5s.

37. ***Lessons for development partners***: overall, key lessons to development partners focused on: (i) the need for improved consultation and coordination among all partners to improve coordination of aid, avoid duplication of efforts and enhance efficiency in the utilization of resources; (ii) adoption of an integrated approach in supporting public sector reforms to address the issue of lack of skills for public sector reform coordination; and (iii) the need to explore co-financing options with other development partners, given public sector limited capacity to provide counterpart funding in light of high levels of public debt.

38. ***The way forward***: Based BDEV recommendations (see Box 4 and Annex A.3.2) and lessons learned, the Bank proposes a new approach for the CSP to realize developmental impact as follows: (i) support economic diversification through value chains in agriculture and fisheries and linked to the tourism sector; (ii) tap on Cabo Verde's youth and women potential through implementation of initiatives such as ENABLE and AFAWA; (iii) mainstream climate change in agriculture and fisheries value chains; and (iv) continue to support governance reforms for private sector development and inclusive growth.

Box 4: Evaluation of Cabo Verde CSPs (2008-2017)
BDEV Recommendations

- Continue to support government-led reforms aimed at boosting inclusive growth and fiscal sustainability
- Identify ways to maximize synergies across the Bank's pillars
- Prior agreement with the authorities on the strategic results and ensure their regular tracking
- Put more emphasis on project quality and sustainability
- Scale up MSME support interventions and reforms to boost employment and to make the growth process more inclusive
- Make watershed management projects more sustainable by integrating agricultural value chain development and mainstreaming climate change adaptation/mitigation
- Strengthen the Bank's in country presence for policy dialogue.

V. BANK GROUP STRATEGY 2019-2024

5.1 Strategy Rationale, Objective and Priority Areas for Bank Support

39. **Cabo Verde has seen an impressive overall socio-economic development over most of the past decades.** Key social indicators in education, health and gender equality registered strong improvement, and including significant drop in poverty and impressive increase in per capita incomes. However, for the period comprising 2008 and 2015, economic growth decelerated as the global financial crisis and Eurozone debt crisis constrained the country's efficiency-driven development model. The sharp reduction of FDI inflows slowed investment in tourism (the main growth driver) in combination with public investment in infrastructure. Hence, Cabo Verde's overarching development challenge consists on enhancing economic diversification beyond the tourism sector to reduce vulnerability to exogenous economic shocks. In order to tackle it, Cabo Verde needs to: (i) strengthen linkages between tourism with the blue economy, transport and logistics, industrial and digital economy; (ii) promote domestic production in agriculture, fisheries, and light manufacturing linked to the tourism and export markets; and (iii) implement structural reforms to reduce the cost of production factors (e.g. improved efficiency of public administration, enabling business environment, increased private sector financing, and improved transport and electricity infrastructure. These measures are emphasized in the country's national development plan and Vision 2030. The Bank under the new CSP will support Cabo Verde in that endeavour. (i) transform Cabo Verde into a platform and

40. **The CSP's main objective is to assist the country to build the foundations for economic diversification and inclusive growth**. In order to achieve this objective the Bank intends to adopt

the approach of concentration of resources to maximize synergies across sectors. This will consist on tackling infrastructural bottlenecks that limit private sector and business development, drive agriculture and fisheries value chains to support diversification and formal job creation. Following the recommendation from CODE (Annex A.4.1), the CSP strategic priority areas were adjusted for more clarity and better articulation between the proposed intervention areas. Therefore, the new CSP 2019-2024 focuses on the priority area of ***support to economic diversification through enhanced agriculture value chains***. Bank's interventions aim to improve the productivity of critical sectors (e.g. agriculture and fisheries) and strengthen the demand for local production, create jobs, and bridge inequality gaps.

41. **The focus of the new strategy has been aligned with Cabo Verde Vision 2030, in particular, its objective of promoting economic transformation**. The strategy also reflects government's aspirations in the PEDS, 2017-2021, which call for a new economic growth model and sectoral concentration of resources. The proposed CSP also recognizes Cabo Verde's commitment to the Africa Union Agenda 2063, and the AfCFTA. By placing focus on agriculture and blue economy, energy and transport, the CSP aims to contribute to the achievement of the SDG 1 ("No poverty"), SDG 2 ("No Hunger"), SDG 7 ("Affordable and clean energy"), SDG 8 ("Decent work and economic growth"), SDG 9 (Innovation and Infrastructure"). From the Bank's side, the interventions in agriculture and blue economy are aligned with the High 5s priority of *Feed Africa.* Bank's planned investments in energy efficiency will contribute to the High 5s of *Light up and Power Africa,* while transport projects will contribute to the achievement of the High 5s of *Integrate Africa.* Cross-cutting interventions on governance, gender and climate change will contribute to the High 5s of *Improving the quality of life for the people of Africa*. Annex A.2.3 highlights portfolio's contribution to the High 5s. The CSP is also aligned with the TYS 2013-2022 operational priorities of infrastructure, regional integration and private sector.

42. **The selection of the priority area was informed by a set of criteria chosen on the basis of**: (i) the need to ensure sustainability by focusing on ***geographic and socio-economic targeting*** of interventions in sectors with potential for poverty reduction, value chains development, creation of jobs for youth and women while building resilience; (ii) ***alignment with national and corporate strategies*** as the CSP priority areas are guided by the development needs of the country as stated in the PEDS 2017-2021, the Bank's TYS 2013-2022, the High 5s; and SDGs agenda; (iii) ***ensure continuity in operations and synergies*****:** Bank's interventions in energy, transport and governance have figured strongly in the past and revealed strong comparative advantage; (iv) ***implementation feasibility*****:** taking into consideration the resource needs and sources, and need to ensure complementarity with other DPs; and (v) ***lessons learned from implementation of the previous CSP***: the need to tailor Bank's solutions to the country's specific needs (e.g. enhance economic diversification and reduce regional economic inequalities, address inadequate infrastructure and help create quality jobs). The results of the strategic selectivity exercise which provided the basis for the selection of high-impact intervention areas consistent with national development priorities and aligned with the Bank's High 5s are presented in the next section.

5.2 Strategy and Expected Results

43. **The proposed CSP 2019-2024 builds on the achievements of the previous strategy and focuses on the single priority area of *support to economic diversification through enhanced agriculture value chains***. The objective in this priority area is to set the foundations for economic diversification and inclusive growth. Through the Bank's focus on agriculture and blue economy value chains as a cornerstone of poverty reduction, and on strengthening their linkages with the

tourism, the Bank will support the government's target of reducing poverty rate to 28% by 2021 and ensure shared prosperity. The Bank will specifically work with government in reducing production costs (e.g. increasing the efficiency of the electricity sector), improving inter-island connectivity through modern ports and airports, and address other policy and institutional factors impeding value chains development. In addition, the Bank will use a range of instruments including credit guarantees under the Lusophone Compact to invest and catalyse private investment in key value chains in agriculture and blue economy.

Outcome 1: ***Increased production and value addition in agriculture and fisheries***

44. **The Bank intends to use investment projects, results-based budget support operations complemented with technical assistance and lines of credit for private sector to support agriculture and fisheries value chains and strengthen market linkages with the tourism and export sector.** In order to increase the share of agriculture and fisheries in total value added, and contribute to job creation, the Bank will seek to complement its support to public investment in agriculture infrastructure (e.g. modern irrigation systems, food processing plants, and facilities for certification of product quality standards). Bank's support to agriculture value chains will also include extension services and food storage facilities with complimentary private capital through provision of lines of credit to local commercial banks, and de-risking arrangements under the Lusophone Compact to finance SMEs in agro-processing and light industrialization. These interventions will contribute to the development of agriculture value chains by boosting the quantity and quality of local production and increase local supply of products such as cheese, wine, dried fruit, jams and jellies, tomato pulp, cured meat, and coffee to the tourism market that demands an estimated EUR 26 million/year of agricultural products. This will expand the economy and help create an estimated 2,700 direct jobs over the next 5 years, targeting women and youth.

45. **Cabo Verde's oceans are perhaps its greatest source of wealth and one of the essential element of its national identity**. The Bank will use resources from public investment projects to finance the construction of key infrastructure (e.g. cold chains for fish storage, and facilities for food safety certification) for integration of artisanal fisheries and aquaculture, eco-tourism and coastal agriculture. To this effect, agriculture projects will be designed to take into account fisheries components and provide adequate financing and technical assistance for fishermen associations to upgrade their fishing equipment (e.g. boats, outboard motors and nets) while preserving the ecosystem. Technical support and credit facilities will be extended to local artisanal fishers in order to improve their production and incomes and exit from extreme poverty. Complementary sources of finance have been secured with IFAD (UA 8.6 million) in the Agriculture and Fisheries Value Chains linked to Tourism Sector. The Bank will build synergies with key fisheries sector initiatives on the continent in particular the ECOWAS regional fisheries strategy and the NEPAD Blue Economy program, and WB's planned Blue Bond initiative for Cabo Verde. These initiatives are in line with Bank's General Capital Increase-VII commitments to blue ocean economies. In agriculture, the Bank will apply Technologies for African Agricultural Transformation (TAAT II) to address issues of saline intrusion on soils and help farmers boost production of high yielding protein food and help address malnutrition in regions with strong agricultural potential yet with relatively high proportion of the population at risk of food insecurity, notably: Fogo (12.5%); Santiago (10.5%) and Santo Antão (9.9%) islands.

46. Bank support under this priority area is expected to assist in addressing Cabo Verde's development challenge of economic diversification and green growth agenda by doubling yields on key agriculture value chains (e.g. horticultures, fresh fruits, coffee and cheese) and increase

rural farmers income by up to 7.5% in line with the objectives of the Feed Africa strategy. Investments in agro-processing and targeting the tourism market will also contribute to address Cabo Verde's high unemployment rate, particularly among youth and women by creating new job opportunities in the islands of Fogo (864), Santiago (1,026), and Santo Antão (810). Annex A.1.2 presents a detailed list of key outputs and outcomes, disaggregated by gender and region.

Outcome 2: Enhanced infrastructure supporting value chains and regional integration

47. **Bank interventions will aim at contributing to reduce the existing regional economic asymmetries by improving the transport infrastructure and enhanced connectivity between main agriculture and fisheries production centres and major consumer markets**. Specifically, the Bank will complement recent investments in airports and inter-island maritime transportation by supporting the revival of country's commercial ports of Maio and Palmeira (in Sal island) including investments in container freight stations for handling of merchandise (e.g. agriculture and fisheries products to be supplied to the tourist market in Maio and Sal islands). The Bank will consider using its comparative advantage and play a leading role in supporting efficient transport systems to foster regional integration by co-financing the feasibility studies and implementation of the multimodal regional corridor Praia-Dakar-Abidjan. This will provide alternative transportation services that will open up the country, reduce the transportation costs, facilitate movement of goods and people and promote regional integration.

48. **Interventions aimed at enhancing electricity sector efficiency will contribute to improve industrial productivity**. Bank's support to energy will build on its previous interventions in the electricity distribution to six islands and extend its support to the country's green growth agenda. Specific interventions will include the innovative solar power systems for agriculture irrigation and a 10 MW PPP project on battery storage and converters and solar rooftop systems. The objective is to transition to a secure, efficient and sustainable energy sector, reducing dependence on fossil fuels and ensuring universal access and energy security. As technical capacity issues remain a constraint in the sector, the Bank will make efforts in mobilizing GCF resources for technical assistance to the Power Regulatory Authority to design a Wind Atlas and enable further investments in wind energy.

49. Inter-island maritime transportation is a major bottleneck to Cabo Verde's integration in the regional economy. Bank's planned investments in the modernization of the country's ports will increased annual revenues (about 10% by 2024) for the sustainability of the infrastructures while fostering regional integration. Moreover, annual passenger traffic is expected to rise by up to 55,100 in 2024; while merchandise traffic will increased by up to 429,200 tons in 2024 owing to the modernization of the ports of Maio and Palmeira (Annex A.1.2). Bank's interventions in renewable energy and through the launching of a 10 MW IPP are expected to contribute to the country's green growth agenda by raising renewable energy generation from 20.3% in 2019 to 23% by 2024. Improvements in transport connectivity and energy efficiency complemented with other key reforms for enabling the business environment are expected to improve the country's standing in the overall Doing Business and Global Competitiveness rankings.

50. **Cross-cutting themes will be mainstreamed into the CSP and become an integral part of lending and non-lending operations.** Following BDEV's recommendations, the Bank will place greater focus to strengthening governance, gender and climate change mitigation measures. ***Governance***: The Bank will use Budget Support complemented with technical assistance interventions to build capacity to coordinate public sector reforms targeting the enabling business

environment and decentralization. Possibility of use of Results-Based Financing (RBF) focusing on island specific development programs will be explored in line with the discussions in the context of the general capital increase.

Gender: Recognizing the role that women play in fostering economic growth through innovative and inclusive businesses, the Bank will promote women-led businesses as part of the AFAWA and ENABLE youth initiatives. More specifically, increased support to gender empowerment will be enhanced through agriculture and blue economy program. The objective is to improve job creation (at least 30% of women to be employed out of the 2,700 estimated new jobs in agribusiness and fisheries), improved nutrition particularly for vulnerable women and children (at least 30% of women to be targeted out of the 1,800 vulnerable people identified in the project areas); and build female young entrepreneurs skills on agriculture value chains.

Climate change: The intervention strategies aiming at mitigating climate change will be mainstreamed in planned Bank's projects in agriculture, fisheries and energy and will be oriented around the following objectives: (i) increase the resilience of rural populations, with a focus on water resource integrated management; and (ii) adopt climate-smart food and fisheries production and innovative schemes (agro-meteorological information, agricultural and aquiculture risk transfer mechanisms and innovative financing).

5.3 Indicative Lending Program and Non-lending Program

51. **Lending program**: The indicative pipeline (Annex A.2.1) was streamlined from 14 operations (estimated at UA 193.45 million) down to 8 projects amounting to UA 97.65 million, considering the limited allocations for Cabo Verde and absorption capacity. This follows the recommendations from CODE calling for the need to avoid an overambitious program. The lending program is highly selective and aims to concentrate resources only on three intervention areas: agriculture and blue economy, energy and transport.

52. **Non-lending program**: As human and financial resources remain limited, the Bank has already adopted the approach of embedding ESW preparation into sector projects (e.g. blue economy, and ICT) as to inform future CSP interventions (Annex A.2.2). Partnership with others DPs such as the UNDP and the WB has been established, in particular, in implementing the "women's economic empowerment flagship initiative", and the study on "youth insertion into agriculture value chains linkages with tourism". The Bank is also committed to support the country's efforts for implementation of the AfCFTA through capacity building under the framework of the Multimodal Praia-Dakar-Abidjan feasibility studies for the regional corridor. The Bank is also supporting the implementation of the PEFA and national procurement diagnostic using the OECD-MAPS methodology to align the country systems with international standards. The assignment is led by SNFI and ECGF. The Bank, and in partnership with the Africa Legal Support Facility (ALSF) will consider provision of legal advisory role for the privatization of the power utility (ELECTRA), the ports company (ENAPOR) and ASA as well as the structuring of Power Purchase Agreements (PPA).

5.4 Country Dialogue

53. **The Bank undertook broad consultations with the government, private sector, CSOs and development partners to identify key sectoral bottlenecks**. Among the key recommendations, there was a need for the Bank to ensure greater concentration of resources in

key sectors supporting agriculture and fisheries value chains for poverty reduction, greater focus on economic diversification and increased aid coordination, and support to private sector development. Annex V provides a detailed summary of outcomes of consultations.

54. **Following the recommendations from CODE, the CSP 2019-2024 places greater emphasis on coordination and alignment of its interventions with policy dialogue**. Therefore, the Bank will leverage its comparative advantage in Cabo Verde and strengthen policy dialogue, in particular, in the areas of: (i) economic diversification; (ii) debt management; and (iii) support to address the country's vulnerability to exogenous shocks; and (iv) portfolio management and ownership to improve compliance with PD 02/2015. As the issue of domestic resource mobilization is key in addressing Cabo Verde's limited fiscal space, the Bank will continue providing advisory support to the government's reforms for creation of an infrastructure fund that will also tap into the diaspora's savings. This initiative is part of the pipeline for the Africa Investment Forum and Lusophone Compact for Cabo Verde.

5.5 Financing the Strategy

55. The total indicative financing envelope for the CSP 2019-2024 amounts to UA 97.65 million equivalent to an average project size of UA 12.2 million which is line with the current portfolio. Considering the limited allocations, the low absorption capacity, and the need to preserve debt sustainability, the Bank has therefore streamlined the pipeline by postponing 6 public and private sector projects amounting to UA 95.9 million in the areas of energy, ICT and transport. Alternative financing options will be re-examined including the use of PCGs, PRGs, Lusophone Compact and Africa Investment Forum, and co-financing (e.g. about UA 23.25 million) to be mobilized from DPs such EU, IFAD, and Climate Trust Funds supporting the green growth agenda, notably, the Global Environmental Fund (GEF), and GCF.

5.6 Implementation Arrangements, Monitoring and Evaluation

56. The CSP 2019-2024 Strategic Alignment Matrix (Annex A 1.1) and Performance Matrix Annex 1.2) are anchored on the national M&E system. The proposed indicators will serve for monitoring progress in the CSP implementation and towards achievement of sector-related SDGs while contributing to the achievement of the PEDS, 2017-2021 objectives. The proposed M&E framework consists of specific regional and gender disaggregated output and outcome indicators and respective Bank's proposed operations to be implemented and including co-financing interventions with other DPs. The baseline values were drawn from the PEDS, 2017-2021, and the results framework of Bank's new projects in the areas of agriculture and blue economy, energy and transport. The Bank will use the results of the National Census planned for 2020 to track progress and undertake the CSP MTR in 2022.

5.7 Risks and Mitigation Measures

57. Based on the diagnostics provided in the sections above, and ongoing consultations with the government and partners, the following are the potential risks and mitigation measures.

Macroeconomic risk to economic growth	
Medium likelihood of occurrence ○ *Eventual slowdown in economic growth to impact negatively on tourism receipts and undermine growth and jobs in the economy* ○ *High public debt to GDP ratio (123% by end-2018), and limited fiscal space to absorb shocks*	*Mitigation measure (expected impact): medium* ○ *Economic diversification through agricultural and fisheries value chains linked to tourism and exports markets* ○ *Results-Based Budget Support financing and TA for economic diversification, reduce government's liabilities and lower debt to GDP ratio to 98.5% by 2023.*
Fiduciary and operational risks to implementation of Bank's portfolio	
Medium likelihood of occurrence ○ *Inadequate capacity in procurement* ○ *Inadequate internal and external audit and project implementation and management*	*Mitigation measure (expected impact): medium* ○ *Undertake a National Procurement Diagnostic* ○ *Bank to provide TA on linking internal control systems with External Audit Court and training on project management*
Lack of resilience to climate change	
High likelihood of occurrence ○ *Unreliable climate puts households and economic infrastructure and agricultural production at risk.*	*Mitigation measure (expected impact): long-term* ○ *Environmental sustainability to be enforced through capacity building in mainstreaming climate change in NDCs*

VI. CONCLUSION AND RECOMMENDATIONS

58. **Conclusions**: Despite the recent economic recovery in Cabo Verde, there are persist some challenges in sustaining inclusive growth, addressing unemployment and regional inequalities. The Bank's CSP 2019-2024 has been designed to support Cabo Verde in tackling these challenges. Therefore, the CSP's strategic intervention areas emphasize support for agriculture and blue economy value chains through integrated investments in energy and transport infrastructure. The main objective is to improve the productivity of critical sectors (e.g. agriculture and fisheries) and strengthen the demand for local production by optimizing the interlinkages with the tourism market, create jobs, and bridge inequality gaps. With a special a special focus on gender, climate change and governance, the Bank will pursue these mutually reinforcing interventions to create jobs, particularly for the youth and women; bridge inequality gaps and contribute to overall economic diversification and transformation in Cabo Verde.

59. **Recommendations**: The Board of Directors is invited to consider and approve this Cabo Verde CSP 2019-2024.

Annex I: CSP Results Measurement Framework

A.1.1. Strategic Alignment Matrix

<table>
<tr><th colspan="6">PRIORITY AREA1: Support to economic diversification through enhanced agriculture value chains</th></tr>
<tr><th colspan="3">Cabo Verde National Development Plan</th><th></th><th colspan="2">Bank's Corporate Policies</th></tr>
<tr><td colspan="3">• Cabo Verde Vision 2030: Pillar 1 – "Promote economic transformation of the country".
• Strategic Plan for Sustainable Development (2017-2021): Pillar 1 – "New economic growth model and sectoral concentration of reforms".
• Sustainable Development Goals: SDG 1 ("No poverty"), SDG 2 ("No Hunger"), SDG 7 ("Affordable and clean energy"), SDG 8 ("Decent work and economic growth"), SDG 9 (Innovation and Infrastructure").</td><td></td><td colspan="2">TYS 2013-2022:
Operational priority: infrastructure, regional integration, private sector.
Area of special emphasis: gender, agriculture and food security.

High 5s:
• Feed Africa
• Light up and Power Africa
• Integrate Africa</td></tr>
<tr><th colspan="3">Country Sector Strategy</th><th></th><th colspan="2">Bank Sector Strategy</th></tr>
<tr><td colspan="3">• National Program for Agricultural Investment, Food and Nutrition Security (2014-2020): (i) transform agriculture into a market-oriented sector, (ii) intensification of crop productivity; (iii) creation of value added to agriculture production.
• Strategic Plan for Rural Extension (2017-2026): (i) introduction of new production techniques; (ii) strengthening the country resilience to climate shocks
• 2018-2040 Master Plan for the Electricity Sector (2018 – 2040): (i) Achieve 54% of total energy requirements supplied by renewable sources by 2030; (ii) Promotion of energy efficiency.
• Strategic Transport Plan for Cabo Verde: (i) Improved transportation services supporting value chains; (ii) Transform Cabo Verde's maritime platform to promote the integration of the country into the global economy.</td><td></td><td colspan="2">• Strategy for Agricultural Transformation in Africa 2016-2025: (i) investment in infrastructure, particularly energy to drive agriculture transformation; (ii) linking production to markets; (iii) strengthening processing capacity and job creation.
• Bank Group Strategy for the New Deal on Energy for Africa 2016-2025: (i) increase energy production, scale-up energy access, improve affordability, reliability and energy efficiency while improving access to clean energy.
• Regional Integration Strategic Framework (2018-2025): (i) Infrastructure connectivity, (ii) Trade and Investment.
• Bank Group Strategy for Jobs for Youth in Africa (2016-2025): (i) integration, innovation; and (iii) investment.</td></tr>
<tr><th colspan="3">Country Development Results</th><th></th><th colspan="2">Bank Interventions</th></tr>
<tr><th>Indicators</th><th>Baseline (2019)</th><th>Targets (2024)</th><th></th><th>Investments instruments/sectors</th><th>Amount (Million UA)</th></tr>
<tr><td>Incidence of rural poverty (%)</td><td>40.9</td><td>30</td><td></td><td>Agriculture and Blue Economy Value Chains investment</td><td>20</td></tr>
<tr><td>Households in risk of food and nutritional insecurity (%)</td><td>11</td><td>9.8</td><td></td><td>Electricity efficiency and renewable energy supply project</td><td>10</td></tr>
<tr><td>Rural population with access to electricity (%)</td><td>83.1</td><td>85</td><td></td><td>Transport investment projects (e.g. Ports, Airports and Praia-Dakar-Abidjan Corridor)</td><td>38</td></tr>
<tr><td>Total renewable energy produced (Mwh)</td><td>75.2</td><td>88.3</td><td></td><td>Results-Based Financing (RBF) for Economic Diversification and Competitiveness</td><td>46</td></tr>
<tr><td>Merchandise cargo volumes handled in national ports (Tons)</td><td>2,965,700</td><td>3,445,300</td><td></td><td>Private Sector Financing (e.g. Lines of Credit for Local Commercial Banks to support SMEs)</td><td>7</td></tr>
<tr><td>Passenger traffic in national airports ('000 people)</td><td>3,287</td><td>4,170</td><td></td><td>Knowledge products (e.g. agriculture value chains, procurement, transport, ALSF capacity building, gender and climate change)</td><td>5.4</td></tr>
</table>

Results Chain

Results Chain

A.1.2. Cabo Verde – CSP 2019-2024 Performance Matrix

Performance Area	Sample Monitoring Indicators	Baseline (2019)	Target (2024)	Data Source
Operational results (from projects)[10]				
- Outcomes	**Agriculture and Blue Economy** ▪ Increased rural farmers income (%) ▪ Increased yields on agriculture value chains: ▪ Horticultures (Metric ton/hectare) ▪ Fresh fruits (Metric ton/hectare) ▪ Coffee (Metric ton/hectare) ▪ Cheese (Tons) ▪ Increased income of fishermen and fish processors in coastal areas (%)	 4 2.5 1 0.02 0.4 6	 7.5 4.2 2 0.07 0.8 12	 PEDS, 2017-2021 Reports Agriculture Census PEDS, 2017-2021 Reports
	Energy ▪ Increased contribution of renewable energy generation in total energy supply (%)	20.3	23	PEDS, 2017-2021 Reports
	Transport ▪ Ports company revenue increase (%)	5	10	ENAPOR Annual Reports
	Improve economic competiveness • Doing Business (ranking) • Global Competitiveness Index (ranking)	 131 112	 91 100	 Doing Business Report Global Competitiveness Report
- Outputs	**Agriculture and Blue Economy** ▪ Small agriculture and fish processing units benefiting from credit (#) ▪ Fish processors with certification of quality to supply tourism market (#)	 20 0	 50 5	 PEDS, 2017-2021 Reports PEDS, 2017-2021 Reports
	Energy ▪ IPP in renewable energy launched (MW)	0	10	PEDS, 2017-2021 Reports
	Transport ▪ Traffic increase in the Ports of Maio and Palmeira - Annual passenger traffic (#) - Merchandise traffic (Tons)	 41,700 150,900	 55,100 429,200	 ENAPOR Annual Reports ENAPOR Annual Reports
- Cross-cutting (climate change & gender)	▪ Outcome: country global climate resilience and vulnerability index improved (ranking) ▪ Output: Improved job creation through agriculture and blue economy value chains ▪ Fogo Island ▪ Santiago Island ▪ Santo Antão ▪ Output: Number of nutritionally vulnerable people with improved diet (#) ▪ Fogo Island ▪ Santiago Island ▪ Santo Antão ▪ Output: Female young entrepreneurs trained on agriculture and blue economy value chains (#)	117th/182 259 308 243 160 190 150 10	110th/182 (30% women) 864 1,026 810 576 684 540 70	Global Climate Report AfDB Appraisal Reports AfDB Appraisal Reports AfDB Appraisal Reports
1. Policy advice and knowledge	▪ Outcome: New law on statutes and financing of municipalities approved (yes/no)	no no	yes yes	AfDB Budget Support Aide Memoire

[10] Including projects carried over from previous CSPs/RISPs and projects approved under the current CSP/RISP.

	▪ Output: National Procurement Diagnostic study completed and using OECD-MAPS methodology completed yes/no)			
2. Financial leveraging	▪ Amount of co-financing (million UA) ▪ European Union (Port of Maio Project) ▪ IFAD (Agriculture and Blue Economy Value Chains) ▪ GCF (Energy efficiency project) ▪ PPP transactions (#)	0 0 0 0	14.65 8.6 1 2	AfDB Appraisal Reports
3. Portfolio performance	▪ Average Gender Marker rating (1 to 4) ▪ Average QaE rating (1 to 4) ▪ Average IPR rating (1 to 4) ▪ Timely completed PCRs (average % of projects) ▪ Disbursement ratio (average % of project)	3 3 3 80 45	3 3 3.5 100 55	AfDB Portfolio Flashlight Reports
4. Sustainability and capacity building	▪ Africa Legal Support Facility (ALSF) membership by providing Technical Assistance (yes/no) ▪ Budget allocated for sustainability of technology park project (million UA)	no 0	yes 1	AfDB Appraisal Reports AfDB Appraisal Reports
5. Development coordination/ harmonisation	▪ Development cooperation on budget (% total AfDB commitments) ▪ Use of country procurement systems (% of AfDB project including Budget Support) ▪ Joint missions per year (#)	10 19 1	25 30 2	AfDB Budget Support Aide Memoire
6. Internal efficiency	▪ Average time from approval to first disbursement (months) ▪ Time from project concept note to approval (months) ▪ Lapse of time for procurement of services (months) ▪ Lapse of time for procurement of goods and works (months)	8.7 6 7 7	6 6 7 7	AfDB Portfolio Flashlight Reports

Annex II: Indicative Lending/Non-Lending Program and Contribution to the High 5s

A.2.1. Indicative Lending Program

Year	Project Name	Sector	High 5s	Financing Source (UA million)							
				ADB Public	**ADB Private**	**MIC TAF**	**Regional operation**	**Co-financing with DPs**	**Climate Funds**	**Other Trust Funds**	**Total ADB**
LENDING OPERATIONS											
Priority area: Support to economic diversification through enhanced agriculture value chains											
2019	Extension and modernization of Port of Maio and Palmeira	Transport	Integrate Africa	14.65				14.65(EU)			14.65
2019	Budget Support (PSC-LED Phase II)	Multi-sector	Improve the quality of life for the people of Africa	16							16
2020	Results-Based Financing (RBF) for Economic Diversification and Competitiveness	Multi-sector	Improve the quality of life for the people of Africa	15							15
2020	Agriculture and Fisheries Value Chains linked to Tourism Sector	Agriculture	Feed Africa	20				8.6 (IFAD)			20
2021	Line of Credit for a Local Commercial Bank (Lusophone Compact program)	Financial sector	Industrialize Africa		7						7
2021	Results-Based Financing (RBF) for Economic Diversification and Competitiveness	Multi-sector	Improve the quality of life for the people of Africa	15							15
2022	Electricity Efficiency Supply Project	Energy	Light up and Power Africa		10				1 (GCF)		10
2023	Multimodal / regional Corridor project Praia-Dakar-Abidjan	Transport	Integrate Africa				TBD				TBD
	TOTAL LENDING OPERATIONS			**80.65**	**17**		**TBD[1]**	**23.25**	**1**	**-**	**97.65**

Note: [1] The project amount is yet to be defined pending the completion of the feasibility studies by 2021. These studies are to be financed by the Infrastructure Development Program for Africa (PIDA).

Some CSP projects which were initially planned in the pipeline were postponed due to limited resource allocations, low absorption capacity and the need to preserve debt sustainability.

- Rehabilitation and extension of the electricity distribution network in Boavista (UA 10 mn initially planned for 2020)
- 5 MW thermal power plant in Maio Island (UA 7 mn initially planned for 2021)
- ICT marketplace supporting Technological Park and agriculture value chains (UA 12 mn initially planned for 2021)
- Fisheries and aquaculture value chains project linked to the tourism sector (UA 10 mn initially planned for 2021)
- Container Terminal infrastructures in São Vicente Port (UA 28 mn initially planned for 2022)
- Budget support for economic competitiveness (UA 15 mn initially planned for 2022).

A.2.2. Indicative Non-Lending Program

Year	Projects Name	Sector	High 5s	Financing Source (UA, million)				Observations
				MIC TAF	Administrative Budget	Other Trust Funds	Total	
NON-LENDING OPERATIONS								
2019	Study on Youth insertion into the agriculture value chains linked to tourism	Agriculture/ Social	Feed Africa/Improve quality of life for the people of Africa	0.8			0.8	Concept note approved by Country Team on March 2019. Final report drafted and submitted to RDVP for clearance. Study financed through MIC TAF grant.
2019	Cabo Verde Private Sector Forum (CVIF 2019) in Sal Island	Private sector	Industrialize Africa		0.05		0.05	Technical and Financial Support provided using Bank's Administrative Budget.
2019	Procurement Diagnostic using OECD-MAPS methodology	Multi-sector	Improve the quality of life for the people of Africa	0.5			0.5	International Consultants recruited by SNFI in June 2019 following competitive process. Study ongoing to be completed by 2020. Study financed through MIC TAF resources and jointly coordinated by SNFI and ECGF.
2019	Feasibility studies for sustainability of Praia Technological Park (e-Services provision hub and ICT capacity building, ICT Connectivity hub)	ICT	Industrialize Africa / Integrate Africa	1			1	Government financing request received on 22nd February 2019. Study ToRs drafted and International Consultants recruited on competitive basis. Study financed though Korea Trust Fund (KOAFEC) grant.
2020	African Legal Support Facility (ALSF) Technical Assistance	Multi-sector	Improve the quality of life for the people of Africa			0.05	0.05	Technical assistance on PPP contract management, privatization of power (ELECTRA) and port (ENAPOR) companies to be provided by ALSF using its own legal and advisory services and resources.
2020	Mainstreaming Gender and Climate Change into National Determined Contributions (NDC) and Strategic Plan for Sustainable Development (PEDS, 2017-2021)	Gender/ Environment/ Climate Change				0.03	0.03	PECG2 to assist the country in mainstreaming climate change into NDC. National stakeholders planned for Quarter I, 2020 jointly with UNDP. AHGC0 to assist in mainstreaming gender into PEDS 2017-2021 and capacity building for empowerment of women led business as part of implementation of AFAWA.
2021	Multimodal / regional Corridor project Praia-Dakar-Abidjan project feasibility studies	Regional Integration	Integrate Africa			3	3	Study ToRs prepared and launched. Resources for financing the study secured under regional integration and Infrastructure Development Program for Africa (PIDA)
	TOTAL NON-LENDING OPERATIONS			**2.3**	**0.05**	**3.08**	**5.43**	

A.2.3. Contribution of the Lending and Non-Lending Program to the High 5s

Year	Project Name	Sector	High 5s Priorities				
			Light up and Power Africa	Feed Africa	Integrate Africa	Industrialize Africa	Improve the quality of life for the people of Africa
INDICATIVE LENDING PROGRAM							
2019	Extension and modernization of Port of Maio and Palmeira	Transport			★		
2019	Budget Support (PSC-LED Phase II)	Multi-sector					★
2020	Results-Based Financing (RBF) for Economic Diversification and Competitiveness	Multi-sector					★
2020	Agriculture and Fisheries Value Chains linked to Tourism Sector	Agriculture		★			
2021	Line of Credit for a Local Commercial Bank (Lusophone Compact program)	Financial sector				★	
2021	Results-Based Financing (RBF) for Economic Diversification and Competitiveness	Multi-sector					★
2022	Electricity Efficiency Supply Project	Energy	★				
2023	Multimodal / regional Corridor project Praia-Dakar-Abidjan	Regional Integration			★		
INDICATIVE NON-LENDING							
2019	Study on Youth insertion into the agriculture value chains linked to tourism	Agriculture/ Social	★				★
2019	Cabo Verde Private Sector Forum (CVIF 2019) in Sal Island	Private sector				★	
2019	Procurement Diagnostic using OECD-MAPS methodology	Multi-sector					★
2019	Feasibility studies for sustainability of Praia Technological Park	ICT			★	★	
2020	African Legal Support Facility (ALSF) Technical Assistance	Multi-sector					★
2020	Mainstreaming Gender and Climate Change into NDC and PEDS 2017-2021	Gender/ Environment/ Climate Change					★
2021	Multimodal / regional Corridor project Praia-Dakar-Abidjan project feasibility studies	Regional Integration			★		

Annex III: Lessons Learned

A.3.1. Key findings of the CSP Completion Report

A. CSP 2014-2018 Implementation Context

1. **The 2014-2018 Country Strategy was developed at a time when Cabo Verde's economy was in decline.** Fiscal deficits had increased to -7.6% of GDP in 2014 while GDP growth has stagnated around 0.6% of GDP, following the impact of the global financial crisis of 2009 that led to a sharp decline in FDI inflows. The strategy period overlapped the implementation of the Cabo Verde's third Growth and Poverty Reduction Strategy (GPRSP III, 2012-2016) and the PEDS, 2017-2021. To address Cabo Verde's challenges, the CSP was anchored on two pillars: (i) *Pillar I: Enhancing and diversifying infrastructure development*; and (ii) *Pillar II: Strengthening economic governance in public and private sector.* Interventions under *Pillar I* sought to address the inadequate infrastructure platform, which was seen to be a constraint to service delivery, private sector growth, competitiveness and regional integration, through operations in transport, energy and ICT. *Pillar II* interventions aimed to support policies to improve the access of SMEs to financial services, improve employability and reduce youth unemployment, consolidate the macroeconomic framework, strengthen the regulatory environment for PPPs, and improve the monitoring and evaluation systems.

B. CSP 2014-2018 Performance by Strategic Pillar

2. **The two strategic pillars of the CSP program were organized around eleven objectives, as measured by 29 outcome indicators and 35 output indicators**. The assessment presented here is based on the results of the CSP 2014-2018 Completion Report[11] approved by CODE on 9th September 2019. The lending program was successfully implemented with 14 operations approved compared to 9 planned. In terms of overall attainment of CSP results, a positive picture emerged. Specifically, 41% of expected outcomes were fully achieved, 41% partially achieved, and only 19% not achieved. For outputs, 47% were fully achieved, 29% were partially achieved, and 24% were not achieved. Results partially or not achieved by 2018 are expected to be fully completed within the next two years under the new CSP 2019-2024. The summary assessment of CSP performance at pillar level and including the key indicators from CSP result-based framework matrix are provided below. The results assessment was based on three assessment criteria (Achieved, Partially Achieved, and Not Achieved).

CSP Pillar I: *Enhancing and diversifying infrastructure development*

3. **Implementation performance under Pillar I (infrastructure development) was challenging and showed mixed results with 36% of outcomes and 44% of envisaged outputs achieved.** Nevertheless, the Bank was instrumental in supporting the efforts for broadening people's access to electricity through the implementation of the network transmission and distribution electricity project in six islands (co-financed with JICA). The project helped build 385.4km of power distribution lines, and exceeded its targets in terms of new electricity connections by 347% (10,435 people in urban areas) and 119.1% (2,060 people in rural areas). However, findings from BDEV evaluation on Cabo Verde's CSP 2008-2017 indicate that the outcomes related to improved share of renewables in total power supply could not be achieved as the planned interventions were ill matched to available resources and financing instruments. In transport sector, the Bank has successfully approved the project for

[11] Board reference number ADB/BD/WP/2019/153 and ADF/BD/WP/2019/105

rehabilitation and modernization of Port of Maio and Palmeira. Investments in the modernization and expansion of Praia Airport have helped improve passenger traffic from 400 passengers/hour in 2014 to 1000 passengers/hour in 2018. This notwithstanding, the development outcomes on ICT were constrained by: (i) lack of coordination between domestic and foreign contractors involved in civil works (e.g. Technology park); and (ii) delays in the delivery of equipment as most of it was imported. Support to environmental and climate change outcomes was found below the expectations due to several operational constraints, notably: (i) weak quality of feasibility studies; (ii) lack of adequate expertise at project units to follow-up environmental and social impact assessments and limited Bank's financial resources to scale up interventions. These challenges will be mitigated through a technical assistance aimed at ensuring sustainability of Praia Technological Park (e-Services provision hub and ICT capacity building, ICT Connectivity hub). As the prospect of declining concessional financing became palpable, the Bank used its convening power to secure co-financing resources (EUR 14.65 million) with the EU to strengthen the environmental and social impacts mitigation on the rehabilitation and expansion of Ports of Maio and Palmeira.

CSP Pillar II: ***Strengthening economic governance in public and private sector***

4. **Attainment of results for Pillar II achieved most of the envisaged outcomes (46%) and outputs (50%)**. The Bank was instrumental in supporting PFM reforms and business climate for private sector development through various Budget Support operations. Key results of these interventions included: (i) reduced level of tax burden administration for SMEs owing to the effectiveness of online tax payment; (ii) entrepreneurship promotion through launching of 5 business incubators; (iii) improved enabling environment for investment with about 2,469 new MSMEs created between 2015 and 2016, with 46% owned by women; (iv) adoption of PPP tools and support in the process of restructuring SOEs (ASA, TACV). Meanwhile, the objective of fostering employability and youth and women inclusion was partially achieved as 70% of trained youth entrepreneurs benefited from kits to start their own business. This component will be strengthened in the new CSP 2019-2024 through development of agricultural value chains.

Implementation of Non-lending program

5. **The planned non-lending pipeline (12 studies)[12] could not be fully delivered due to lack of funding and resource staff on the ground**. Nevertheless, the Bank still delivered the following important knowledge products which informed country dialogue, notably: (i) technical support to the National Institute of Statistics in the preparation of Household Income Surveys, Health and Demographic Survey and Agricultural Surveys; (ii) elaboration of a Country Gender Profile with UN Women which informed the design of the "women's economic empowerment program". The Bank also prepared three flagship reports namely: "Cape Verde: A Success Story", "Cape Verde: The Way Forward", and "Cape Verde: Private Sector Profile".

[12] Eight studies were not delivered, namely: (i) 100% Renewable Energy Financial Transaction Structuring; (ii) New Model for Transport Infrastructure Management; (iii) Concessions Contract Negotiations; (iv) Economic Cooperation and Cabo Verde integration into ECOWAS; (v) Opportunity cost of gender inequalities to the GDP; (vi) Growth and Poverty Reduction in Cabo Verde; (vii) Transforming diaspora transfers into productive assets and investment: Profile for Cabo Verde Migrants; and (viii) Tertiary education reforms and job creation (youth and women).

C. Overall CSP assessment

6. **Despite a difficult operating environment during the CSP implementation, Bank delivery and performance were globally positive**. The CSP was well aligned with national development priorities and Bank's corporate priorities. The selectivity of the portfolio as implemented was appropriate and the Bank has been a reliable partner for the Government of Cabo Verde providing a substantial and continuous source of financial and technical support for governance reforms and infrastructure development, specifically in the electricity and transport sectors. However, as previously highlighted on BDEV's report, Bank's support towards achievement of inclusive and green growth, climate change and private sector development was constrained by inadequate funding and instruments mismatch to scale up interventions.

Pillar I -Strengthening and Diversifying Infrastructure Development to Support Sustainable Development

Sectoral goal	**Outcomes**		**Outputs**	
	Achieved	**Expected**	**Achieved**	**Expected**
Transport: Objective 1: *Provide a well-articulated and integrated intermodal transportation system*	**Achieved:** Number of passengers/hour estimated at 1000 in 2018 against 400 in 2014.	Increase in international, intra-regional and domestic air traffic	**Partially Achieved:** Civil works execution rate at 82.3%	100% completion of the Praia airport project
Objective 2: *Position Cabo Verde as a regional hub for transhipment of containers*	**Partially Achieved**: Feasibility studies for regional corridor project Praia-Dakar-Abidjan in progress for completion by 2020	Studies for building Cabo Verde capacity for regional integration and competitively manage the transshipment of sea freight	**Achieved**: Pipeline of projects developed for the period 2017-2021	Feasibility studies, implement and development of the project pipeline for 2018-2019 and beyond
Energy Objective 3: *Increase, improve and diversify energy sources*	**Partially Achieved**: Current electricity access is at 93% in 2018	% population connected to grid electricity increased from 87.1 in 2012 to 95 in 2018	**Achieved**: Average feeding hours for nine islands estimated at 22h in 2016	Average number of continuous feeding hours per day (average for all nine islands), from 20h in 2012 to 21h in 2016
	Not achieved: Share of renewables is 25% of total supply	Supply sourced from renewable sources, From 21% in 2012 to 60% in 2018	**Achieved**: Pipeline of projects developed for the period 2017-2021	Development of the project pipeline for 2018 and beyond
ICT Objective 4: ***Make Cabo Verde a cyber-island hub in services in the ICT sector***	**Achieved:** ICT sector contributes an estimated 3.2% of GDP in 2018	% contribution of ICT sector to total GDP, from 0.7% in 2012 to 2% in 2018	**Partially Achieved**: Final phase of business and incubator center. Start design of IT solutions	Opening of the Technology Park after completion of 75%

Pillar II - Strengthening economic governance in both the public and private sectors

Sector goal	Outcomes		Outputs	
	Achieved	**Expected**	**Achieved**	**Expected**
Business environment: Objective 1: *Improve the access of SMEs to financial services, skills and technologies*	**Achieved:** About 2469 new MSME created between 2015 and 2016 with 46% owned by women	Improved enabling and investment environment for micro, small and medium enterprises	**Achieved:** more than 75% of tax reforms completed	Tax reform project Completion of 50% reforms
Objective 2: *Improve employability to reduce youth unemployment*	**Achieved:** apprenticeship training is now a political option to reduce the skills mismatch in the labor market	Designing a learning-based training device Improving the entrepreneurial skills of young people	**Partially Achieved**: (70%) 70 trained youth entrepreneurs benefited from Insertion kit to start their own business	At least 100 young people from training centers benefit from an insertion kit to start their own business
Objective 3: ***Consolidate the macro framework***	**Achieved**: Budgetary deficit below 4% in 2016 **Achieved**: Inflation stood at 0.8%	Budgetary balance less than or equal to -4.3% of GDP Maintaining inflation below 3%	**Achieved:** Law on SOEs adopted and support in restructuring processes (ASA, TACV) provided	Strengthening the government's capacity to regulate and govern state-owned enterprises
Objective 4: *Strengthen the regulatory State, facilitator and evaluator of private sector intervention in PPPs (infrastructure and public services)*	**Partially Achieved**: 3 PPP projects identified but Institutional framework to use of PPP´s requires further dissemination	Increasing the proportion of public investment in infrastructure financed through PPPs	**Achieved:** Tools for PPP evaluation designed and PPPs targets met. PPP system for investment in place	Strengthening the capacity of GoCV to design, select, evaluate and successfully PPP
Objective 5: *Improve the monitoring and evaluation (M & E) system*	**Partially Achieved**: New Social Accounting Matrix completed by INE. Forecasting model of Input/output being designed by INE	Rebuilding and Publishing National Accounts New Economic Model for Forecasting	**Achieved:** Results published and to fill a lot of data gaps in national and international publications	Publication of new data on poverty, agriculture, (disaggregated by gender)

A.3.2. Key findings of BDEV Evaluation

BDEV Recommendation	Action Taken	Deadline	Current status
1. The Bank should continue to support government-led reforms aimed at boosting inclusive growth and fiscal sustainability	Private sector competitiveness and local economic development is priority reform in new CSP through planned Budget Supports and RBFs. The Bank is already strengthening public procurement through an ESW on National Procurement Diagnostic and discussions are underway for supporting the preparation of a PEFA assessment in 2020.	RDGW, Q2 2020	Ongoing
2. The new CSP should identify ways to maximize synergies across the Bank's pillars	The New CSP adopts an approach of concentration of resources in transport and energy infrastructure to support agriculture and blue economy value chains to maximize synergies, create jobs for youth and women.	RDGW, Q4 2020	Ongoing
3. Strategic results should be agreed upon with the national authorities and regularly tracked	New CSP 2019-2024 pillar identified jointly with government during the CSP mission that took place from 25th February to 5th March 2019 and results framework already prepared based on the PEDS 2017-2021 performance indicators.	RDGW, Q3, 2019	Completed
4. The new strategy should put more emphasis on project quality and sustainability	New infrastructure projects already adopted simplified and realistic cost assumptions including advance procurement to speed up implementation (e.g. project of rehabilitation and extension of port of Maio and Palmeira approved on 28th November 2018 and signed in December 11, 2018 and first disbursement conditions fulfilled in March 2019)	RDGW, SNFI, Q4, 2019	Completed
5. Scale-up MSME interventions and reforms to boost employment and to make the growth process more inclusive	The Bank already identified a pipeline of projects worth USD 470 million in Cabo Verde as part of the Lusophone Compact. Negotiations ongoing between PIFD1 and local commercial bank for a LoC to finance MSMEs.	RDGW, Q4, 2022	Ongoing
6. Make watershed management programs more sustainable by integrating agricultural value-chain development and mainstreaming climate change adaptation/mitigation	Project for development of Agriculture and Fisheries Value Chains linked to Tourism Sector already identified. Interventions include the valorization of water in the dams for agricultural value chains development in wine and cheese; meet, coffee, and milk production to be supplied to the tourism market and exports.	RDGW, AHAI, Q4, 2021	Ongoing
7. Strengthening the Bank's in-country presence for policy dialogue	Proposal for opening a Liaison Office in Cabo Verde by 2020-2021 was flagged by Management and pending budget arbitration. The Bank has increased the proportion of portfolio managed by COSN from 38% in 2014 to 60% in 2019.	RDGW, Q1, 2019	Ongoing

Annex IV: Engagement with CODE/Board

A.4.1. CODE Comments on CSP Completion Report

CODE Comments/Recommendations	Response/Actions Taken
a) Implementation of the 2014-2018 CSP and Portfolio Performance: The Committee welcomed the successful implementation of the 2014 – 2018 CSP for Cabo Verde and the findings of the evaluation indicating that the country's portfolio has no problematic project. They called on Management to reflect on how the lessons can be useful to other countries in the region. EDs however noted with concern the low level of disbursement and called for the Bank to do a rigorous analysis to improve the quality of projects at entry.	**Noted**: Lessons of the portfolio performance implementation already shared with other countries in RDGW region as part of its regular annual retreat. After a slow start in 2014 (5.5%), disbursement rates increased significantly to reach 60% by November 2019 (see Annex A 6.2, and paragraph 32). Quality-at-entry was due to lack of readiness of feasibility studies and delays in fulfillment of first disbursement conditions (e.g. Port of Maio and Palmeira project). These issues are already being addressed through adoption of realistic pipeline of feasibility studies (with secured Trust Fund and Administrative budget) in order to inform the design of new projects on time. Complex conditions for first disbursement, particularly in infrastructure projects have been streamlined to align with country systems. It is expected that an estimated UA 2 million of startup contracts for construction of Port of Maio will be committed by December 2019. This will boost further the disbursement ratio in Quarter I, 2020.
b) Country's Debt Distress: The Committee expressed concern about the country's debt situation and requested Management to provide update thereon.	**Noted**: Cabo Verde's public debt ratio has declined for the second consecutive year from 128.4% of GDP in 2016 to 127% in 2017 and 123.9% in 2018. Public debt is projected to decline further to 121.4% of GDP in 2019 and below 98.5% by 2023 owing to privatization and improved revenue mobilization (see paragraph 10, Box 1, and Annex XIV) for an update of recent measures taken to improve debt sustainability in Cabo Verde.
c) 2019-2024 CSP Pillar: EDs generally agreed with the single pillar on economic diversification proposed for the 2019 – 2024 CSP, but highlighted the need for more clarity and better articulation on what the pillar seeks to achieve, and to be selective under the single pillar. The Committee also invited Management to reflect further on the indicative pipeline of projects which appears to be too ambitious and the proposed budget support especially in the context of the General Capital Increase discussions.	**Agreed**: Following CODE recommendation and guidance from OpsCom, the priority area was adjusted to "support *economic diversification through enhanced agriculture value chains".* Strategic selectivity was preserved by limiting interventions on agriculture and blue economy; transport and energy. The indicative pipeline was streamlined from 14 operations (estimated at UA 193.45 million) down to 8 projects amounting to UA 97.65 million, to take into account the limited allocations for Cabo Verde and absorption capacity. The CSP 2019-2024 pipeline also includes a proposal for a Results-Based Framework (RBF) Budget Support operation planned for 2021 which is in line with the General Capital Increase discussions.

d) Greater Coordination and Alignment of Interventions and Policy Dialogue: The Committee invited the Bank to leverage its experience and comparative advantage in Cabo Verde to ensure greater coordination and alignment of interventions with the Bank's works in the country. The Committee particularly stressed the need for the Bank to step up policy dialogue with Cabo Verde on economic diversification, debt management and domestic resource mobilization and support to address the country's vulnerability to exogenous shocks.	**Noted**: Over the past three years, the Bank has been leading the Budget Support Group in the country and has been able to push reforms forward, including on the debt issue and dialogue on infrastructure in the country (see paragraph 28 on Aid Coordination) Going forward and following recommendations from CODE, Bank's country dialogue will focus on: (i) economic diversification; (ii) debt management; (iii) domestic resource mobilization; (iv) support to address the country's vulnerability to exogenous shocks; and (v) portfolio management and ownership (see paragraph 54).
e) Update on Cabo Verde Country Office: One Chair sought to know the status of discussion on the establishment of the Country Office in Cabo Verde.	**Noted**: Proposal for opening a Liaison Office in Cabo Verde by 2020-2021 was flagged by Management and pending budget arbitration. Meanwhile, the Bank has increased the proportion of Cabo Verde's portfolio managed by staff in the field in Senegal Country Office from 38% in 2014 to 60% in 2019 (see Annex A 6.2).
f) Areas of focus for the Next CSP: Some EDs suggested that the next CSP for Cabo Verde should pay greater attention to the blue economy given the country competitive advantage in this area and the opportunities for private sector operations.	**Noted**: The Bank will support innovative production systems in fisheries and aquaculture for new value chains linked to the tourism sector (see paragraph 45). On private sector operations, the launch of the Lusophone compact to fast-track private sector investment, the Bank already obtained a list of potential projects for the private sector in Cabo Verde estimated at USD 470 million. Management is reviewing projects in the areas of agribusiness, fisheries, renewable energy, and tourism under the Lusophone Compact and would select a number of them for the next CSP. Management is also working on providing lines of credit to commercial Banks in Cabo Verde to finance SMEs in the country.
g) Ranking of Cabo Verde on Governance: One ED requested clarification on the basis for ranking Cabo Verde 3rd in the region on governance.	**Noted:** The ranking of Cabo Verde reflects the consensus of the various institutions on the governance situation of the country as reflected in the 2018 Mo Ibrahim Index of Governance (see paragraph 4, and Figure 1).

Annex V: Summary of outcomes of consultations with stakeholders

During the CSP Consultations, deliberate efforts were made to obtain representation from development planning institutions (national and sectoral), development implementation agencies (financiers and execution agencies) and development oversight institutions (including public, private and CSOs). Outcomes of these consultations are summarized below:		
Category of institution	Parties consulted	Summary of outcomes of consultations
Government	Vice-Prime Minister and Minister of Finance, Ministries, Departments and Agencies (MDAs)	▪ Growing youth population and the challenge of youth unemployment and overall quality of jobs. Economic diversification and linkages between primary and secondary sectors with tourism is critical to mitigate shocks. ▪ Persistent inequality between regions of the country and high poverty rates (35% of the population). ▪ CSP is well aligned with Government Strategy – PEDS, 2017-2021 ▪ Proposed program is potentially a transformative agenda for medium to long-term sustained growth, and welcomed the new focus on agriculture and blue economy value chains linked with tourism sector. ▪ Need to concentrate resources in key sectors supporting agriculture and fisheries value chains for poverty reduction and job creation. ▪ Focus of the Bank on private sector support under the Lusophone Compact and Africa Investment Forum is welcomed. ▪ Government strong commitment to reform to ensure debt sustainability through privatization of non-performing SoEs, and improved business environment to attract partnerships with the private sector.
Development partners	Budget Support Group (GAO) members, UNDP, other DFIs active in Cabo Verde	▪ Confirmed that proposed focus of the Bank in this CSP reflects its comparative advantage but called for increased donor coordination, especially with those outside the GAO, such as the UN agencies. ▪ Appreciated the Bank's leading role in the GAO and called for an expanded framework to harmonize and coordinate the activities of donors in order to reduce conflicting advice to the Government. ▪ Joint monitoring missions can be an effective way of gathering and sharing lessons. ▪ Increased attention needs to be paid to climate change and sustainability.
Civil Society Organizations	Academia, Think Tanks, Youth and Women's Associations	▪ Addressing regional inequalities and create jobs for the youth is necessary for sustaining social cohesion and stability. ▪ Support to sustainable livelihoods through aquiculture and fisheries in coastal areas, and eased access to credit for women led businesses are important development issues requiring more attention. ▪ Need for Government to accelerate public administration reforms for effective service delivery at local level. ▪ The Bank should focus on creating more economic opportunities, especially for young women in the formal sector.
Private sector	Private sector and affiliated MDAs, Private Commercial Banks, Chambers of Commerce, Youth Entrepreneurs Associations	▪ The need for Cabo Verde to champion regional integration and expand its market to include larger ECOWAS region and the African continent. ▪ Lack of guarantees, high interest rates, and very short loan tenures constrain access to credit and development of the MSMEs. ▪ Inadequate inter-island transportation, high electricity costs and lack of logistical facilities constrains development of agriculture value chains and access to tourism markets (e.g. the case of cheese production from Santo Antão which could not be supplied regularly to Hotels in Sal island (Group Melia) due to transport and logistical issues) ▪ Training and skills development is critical for enhancing private sector productivity and efficiency. ▪ Technical assistance is critical to assist MSMEs prepare bankable projects.

Annex VI: Portfolio Performance Review

A.6.1. Ongoing Portfolio as at 1st November 2019

Sector/Operation		Approval date	Amount in million UA	Amount disbursed in million UA	Disb rate (%)	Last disb. date
ENERGY AND WATER						
1	Project of development of electricity in six islands	3-Nov.-11	8,42	8.18	97.18	30-Jun.-18
2	WAVE20 - Reverse Osmosis (SEFA grant)	21-Dec.-15	0,68	0,24	35,9	31-Dec.-19
	Sub-total		**9.1**	**8.42**	**66.5**	
TRANSPORT						
3	Project of extension and modernization of Praia airport (ADB loan)	22-May-13	23,04	21,79	94,6	30-Jun.-20
4	Project of rehabilitation of the Port of Maio and Palmeira	06-Dec-18	14,34	0	0	31-Dec-23
	Sub-total		**37,38**	**21,79**	**58,3**	
ICT						
5	Project of Technology Park	24-Jul.-13	25,36	8,91	35,8	30-Jun.-20
	Sub-total		**25.36**	**8,91**	**35,1**	
SOCIAL						
6	Pilot project for reinforcement of youth employment (MIC-grant)	22-Aug-16	0,80	0,67	83,2	31-Dec.-19
	Sub-total		**0,80**	**0,67**	**83,2**	
AGRICULTURE						
7	Technical support for elaboration of a national plan for Blue Economy (MIC grant)	17-Oct.-16	1,00	0,61	61,1	30-Dec-19
	Sub-total		**1,00**	**0,61**	**61,1**	
GOVERNANCE						
8	Support to the agricultural general census (MIC grant)	25-Jun-14	0,78	0,55	70,7	30-Jun.-20
9	PSC-LED Phase I	18-Jul-18	16.05	16.05	100	31-Dec-19
	Sub-total		**16,83**	**16,60**	**98,6**	
	TOTAL (excludes energy project completed in 2018)		**82,05**	**48.82**	**59,5**	

A.6.2. Portfolio Performance Indicators

Indicator	2014	2015	2016	2017	2018	2019
Portfolio						
Number of projects	8	10	13	13	12	8
Projects management by COSN regional office (%)	38	60	70	54	54	60
Projects managed from Headquarters (%)	62	40	30	46	46	40
Total commitments (Million UA)	82,6	61,05	63,45	81,57	94,9	82
Average project size (Million UA)	10,3	6,15	6,11	6,79	7,9	9,4
Projects at risk (%)	0	0	0	0	0	0
Problematic Projects (%)	0	0	0	0	0	0
Disbursement rate (cumulative %)	5,5	10,3	25	24	46	60
Average age (years)	1,2	2,3	2,6	2,9	3,1	3,7
Project Audit Reports received on time (%)	100	100	80	80	80	80
Portfolio management						
Time from approval to effectiveness (months)	9,7	7,1	5	6	6	6
Time from approval to first disbursement (months)	16,3	9,3	8,75	9,5	8,7	9,0
Projects approved during the year						
Number of projects approved during the year (loans and grants)	4	3	4	2	1	0[a]
Total commitments during the year (UA million)	44.3	12,9	3,3	16,6	14,8	0[b]

Notes:

(a) A Budget Support (PSC-LED Phase II) is planned for approval in December 2019

(a) An estimated amount of UA 16 million is planned for commitment and disbursement by end-2019.

A.6.3. Country Portfolio Improvement Plan, CPIP 2019

Problems and constraints	Measures to be implemented	Timeframe	Responsible entity
Quality at entry of operations			
Insufficient quality technical studies for project preparation	Ensure the "quality at entry" of new projects through quality technical studies, taking into account national sectoral strategies	Preparation / Launch	MF/Technical Ministries/AfDB
Insufficient fiduciary framework during project start-up	Early start of procurement activities, including the key personnel of the project (Coordinator, Financial Manager and Accountant), the acquisition of the accounting software and elaboration of manuals.	Before all projects start-up	MF/Technical Ministries/AfDB
Coordination and Project Management			
Insufficient coordination regarding project implementation	Establishment of a mechanism to monitor the implementation of the portfolio improvement plan (CPIP) notably through regular meetings including AfDB participation	Quarterly	MF/DNP/AfDB
Implementation Delays	Accelerate the implementation of project activities in accordance with the project procurement plan	During project implementation	PIU/MF/AfDB
Procurement			
Procurement planning and execution	Systematically develop/update procurement plans (PPMs) and submit to the Bank for approval by 31 January each year.	Continuous / 31 Jan of each year	PIU/MF/AfDB
	Regarding the MIC Grants, predict recruitment of procurement specialist for short time (10 work days per month)	Continuous	PIU/MF/AfDB
Financial Management, Audit and Disbursements of funds			
Financial management	Early acquire accounting software and prepare the manual of procedures.	Continuous	UGP/DNP
Delays in submission of disbursement requests	Submit justification of advances on Special Account without waiting for required level of 50% ; Submit disbursement request with complete supporting documents and Bank to comply with its lead-time (Last disbursement on Special Account should be made at least 6 months before the completion date).	Continuous	UGP/DNP/DGT
Delays in submitting audited financial statements	Early launch Request of Interest (EOI) for recruitment of auditors.	Continuous / 30 November each year	UGP/DNP
	Ensure that contracts with auditors are early signed and audit reports submitted on time to the Bank within the required timeframe.	Continuous / 30 June each year	UGP/DNP
Monitoring and Evaluation System (M & E)			
Weak Monitoring and Evaluation	Put in place, at the project level, an efficient and results-based monitoring and evaluation system.	Start of the project	PIU

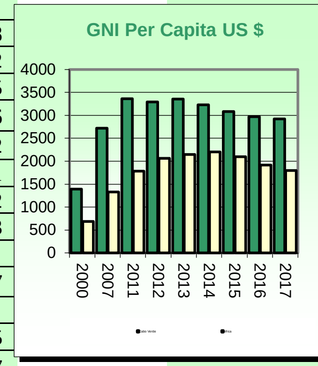
PROJECT SPECIFIC ISSUES			
Problems and constraints	**Measures to be implemented**	**Timeframe**	**Responsible entity**
PROJECT OF TECHNOLOGY PARK			
Monitoring of contract implementation	Ensure permanent monitoring of the implementation of project's activities notably works in accordance with signed contracts ; The project should ensure that disbursement requests are submitted to the Bank as soon as possible in relation with physical execution of contracts ;	Continuous	UGPE
Audit 2018	Ensure that audit contracts are signed on time that the audit report is submitted to the Bank within the required timeframe.	30 June 2019 – Done with 80% audits completed	UGPE
PROJECT OF EXTENSION AND MODERNIZATION OF PRAIA AIRPORT			
Monitoring the execution of contracts	Ensure permanent monitoring of the physical and financial execution of contracts in progress, particularly those relating to the use of the outstanding loan; Ensure compliance with contractual deadlines.	Project extended to 31 December 2020	UGP
Audit 2018 and Final Audit of the project	Submit to the Bank for opinion the short list of audit firms; Finalize the recruitment process of the audit firm; Ensure the signature of the contract and the establishment of the audit firm and the submission of the report to the Bank within the required timeframe (30 June 2019 for the 2018 audit and 6 months after the closure for the audit final).	Project extended to 31 December 2020 6 months after project closing date (30 June 2021)	UGP
Justification of the last replenishment of the special account, closure of the account and transfer of balances.	- Send the bank proof of justification of the use of resources in the special account - Transfer balances of special accounts; - Provide proof of closure of the special account.	- Immediate - Six months after project closing date - Immediate	UGP/MF/DNP
PROJECT OF EXTENSION AND MODERNIZATION OF PORT INGLES IN MAIO AND PALMEIRA			
Satisfaction of conditions	Transmit to the Bank the evidence relating to the satisfaction of the conditions precedent to the entry into force of the Loan Agreement and the first disbursement.	Conditions fullfilled on March 14, 2019	MF/DNP
Evaluation of proposals	Transmit to the Bank, for opinion, the evaluation report of the technical offers for the recruitment of the company in charge of carrying out the extension works of the port of Maio.	15 March 2019	UGP
	Transmit to the Bank, for opinion, the evaluation report of the technical offers for the recruitment of the Design Office in charge of the control of the works.	15 March 2019	UGP
IMPLEMENTATION OF MIC TAF GRANTS			
Monitoring the execution of contracts	Accelerate the execution of project activities; Ensure permanent monitoring of the physical and financial execution of contracts and ensure that the contract duration is respected; Arrange for administrative contracts to be signed before contractual deadlines expire.	Continuous	UGP
Audit 2018	Finalize the recruitment process of the audit firm; Ensure the signing of the contract and the setting up of the audit firm and the submission of the report to the Bank within the required deadlines.	30 June 2019	UGP

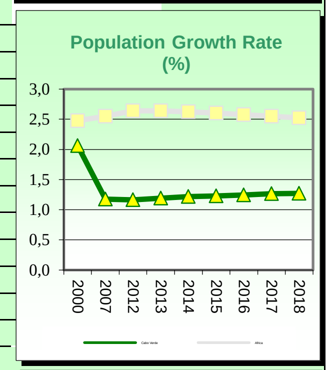
Annex VII: Donor Mapping

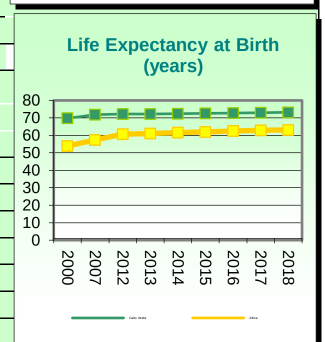
Partners	Macroeconomic stability	Public Financial Management	Procurement	Statistics and Monitoring and Evaluation (M&E)	Private Sector	Security	Infrastructure (Transport, ICT)	Water and Sanitation	Environment	Energy	Education and Professional Training	Agriculture	Health
African Development Bank	**X**	**X**	**X**	**X**	**X**		**X**	**X**		**X**		**X**	
International Monetary Fund	**X**												
World Bank	**X**	**X**	**X**	**X**	**X**		**X**		**X**	**X**	**X**		
European Union	**X**	**X**				**X**		**X**		**X**			
Portugal	**X**					**X**					**X**		**X**
United States of America					**X**		**X**	**X**	**X**		**X**	**X**	
Spain		**X**	**X**	**X**				**X**	**X**				
Japan					**X**		**X**	**X**	**X**	**X**		**X**	**X**
Luxembourg					**X**		**X**	**X**	**X**		**X**	**X**	**X**
Netherlands								**X**	**X**		**X**		
France					**X**	**X**	**X**	**X**			**X**		
Austria								**X**	**X**		**X**		
Brazil											**X**		**X**
Cuba											**X**	**X**	**X**
China							**X**	**X**			**X**		
Kuwait								**X**					
UNDP								**X**	**X**		**X**		
FAO												**X**	
OPEP							**X**	**X**		**X**			
BADEA								**X**				**X**	
Total Number of DP's in Sector	**5**	**4**	**3**	**3**	**6**	**3**	**8**	**14**	**8**	**5**	**11**	**7**	**5**

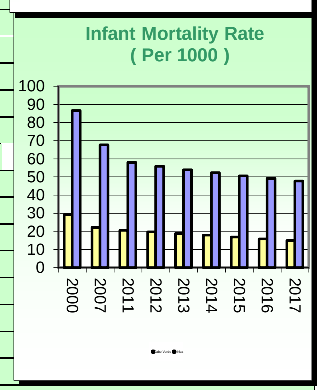
Annex VIII: Comparative Socio-Economic Indicators

	Year	Cabo Verde	Africa	Develo-ping Countries	Develo-ped Countries
Basic Indicators					
Area ('000 Km²)	2018	4.0	30,067	92,017	40,008
Total Population (millions)	2018	0.6	1,286.2	6,432.7	1,197.2
Urban Population (% of Total)	2018	65.7	42.5	50.4	81.5
Population Density (per Km²)	2018	134.0	43.8	71.9	31.6
GNI per Capita (US $)	2017	3 030	1 767	4 456	40 142
Labor Force Participation *- Total (%)	2018	68.4	65.9	62.1	60.1
Labor Force Participation **- Female (%)	2018	53.3	55.5	47.6	52.2
Sex Ratio (per 100 female)	2018	99.4	99.8	102.3	99.3
Human Develop. Index (Rank among 189)	2017	125	...	…	…
Popul. Living Below $ 1.90 a Day (% pop)	2007-2017	8.1	...	11.9	0.7
Demographic Indicators					
Population Growth Rate - Total (%)	2018	1.3	2.5	1.2	0.5
Population Growth Rate - Urban (%)	2018	2.0	3.6	2.3	0.7
Population < 15 years (%)	2018	29.8	40.6	27.5	16.5
Population 15-24 years (%)	2018	20.4	19.2	16.3	11.7
Population >= 65 years (%)	2018	4.5	3.5	7.2	18.0
Dependency Ratio (%)	2018	50.2	79.2	53.2	52.8
Female Population 15-49 years (% of tot. pop)	2018	27.0	24.1	25.4	22.2
Life Expectancy at Birth - Total (years)	2018	73.2	63.1	67.1	81.3
Life Expectancy at Birth - Female (years)	2018	75.1	64.9	69.2	83.8
Crude Birth Rate (per 1,000)	2018	20.4	33.4	26.4	10.9
Crude Death Rate (per 1,000)	2018	5.4	8.3	7.7	8.8
Infant Mortality Rate (per 1,000)	2017	15.0	47.7	32.0	4.6
Child Mortality Rate (per 1,000)	2017	17.4	68.6	42.8	5.4
Total Fertility Rate (per woman)	2018	2.3	4.4	3.5	1.7
Maternal Mortality Rate (per 100,000)	2015	42.0	444.1	237.0	10.0
Women Using Contraception (%)	2018	62.7	38.3	61.8	…
Health & Nutrition Indicators					
Physicians (per 100,000 people)	20102016	78.8	33.6	117.8	300.8
Nurses and midwives (per 100,000 people)	20102016	125.6	123.3	232.6	868.4
Births attended by Trained Health Personnel	20102017	91.4	61.7	78.3	99.0
Access to Safe Water (% of Population)	2015	91.7	71.6	89.4	99.5
Access to Sanitation (% of Population)	2015	72.2	39.4	61.5	99.4
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2017	0.6	3.4	1.1	…
Incidence of Tuberculosis (per 100,000)	2016	137.0	221.7	163.0	12.0
Child Immunization Against Tuberculosis (%)	2017	98.0	82.1	84.9	95.8
Child Immunization Against Measles (%)	2017	96.0	74.4	84.0	93.7
Underweight Children (% of children under 5 years)	20102016	...	17.5	15.0	0.9
Prevalence of stunding	20102016	...	34.0	24.6	2.5
Prevalence of undernourishment (% of pop.)	2016	12.3	18.5	12.4	2.7
Public Expenditure on Health (as % of GDP)	2014	3.6	2.6	3.0	7.7
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2010-2017	95.9	99.5	102.8	102.6
Primary School - Female	2010-2017	92.5	97.4	102.0	102.5
Secondary School - Total	2010-2017	83.5	51.9	59.5	108.5
Secondary School - Female	2010-2017	87.3	49.5	57.9	108.3
Primary School Female Teaching Staff (% of Total)	2010-2017	71.0	48.7	53.0	81.5
Adult literacy Rate - Total (%)	2010-2017	86.8	65.5	73.1	...
Adult literacy Rate - Male (%)	2010-2017	91.7	77.0	79.1	...
Adult literacy Rate - Female (%)	2010-2017	82.0	62.6	67.2	...
Percentage of GDP Spent on Education	2010-2015	5.4	4.9	4.1	5.2
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2016	12.4	8.0	11.3	10.4
Agricultural Land (as % of land area)	2016	19.6	38.2	37.8	36.5
Forest (As % of Land Area)	2016	22.5	22.0	32.6	27.6
Per Capita CO2 Emissions (metric tons)	2014	0.9	1.1	3.5	11.0





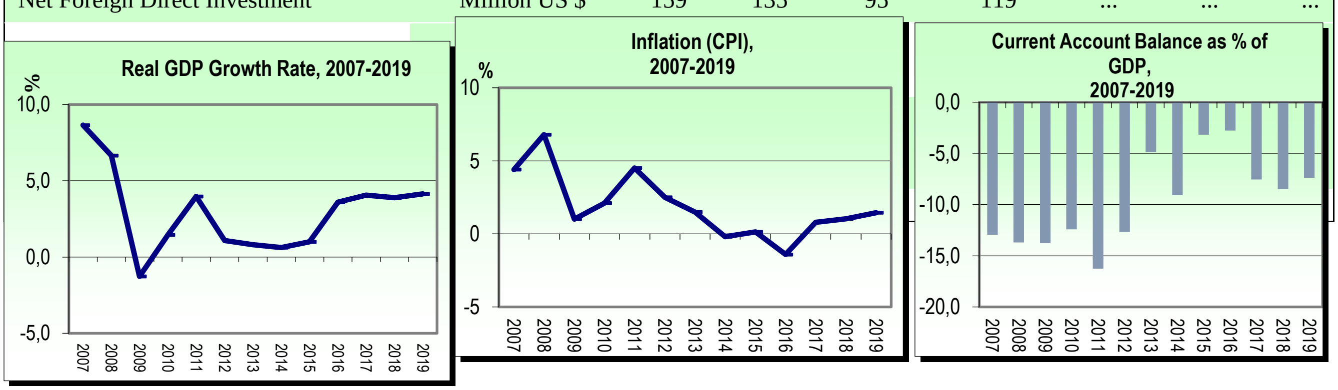




Source: AfDB Statistics Department Databases; World Bank: World Development Indicators. Last update: February 2019.
Note: n.a.: Not Applicable; … Data Not Available. * Labor force participation rate, total (% of total population ages 15+)

Annex IX: Selected Macro-economic Indicators

Indicators	Unit	2010	2014	2015	2016	2017	2018 (e)	2019 (p)
National Accounts								
GNI at Current Prices	Million US $	1,633	1,706	1,645	1,618	1,616	...	...
GNI per Capita	US$	3,250	3,241	3,086	2,998	2,958	...	...
GDP at Current Prices	Million US $	1,664	1,860	1,597	1,639	1,755	2,035	2,176
GDP at 2000 Constant prices	Million US $	971	1,035	1,046	1,083	1,127	1,171	1,219
Real GDP Growth Rate	%	1.5	0.6	1.0	3.6	4.0	3.9	4.1
Real per Capita GDP Growth Rate	%	0.4	-0.6	-0.2	2.3	2.7	2.6	2.8
Gross Domestic Investment	% GDP	47.6	37.0	30.2	36.1	37.3	39.0	40.2
Public Investment	% GDP	17.3	7.2	7.3	8.8	9.1	8.5	7.9
Private Investment	% GDP	30.4	29.8	22.9	27.3	28.2	30.5	32.3
Gross National Savings	% GDP	35.2	27.9	35.6	34.2	29.1	26.6	28.4
Prices and Money								
Inflation (CPI)	%	2.1	-0.2	0.1	-1.4	0.8	1.0	1.5
Exchange Rate (Annual Average)	local currency/US$	83.3	83.0	99.4	99.7	97.8	95.6	95.2
Monetary Growth (M2)	%	4.7	6.5	6.5	7.1	3.6	...	...
Money and Quasi Money as % of GDP	%	125.5	151.7	157.2	163.6	161.4	...	...
Government Finance								
Total Revenue and Grants	% GDP	28.6	22.9	26.9	27.0	29.3	29.9	30.0
Total Expenditure and Net Lending	% GDP	39.2	30.5	31.4	30.1	32.4	32.3	31.9
Overall Deficit (-) / Surplus (+)	% GDP	-10.5	-7.6	-4.6	-3.1	-3.1	-2.4	-1.9
External Sector								
Exports Volume Growth (Goods)	%	29.6	53.3	-17.3	9.4	-0.9	-0.2	5.9
Imports Volume Growth (Goods)	%	3.0	12.4	-23.2	18.7	16.5	12.6	8.1
Terms of Trade Growth	%	15.5	-6.0	-24.7	1.4	17.1	10.2	0.4
Current Account Balance	Million US $	-207	-169	-51	-46	-133	-173	-161
Current Account Balance	% GDP	-12.4	-9.1	-3.2	-2.8	-7.6	-8.5	-7.4
External Reserves	months of imports	4.2	5.4	6.7	7.2	6.6	6.5	...
Debt and Financial Flows								
Debt Service	% exports	5.0	5.3	6.3	5.9	6.1	6.5	7.2
External Debt	% GDP	63.6	99.3	111.4	106.2	109.2	103.4	104.3
Net Total Financial Flows	Million US $	261	241	221	102	168	...	...
Net Official Development Assistance	Million US $	327	231	153	113	123	...	...
Net Foreign Direct Investment	Million US $	159	135	95	119	...	...	...



Source: AfDB Statistics Department Databases; IMF, World Economic Outlook October and International Financial Statistics. Notes: Note: … Data Not Available, (e) estimations, (p) projections.

Annex X: Arrangement with the IMF

IMF Executive Board Approves a New Policy Coordination Instrument with Cabo Verde

July 15, 2019 – IMF Press Release

- A newly-approved eighteen-month Policy Coordination Instrument will build on Cabo Verde's reform program under the Strategic Plan for Sustainable Development.
- It aims to bolster macroeconomic stability and encourage structural reforms.
- Cabo Verde's macroeconomic situation has improved significantly in recent years and the medium-term outlook is positive.

On July 15, 2019, the Executive Board of the International Monetary Fund (IMF) approved a new Eighteen-Month Policy Coordination Instrument (PCI) with Cabo Verde. Cabo Verde's macroeconomic situation has improved significantly in recent years, and the outlook is positive despite downside risks. Economic growth has been robust and is projected at 5 percent for 2019, while inflation is expected to remain low. The fiscal deficit has declined from 4.6 percent of GDP in 2015 to 2.8 percent of GDP in 2018 and is projected at 2.2 percent of GDP for 2019. Fiscal risks generated by loss-making State-Owned Enterprises (SOEs) are expected to subside, reflecting the impact of reforms put in place in 2018 and early 2019, notably the privatization of the national airline company, as well as additional SOEs restructuring measures planned for 2019-20. The external position is projected to strengthen further, with gross international reserves remaining above 5 months of prospective imports of goods and services. Cabo Verde's risk of external and overall debt distress is assessed as high, unchanged compared with the 2018 Debt Sustainability Analysis carried out by the staffs of the IMF and the World Bank.

The newly-approved PCI will build on the authorities' reform program under the Strategic Plan for Sustainable Development (PEDS). It aims at bolstering macroeconomic stability through fiscal consolidation and growth-enhancing reforms to support medium-term fiscal and debt sustainability. The fiscal program will be anchored by improvement in the primary balance and the elimination, over time, of support from the budget to loss-making SOEs as reforms in the sector advance. Program reviews will take place on a semi-annual fixed schedule. While the PCI does not involve the use of IMF financial resources, successful completion of program reviews will help signal Cabo Verde's commitment to continued strong macroeconomic policies and structural reforms that are needed to address the country's economic challenges.

Following the Executive Board's discussion on Cabo Verde, Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, issued the following statement:

"Economic recovery has gained momentum in the last three years with output growth rising from 1 percent in 2015 to above 5 percent in 2018, supported by industry and services sectors, as well as strong domestic demand. Inflation has been subdued despite a spike in 2018 due to higher food and fuel prices. The external current account deficit narrowed in 2018, mostly reflecting strong export performance and higher remittances.

“Revenue-enhancing measures and expenditure controls have helped put public finances on a stronger footing and reduce the public debt-to-GDP ratio in the last three years. These efforts need to be sustained to support medium-term fiscal and debt sustainability. In this context, decisive progress in public enterprise reform is needed.

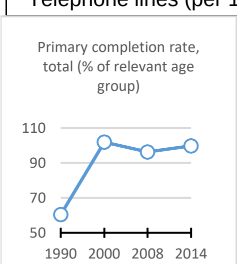
“The risk of external and overall debt distress is assessed as high, calling for continued fiscal consolidation, reliance on concessional borrowing, and decisive progress in growth-enhancing reforms.

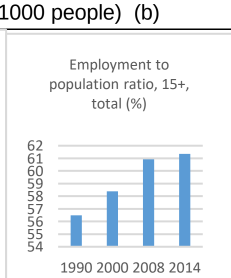
“The monetary policy stance is appropriate and consistent with the objective of protecting the exchange rate peg and price stability. The recent decision by the Banco de Cabo Verde (BCV) to reduce the overnight interest rate corridor is expected to improve the monetary policy transmission mechanism. The BCV should continue these efforts, notably by increasing communication on its policy direction. It should also continue strengthening banking supervision and take appropriate actions for a continued reduction in non-performing loans.

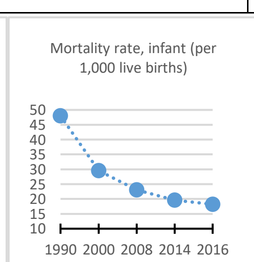
“The new PCI will support the authorities’ efforts to enhance macroeconomic stability as they implement their Strategic Plan for Sustainable Development (PEDS). Reforms and quantitative targets under the PCI focus on strengthening fiscal and debt sustainability, enhancing the monetary policy framework, fostering the financial system stability, and increasing inclusive growth.’’

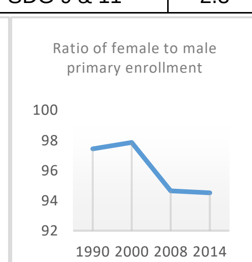
Annex XI: Progress towards SDGs

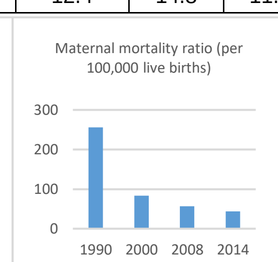
	SDG Goal	1990	2000	2008	2014	2016
Goal 1: Eradicate extreme poverty and hunger						
Employment to population ratio, 15+, total (%) (b)	SDG 1 & 8	...	56.5	58.4	60.9 (1)	61.4 (2)
Poverty headcount ratio at $1,9 a day (PPP) (% of population) (b)	SDG 1	...	16.0	8.1	...	...
Prevalence of undernourishment (% of population) (a)	SDG 1 & 2	...	18.7	13.0	10.0	...
Goal 2: Achieve universal primary education						
Literacy rate, youth female (% of females ages 15-24) (a)	SDG 4	86.4	...	98.0	98.7	98.6*…
Literacy rate, adult total (% of people ages 15 and above)	SDG 4	...	79.99 (a)	….	86.8 (b)	87.6*...
Primary completion rate, total (% of relevant age group) (a)	SDG 4	60.4	101.9	96.4	99.8	..
Total enrolment, primary (% net) (a)	SDG 4	..	97.2	92.1	98.2	92.7*..
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%) (a)	SDG 5, 10 & 16	12.0	11.1	18.1	20.8	23.6
Ratio of female to male primary enrolment (a)	SDG 4, 5 & 10	97.4	97.8	94.6	94.5	…
Ratio of female to male secondary enrolment (a)	SDG 4, 5 & 10	106.6	107.4	111.4	113.5	…
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12-23 months) (b)	SDG 3	79.0	86.0	96.0	93.0	92.0
Mortality rate, infant (per 1,000 live births) (b)	SDG 3	48.0	29.5	23.1	19.6	18.2
Mortality rate, under-5 (per 1,000) (b)	SDG 3	62.5	36.0	27.5	23.0	21.4
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total) (b)	SDG 3	..	88.5	74.6	..	..
Contraceptive prevalence (% of women ages 15-49) (a)	SDG 3	27.5	53.6	60.9	62.6	63.1
Maternal mortality ratio (modelled estimate, per 100,000 live births) (b)	SDG 3	256.0	83.0	57.0	44.0	…
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Incidence of tuberculosis (per 100,000 people) (b)	SDG 3	…	160.0	149.0	138.0 (3)	47.0 (4)
Prevalence of HIV, female (% ages 15-24) (b)	SDG 3	0.6	0.9	0.5	0.4	0.5
Prevalence of HIV, male (% ages 15-24) (b)	SDG 3	0.4	0.5	0.3	0.3	0.3
Prevalence of HIV, total (% of population ages 15-49) (b)	SDG 3	0.5	1.1	0.8	0.8	0.8
Goal 7: Ensure environmental sustainability						
CO2 emissions (kg per PPP $ of GDP) (b)	SDG 3 & 13	0.3	0.2	0.2	0.1	…
Improved sanitation facilities (% of population with access) (b)	SDG 6	…	43.6	60.2	72.0	…
Improved water source (% of population with access) (b)	SDG 6	…	82.4	87.6	91.7	…
Goal 8: Develop a global partnership for development						
Net total ODA/OA per capita (current US$) (a)	SDG 8 & 17	…	11.3	19.9	17.0	…
Internet users (per 1000 people) (b)	SDG 9 & 11	0.0	18.2	140.0	402.6	481.7
Mobile cellular subscriptions (per 1000 people) (b)	SDG 9 & 11	0.0	44.6	572.9	1 21.,9	1 220.2
Telephone lines (per 1000 people) (b)	SDG 9 & 11	2.3	12.4	14.8	11.6	11.6









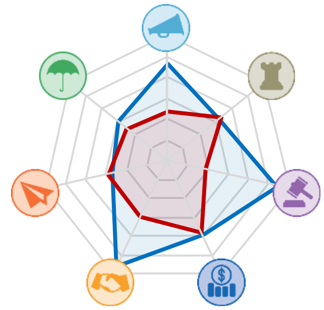


Source: (a) AfDB Statistics Department Databases, October 2017; (b) World Bank: World Development Indicators, October 2017. Data discrepancies: From Cabo Verde Statistical Yearbook INE, 2017 (1) 84.2; (2) 85.0; (3) 2015 figure; (4) INE, 2017 Note... Data Not Available

Annex XII: Fragility Assessment

Cabo Verde — **2018 CRFA**

Highest Capacity	Lowest Capacity	Highest Pressure	Lowest Pressure
5.9	1.6	4.6	1.2
Police budget per capita	*Recurrent defence budget as % of GDP*	*Income share of middle class*	*Accountability of public office holders for abuses of power*



C *Capacity vs. Pressure* P

Inclusive Politics

Sub-dimension Scores

Free and fair elections occur regularly, with full regional representation. Cabo Verde's small and multi-ethnic population regards its electoral institutions as trustworthy, since the first multi-party election in 1990. The archipelago nation is renowned for its political stability and smooth leadership transitions, generally free from electoral violence or other intimidation. With one in four National Assembly seats held by women and a 65% rate of voter turnout, some room for further capacity building remains.

4.7	C	Representation in the Political System	4.7
	C	Political Participation	4.6
2.4	P	Corruption and Bribery	2.5
	P	Political Instability	2.3

Security

Sub-dimension Scores

A sizeable police budget supports domestic security. In contrast, military spending is one of the lowest in Africa at only 0.6% of GDP. This reflects national priorities in addressing moderate crime rates, and combat human trafficking and contraband of drugs across the Atlantic. While the archipelago is geographically isolated from its closest neighbours, it is no less geopolitically engaged in global security trends. Historically non-aligned, Cabo Verde is a member of the Lusophone Commonwealth, the African Union, the ECOWAS, and the Africa-Europe Alliance.

3.2	C	Capacity of Policing Institutions	4.8
	C	Capacity of Defence Institutions	1.6
3.3	P	Presence of Criminal Violence	3.7
	P	Presence of Armed Conflict	3.0

Justice

Sub-dimension Scores

A signatory to the International Criminal Court since 2011, Cabo Verde has multiple legal frameworks in place to hold senior officials accountable for any potential abuses of power. It currently holds the highest score for accountability of public officers, a notable achievement in ending impunity. Courts operate efficiently and impartially and are generally deemed reliable for adjudicating civil and criminal cases. This in turn boosts the resilience of the security sector, protecting citizens from transnational organised crime.

5.4	C	Independence of Judicial Institutions	5.8
	C	Effectiveness of Judicial Institutions	5.0
1.9	P	Impunity of Senior Officials	1.2
	P	Exclusion/Access to Justice	2.6

Economic & Social Inclusiveness

Sub-dimension Scores

Provision of public services remains adequate and despite some diseconomies of scale, featuring a universal literacy rate, a life expectancy of 73, and strong digital connectivity. The country's large diaspora contributes 11% of GDP through remittance payments, alleviating somewhat the consequences of a 32.4% rate of youth unemployment. Per capita annual incomes are medium at $3,983, and income equality

4.0	C	Economic Policies and Effectiveness	3.4
	C	Access to Public Services	4.5
3.9	P	Economic/Income Inequality	4.6
	P	Poverty	3.1

represents a growing concern for access to business opportunities. Economic sustainability could be strengthened by reducing the above average foreign debt, promoting ease of business, and diversifying the economy by developing agriculture value chains and blue economy linked to the tourism sector to create jobs.

Social Cohesion *Sub-dimension Scores*

Cape Verdeans enjoy a relatively high civic freedoms. Rights of assembly and association are protected in law and well-established in practice. A multi-ethnic, multi-religious, and cosmopolitan population reflects social harmony within diversity. Mobility within the country and abroad is facilitated by road, sea, and air travel. Exceptions to this excellent record include youth unemployment and room for improvement to the status of women.

5.6	C	Organization of Civil Society	5.8
	C	Ease of Population Movement	5.4
3.0	P	Group-Based Polarization/Exclusion	2.5
	P	Youth and Gender Marginalization	3.6

Externalities/Regional Spillover Effects *Sub-dimension Scores*

Limited natural resources pose challenges to withstanding food and energy price shocks and other crisis events, although the economy has exceeded expectations in this area so far. With a strong service-based economy and a record of peace and stability, Cabo Verde is moderately resilient to external shocks and regional concerns. Armed conflict in nearby countries is rare. However, proximity to Guinea Bissau has led to spillovers effects in the struggle against illicit trade in narcotics.

2.7	C	Resiliency to Economic Shocks	3.1
	C	Regional Integration	2.4
2.9	P	Neighbouring Countries Insecurity	2.1
	P	Transnational Crime	3.7

Climate/Environmental Impacts *Sub-dimension Scores*

Cabo Verde has invested in desalination plants as to guarantee a source of potable water in drought-prone islands. Abundant marine fishing ensured a nutrient-rich source of food in the past, but this could be at risk due to climate change. Anticipated ecological threats to ocean life could cause serious crises in the 21st century. Natural disasters such as the Volcano Eruption in 2015, in the Fogo Island also pose risks to livelihoods. Overall, the unique geography of Cabo Verde requires a conservation and prevention strategy that matches its particular vulnerabilities.

3.0	C	Environmental Policy/Conservation	2.8
	C	Emergency Preparedness	3.1
2.5	P	Vulnerability to Natural Disasters	2.5
	P	In-access to Food/Nutrition	2.4

Note: *CRFA scores feature two scales.* C *Capacity indicators: 1 (low capacity) – 6 (high capacity).* P *Pressure indicators: 1 (low pressure) – 6 (high pressure).*

Annex XIII: Fiduciary Risk Assessment

Assessment of the fiduciary risk of the public finance management system

The assessment of Cabo Verde's fiduciary risk, carried out following an on-site mission, is based firstly on the Bank's policy for operations supporting reforms and the guidance note on the management framework for fiduciary risk, and secondly on recent diagnostic documents on Cabo Verde's public finances, namely: (i) a review of public spending management and financial responsibility (PEMFAR) carried out by the coordination of donors of which the World Bank, the European Union, UNICEF, the Spanish cooperation and the Bank are a part of, in May 2012; (ii) a progress review for the implementation of the reform plan for the public spending management system, carried out by IMF in June 2015 and (iii) the PEFA (Public Expenditure and Financial Accountability) carried out in May 2015 with the European Union's financial support. The evaluation report includes the assessment of fiduciary risk and mitigation measures through the review of (i) the budget conception and implementation, (ii) the audit and financial information and (iii) good governance and the fight against corruption.

I. FIDUCIARY RISK AND MITIGATION MEASURES

As a whole, Cabo Verde's public finance management system, deemed strong and reliable in the PEFA 2008 report, has further improved with the implementation of recommendations from the 2012 PEMFAR report. This reinforcement of the public finance management system was noted in the last PEFA under the 2011 methodology, disseminated in May 2015, with an improvement in the grade of 13 indicators, the conservation of the same grade for 12 indicators and the deterioration in the grade of 5 indicators. With the 2016 general elections (local, legislative and presidential), the newly elected government has tools to build and manage a new strategy to strengthen 2017-2020 public finances.

I.1. *CONCEPTION, IMPLEMENTATION OF THE BUDGET*

a) The credibility of the budget over the years 2012 to 2014 was reduced by the impact of very optimistic predictions, late effects from reforms and a reduction in the budgetary revenue caused by shocks from the global economic crisis. Less than 92% of the revenue predicted in the 2012 to 2014 budgets were recovered, while real spending fluctuated from between 12% to 13,9% compared to the initial budget for the same period. However, the stock and the monitoring of outstanding payments improved thanks to the positive effects from discipline and budgetary control reinforcement measures and the continuation of the bankarization of the Treasury started in 2012.

b) The comprehensiveness and transparency of the budget improved following the new economic, administrative and sub-functional classifications, compliant with the GFS-COFOG norm for the conception, implementation and rendering of accounts. The produced budgetary documentation was expanded between the budget and the rendering of accounts. Excluding projects financed by external sources, extra-budgetary and non-reported spending were eliminated in budget implementation. Fund transfers to municipalities were established based on transparent criteria, and municipalities have access to credible information on funding for the following year, allowing them to formulate their budget ahead of time. Also, the strengthening of the municipalities' financial reports on the use of those resources was made in the State general account, which is submitted for external audit to the Court of Audit. Finally, the improvement of publications for the main budgetary documents on the Ministry of Finance and Plans' website have increased the transparency of budgetary management.

b) Budgetization centered on public policies is well organized, the quality of Medium Term Expenditure Framework **(**MTFF**)** allows for the development of medium term budgetary frameworks aligned with sectorial strategies, with their macroeconomic and fiscal objectives. These forecasting systems have improved with the implementation of the budget management system program.

I.2. *FINANCIAL INFORMATION AND AUDIT*

a) *Predictability and monitoring of budget implementation*. The laws and procedures applicable to the bigger taxes are clear and complete, and grant discretionary powers limited to governmental entities. The reviewing mechanism is in place and seems to be functioning well. SIGOF has their own monitoring mechanism. A reliable budgetary procedure manual has also been put in place. However, the internal control system's compliancy and the effectiveness of internal audits have to be improved with better follow up on the implementation of recommendations made in the inspection and audit reports.

b) *Accounting and financial reports.* The auditing of treasury accounts has improved, but the accounting system and report production system harbors weaknesses. The new accounting plan, adopted instead of cash accounting, is compliant with IPSAS norms, but its implementation is still limited. The transition to accrual accounting and the inventory project for buildings and properties belonging to the State to produce patrimonial financial statements, is important progress towards the exhaustiveness of accounting records. The State's management account is produced at a proper date and submitted to the Court of Audit, which examined the 2014 accounts bill and produced their general report to the national assembly. The 2016 general account is still excepted because it should be transferred before the end of the 2017 financial year, which is close to the legal deadline of 18 months after the closure of the budgetary year.

c) *Audit and internal monitoring*. The internal audit function undertaken by the Inspectorate-General for Finance was strengthened. Risk evaluation criteria based on a combination of transaction volume (number and amount) and the strengths of the internal monitoring system, were developed so that audits would reach the riskiest zones. However, the follow up on implementation of recommendations from inspections and audit reports remains weak, and the Inspectorate-General for Finance asks for a reinforcement of capacities in digital technologies and new areas of focus like PPPs.

d) *Monitoring and external audit.* The Court of Audit's mandate was revised in a bill voted in February 2018 to conform with international standards, and the scope of its investigative field has been broadened to the entire public sector and all structures using public funds. That way, public and para-public companies, as well as public concessions are now submitted to the Court of Audit. Also, the new bill importantly corrects some deficiencies, but qualified and competent staff in a sufficient number must still be made available to the Court of audit.

e) *Decentralization*. Cabo Verde's municipalities have their administrative, financial and organizational autonomy, and elaborate their own development policies and programs. They can therefore create services, but they lack follow-up and operation-monitoring capacities. Now, state subsidies are communicated in due time to the municipalities which can elaborate their budgets with the subsidies in mind. In return, they supply the execution status of these subsidies which are consolidated in the State's general account.

I.3. *GOVERNANCE AND CORRUPTION*

In 2018, Cabo Verde placed third for its performance in good governance out of 52 States, in the Ibrahim Mo index for Governance in Africa. Furthermore, Transparency International's corruption perception index also places it as the second less-corrupt African country after Botswana, with the 45th rank in 2018 against 43rd in 2014 out of 174 evaluated countries worldwide.

I.4. *ASSESSMENT TABLE FOR FIDUCIARY RISK*

The following table summarizes the main risks identified and the mitigation measures to be implemented by the Ministry of Finance and Plan

Piliars	Risk Factors	Initial Risk	Mitigation Measures	Residual Risk
1- Budget : Conception, Execution, Monitoring	- Tax revenue decrease	**Moderate**	improve tax revenue recovery	**Moderate**
2- Financial and audit information	- No full application of the new accounting system - Lack of a centralized system for follow up on recommendations from inspection reports - Limited monitoring mandate for the Court of Audit	**Moderate**	- Implementing a follow-up mechanism for recommendations from inspection and audit reports - Ongoing inventory project for buildings and properties estate review expected for the financial year 2021. - Make applicable the Court of Audit mandate extension bill to the structures managing public funds - Increase the Court of audit's staff numbers	**Moderate**
3 -	PROCUREMENT (See assessment of SNFI.1)			
4- Corruption	- Corruption perception indexes - IM Index for good governance in Africa	**Moderate**	Maintain transparency in public governance and reinforce regulatory public institutions	**Moderate**

II. APPLICATION STRATEGY OF THE NATIONAL PUBLIC FINANCE MANAGEMENT SYSTEM

In respecting the Paris and Accra Forum Declaration on aid effectiveness, the Bank will continue supporting reforms targeting the strengthening of systems of public management, procurement and audit. To improve components from which weaknesses have been highlighted above, the fiduciary strategy recommends the use of public finance management systems in their entirety, for the implementation of programmatic support operations as well as investment operations.

The budget support resources will be disbursed in a Treasury account opened at the central bank of Cabo Verde, and spending will follow public rules and procedures.
The Court of audit's reports on the discharge bills for the financial years 2018 and 2019 will act as audit reports for budget support. They will be communicated to the Bank while simultaneously being transferred to the parliament of Cabo Verde.

Public Procurement system in Cabo Verde

I.LEGISLATIVE AND REGULATORY FRAMEWORK

The legislative and regulatory framework of the national system for procurement in Cabo Verde is currently governed by the 14 April 2015 Law n°88/VIII/2015 establishing the Public Procurement Code. The law was followed by the following decrees and implementing acts: (i) the decree-law no 55/2015 of 9th October 2015 on the Regulatory Agency on public procurement (ARAP) statute and defining its powers in terms of regulation, oversight and conflict resolution in public procurement and the deliberation nº 011/CA/2015 of 27th November 2015- which authorizes ARAP's new organic and functional structure ; (ii) the decree-law n°46/2015 of 21 September 2015 which authorizes new regulation for Asset Management Units (AMU) and the internal regulations for the accreditation of AMU s n°1/2015 of 15 October 2015; (iii) the regulatory decree n°12/2015 of 31st December 2015 which approves the new Statute of the Dispute Resolution Commission (CRC) of the ARAP; (iv) the decree-law nº 50/2015 of 23rd September 2015- which approves the legal framework for administrative arrangements, which regulates the implementation phase of contracts and repeals part of the legal regime for public work markets; (v) the Ministerial Order nº 60/2015 of 9 September 2015 which approves documents for standardized procedure, in accordance with the CMP; (vi) the good practice public procurement manual (published on ARAP's website - www.arap.cv and updated following the new legislation) and (vii) the instruction manual for the public procurement jury (published on ARAP's website - www.arap.cv).

II.INSTITUTIONAL FRAMEWORK

The law on public procurement requires the creation of decentralized units for procurement in the different ministries and other public institutions: a Unique Central Unit (UGAC) for the acquisition of common goods intended for several governmental institutions; a central regulation agency, in charge of coordination and follow-up for the whole procurement system. The Asset Management Unit (UGA) is in charge of processing most of the procurement operations for their respective institutions or ministry, until the contract signing. The Procurement management unit (UGAC) provides the management of procurement for "common goods" (vehicle, fuel, computers, office supplies, etc.) The supervisor for UGAs and the UGAC is the National Directorate for public heritage and contracts (DNPCP). The DNPCP's role is to ensure the monitoring of public procurement in governmental institutions as well as upstream checks for UGAs, but it doesn't have sufficient personnel, and therefore its operations are significantly limited. Furthermore, the ARAP created by the Law 17/VII/2007 of 10

September 2007 is an independent regulatory authority in charge of the development of regulations for public procurement, arranging training for relevant personnel, the review of disputes, the preparation of manuals and standard documents, the distribution of information on procurement, arranging independent audits, the evaluation of the global performance of the procurement system and the fight against corruption. Within ARAP, a dispute resolution committee is in charge of the adjudication of complaints submitted by bidders and/or entrepreneurs. However, DNPCP's deconcentration at the central, regional and departmental levels requires a reinforcement of the number of inspectors and the implementation of a capacity reinforcement plan related to public procurements.

III. PROCUREMENT ACTIVITIES AND MARKET PRACTICE

Each contracting Authority designates an acquisition management unit (UGA) tasked with implementing procurement procedures and follow the execution of public service delegations and markets. The new decree-law n°46/2015 of 21st September 2015 states the regulation of the Acquisition Management Units (UGA). The internal regulation for UGA accreditation n°1/2015 of 14th October 2015 regulates procurement at the contracting authority level. Moreover, the new legal framework requires the use of instruments registering procedures and allocating contracts, for which templates are found in the public procurement code, meaning: registry papers and contract. Private actors have access to information related to procurement thanks to an electronic portal and ARAP's procurement journal. There is within ARAP a non-judicial review body which sits on dispute matters in the procurement phase, in conciliation matters in the execution phase or in disciplinary matters at any moment in the procedure. Since they are acquisition files, their adoption in national regulation and their use has been made mandatory by the new code. Moreover, a study on the reinforcement strategy for procurement actors ordered by the ARAP is ongoing.

IV. INTEGRITY AND TRANSPARENCY

In accordance with its prerogatives, ARAP has conducted an audit of procurements during the years 2010 to 2015 through all UGAs to check their performance in terms of procurement and insure that all procurement procedures follow the provisions made by the public procurement code. According to ARAP, recommendations from these audits have insisted on the reinforcement of public procurement actors' capacities and in archiving public procurement files. More specifically, the audit of procurements for 2015 noted (i) deficiencies in market planning, (ii) the use of direct agreements without justification (35,68% of the whole amount of audited procurements, equivalent to 32 out of 56 markets) ; (iii) the non-transmission of offer evaluation reports to ARAP, (iv) the acquisition procedures in some ministries, which are not conducted by UGAs, but rather by general Directorates and other services, which doesn't enable them to fully fulfill their function following current legislation, (v) contract projects are not transmitted to provisional procurement contractors for their approval on contractual clauses before negotiations, (vi) committee members tasked with assessing offers are not officially named and (viii) evaluation committee members don't systematically sign a conflict of interest agreement. Furthermore, audit reports aren't published on ARAP's website which does not provide easy access to information on the deficiencies detected in the audited procurement processes. ARAP's annual reports also supply statistics on audited procurements without specifying if they have been awarded in accordance with the provisions of the public procurement code. The 2016 audit is ongoing and the report should be available before the end of December 2018.

E. Fiduciary risk: as of today, the institutional and judicial framework is operational as a whole, and as such, public procurement is undertaken in accordance with the provisions laid out in the Public Procurement Code. The regulatory and judicial framework is (i) hierarchically organized with clearly defined priorities; (ii) free and easily accessible to the public through appropriate means ; (iii) applicable to the entirety of publicly funded contracts; (iv) has adopted open-bid tender as a mandatory method in publicly ordered procurements and clearly defines situations where it is possible to use other methods and (v) provides an administrative and independent procedure for the revision phase of competition to process potential complaints from participants on the acquisitions before the contract signing. The following issues were identified as needing attention concerning the institutional framework and management capacities: i) the lack of financial autonomy of this regulatory agency; (ii) the lack of control upstream on decision taken by UGAs on procurement matters, (iii) the lack of public information on direct contract procurements; (iv) the lack of statistics on contracts awarded except for those submitted through the procurement audit (2015).

V. CONCLUSION

To conclude, even if significant progress has been made through reforms of the national procurement system, weaknesses remain. Therefore, the Cabo Verde Government should encourage the following actions: (i) the intensification of ARAP training programs to insure that all UGAs, the UGAC, the DNPCP have the necessary human capacities for procurement under the new law ; (ii) the completeness of information and statistics in the ARAP activity reports, to notably highlight the proportion of illegal procurement markets ; (iii) the publication of all information on public procurement and specifically audit reports ; (iv) taking into account recommendations from the 2015 audit.

Annex XIV: Cabo Verde's Debt Sustainability

I. Introduction

Cabo Verde's successful socio-economic development during the last decade is widely recognized. Despite its vulnerability due to its isolated and fragmented territory, the small size of its population, its dry Sahel climate, and scarce natural resources, the country recorded one of the most impressive socio-economic performances in Africa and graduated from the UN Least-Developed Country (LDC) status to become a middle-income country (MIC) in 2007. Between 1998 and 2008, Cabo Verde attained GDP growth rates of 6% per year, on average, and almost doubled its per-capita GDP to USD 6 000 in PPP terms. Capital accumulation has been the main engine of output growth, with an investment rate averaging 32% of GDP, of which two-fifths was public investment. High economic growth and sound fiscal policies helped reduce the public debt from 90% of GDP in the early 2000s to 68% in 2008. An active engagement with international official creditors has allowed Cabo Verde to borrow externally, mainly through foreign-currency denominated, concessional loans funding a large portfolio of public investment projects.

Just one year after the graduation to MIC status, the Cabo Verdean economy was hit hard by the global financial crisis. Real GDP growth dropped from 6.2% in 2008 to -1.3% in 2009. As a small open economy, Cabo Verde was affected in particular through a steep fall in FDI and tourism exports—the country's major sources of growth—as well as in remittances, and official transfers[13]. As response to the crisis, and taking advantage of the fiscal space available at the time, the Government implemented countercyclical policies, accelerated the execution of public investment projects, and cut both corporate and personal tax rates. Anticipating the upgrade of Cabo Verde to middle-income status, which would lead to a reduction in concessional external financing, the authorities already had strong incentives to expand public investments and rely on concessional lending while it remained available. GDP growth recovered modestly to 1.5% in 2010 and 4% in 2011. However, since 2012, the economy was again impacted by the weak international economic situation. GDP growth rate dropped to 2.5% in 2012 and to 1.5% in 2013.

Unfortunately, the expansionary fiscal policy stance taken by the Government to stimulate growth and mitigate the crisis led to a heightened budget deficit and an increase in its indebtedness level. The overall budget deficit increased from an average 1.3% of GDP in the pre-crisis period (2006-2008) to an average 8.4% in the post-crisis period (2009-2012). The simultaneous drop in tax revenues and donor grants, and increasing expenditure demands resulting from the Public Investment Program (PIP) were responsible for this fiscal situation. In addition, weak financial performance of major public enterprises, resulting in their recapitalization (amounting to 0.7% of GDP in 2012), put additional pressure on the government's fiscal position. As a result of the increase in public sector borrowing to finance large investments in infrastructure, government debt increased from 69% of GDP in 2009 to an estimated 116% in 2014.

From 2011 to 2015, the Cabo Verdean economy had a slow recovery, where growth averaged barely 1.3%. It was only in 2016 that a real recovery began, with an estimated 3.2% growth rate, thanks to an improvement in tourism, public administration and agriculture. The trend continues, with GDP growth estimated at 4% in 2017 and projected at 5.5% in 2018, boosted by the recovering tourism sector. Despite a pick-up in growth and significant fiscal consolidation over the period 2015-2016, reducing public debt proved difficult. The increase in the stock of debt from 115.9 % to 128.4 % of GDP between 2014 and 2016 is largely explained by the depreciation of the escudo. The debt stock is estimated to

[13] Portugal, Spain, UK, France, and the US are key trade partners and major sources of FDI. Their demand for tourism services or their supply of investment capital affect the Cabo Verdean domestic economy.

have declined to 123.9% of GDP at end-2018 owing to fiscal consolidation and favourable exchange rate developments.

II. Background to debt sustainability in Cabo Verde

The evolution of Cabo Verde's fiscal accounts in the 2000s can be divided into four sub-periods. The **first period (2000–2005)** started with a deep fiscal crisis in 2000, which was reflected in high levels of gross financing needs and high levels of indebtedness. Thanks to efforts to control fiscal deficits and gross financing needs the debt level increased only moderately, from 70% of GDP in 1999 to 85.2% in 2005. Aided by high economic growth rates, the **second period (2006–2008)** was marked by a substantial fiscal consolidation that resulted in a strong reduction of indebtedness, from 85.2% of GDP in 2005 to 57.2% of GDP in 2008. The **third period (2009–2014)**, corresponds to the worsening of government accounts associated with the effects of the global financial crisis and the government countercyclical response. This period was marked by a strong rise in indebtedness, which increased from 69% of GDP in 2009 to an estimated 116% in 2014. Two-digit gross financing needs and deficits, along with a slowdown in GDP growth, explained this spurt.

The deconstruction of debt increases indicates that changes in the debt-to-GDP ratio were mainly explained by the evolution of primary deficits and GDP growth performance, while interest rates and exchange rate movements played a minor role in debt variations. Primary deficits were largely responsible for the rise of debt ratios in the periods 2000–2005 and 2009–2012. In the opposite direction, strong GDP performance throughout the 2000s favoured debt dynamics that mitigated the effect of high primary deficits. Very high GDP growth rates in 2006–2008 (8.3%, on average) were the main reason for the strong decrease in debt observed in this period. Real exchange rate appreciation and low real interest rates associated with concessional lending have also contributed positively to debt dynamics[14].

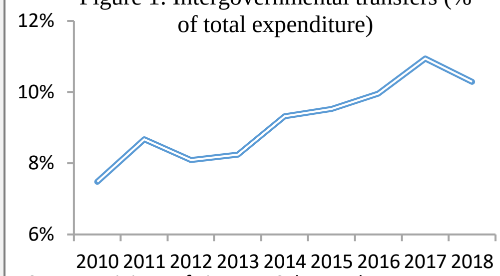
The **fourth period started in 2015**. Given the debt pressures, the government undertook a consolidation of public finances. In 2015, the overall balance was reduced to 4.7%, when it was originally budgeted at 7.9%. The Government scaled down the size of its public investment program, with investment spending dropping from 10.2% of GDP in 2013 to 3.5% in 2016. This reduction is also due to efforts on the revenue side, with a significant increase in revenues related to the expansion of the tax base. In 2017 and 2018 such policies continued with the deficit narrowing respectively to 3.1% and 2.8% of GDP. Despite this impressive fiscal consolidation, public debt increased from 115.9% of GDP in 2014 to a peak of 128.4% in 2016. This increase in the stock of debt is largely explained by the depreciation of the escudo against the dollar. At first glance, only 5% of the debt comes directly in USD, but this ratio rises to 21% since the debt is exposed to the US dollar via the Special Drawing Rights. The second reason concerns granted loans to public enterprises. In 2016, TACV and IFH maturing bonds equivalent to 3% of GDP were redeemed by the Government. However, in 2017 the authorities' fiscal consolidation and SOE privatization (see Box 1) efforts started paying off and saw the debt stock decline for the first time in a decade, decreasing to 127% of GDP in 2017 and falling further to 123.9% of GDP in 2018.

[14] World Bank (2012), Country Economic Memorandum: Addressing the challenges of a middle-income small-state

Box 1: Fiscal Risks from State Owned Enterprises (SOEs) in Cabo Verde

The 23 active SOEs in Cabo Verde participate in sectors as diverse as transport (air and maritime), real estate, energy and water, pharmaceutical, and infrastructure management (ports and airports). The 16 largest SoEs had total liabilities equivalent to 46% of GDP in 2017, of which 6.6% of GDP is guaranteed by the central government. Domestic liabilities are about 12% of GDP and include tax and social security contribution arrears (1.6%), loans to the banking sector (4.2%), and the domestic capital market (6.2%). A number of state owned agencies continue to rely on the central government for transfers. As can be seen in the **Figure 1,** intergovernmental transfers increased from 7.5% of total expenditures in 2010 to 10.3% in 2018. Part of the increase is attributed to weak performance of the three largest loss-making SoEs, the airline (TACV), the housing company (IFH), and the electricity and water company (ELECTRA).

Figure 1: Intergovernmental transfers (% of total expenditure)



Source: Ministry of Finance, Cabo Verde

Government has made a commitment to ascertain the long-term viability of all SoEs under its portfolio. The objective will be to recapitalize those that have a good business case and hive off those that are not viable. The national airline (TACV) was successfully privatized. The strategy of the new management envisages using Cabo Verde's central location in the South Atlantic as a hub for intercontinental air traffic. Regarding IFH, part of the stock of low-income houses was transferred to municipal governments, which are better prepared to manage local housing needs, while the sale of middle-income houses to the public was accelerated. Finally, the electricity and water utility company ELECTRA advanced the internal process to increase operational efficiency, reduce commercial losses and prepare for privatization. Government intends to privatize ELECTRA, national ports company (ENAPOR), Airport Security Company (ASA) and CV Handling in a bid to reduce state liabilities on non-performing SoEs.

III. Current efforts to reduce the risk of debt distress, including progress in restructuring SoEs and revenue mobilization efforts.

Total public debt in Cabo Verde declined for the first time in a decade in 2017, after having doubled over that period. The government's ability to finance the Public Investment Program (PIP) through concessional external loans has helped keep domestic debt at about 32.9% of GDP at end-2018. The banking system holds the majority of the domestic debt (60%), and the remainder is held by the National Social Security Institute (INPS). Treasury Bonds make up about 94% of the domestic debt. The average maturity of outstanding domestic debt at end-2018 was about 8 years and with an average interest rate of 5.1%. Overall, Cabo Verde's debt stock declined to 123.9% of GDP in 2018 from 128.4% of GDP in 2016 owing to fiscal consolidation and favourable exchange rate developments (see Table 1, below).

Table 1: Cabo Verde – Stock of total public debt at end-year, 2015-2024 (% of GDP)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
External debt	97.7	96.7	94.9	91.0	89.3	86.3	82.1	77.0	72.7	68.2
Domestic debt	29.0	31.7	32.1	32.9	32.1	30.5	28.9	27.6	25.9	24.6
Total public debt	126.6	128.4	127.0	123.9	121.4	116.8	111.0	104.6	98.5	92.7

Source: Cabo Verdean authorities and IMF article IV July 2019

While external public debt is high, its terms are highly concessional. Cabo Verde's external public debt – including commercial debt - has a long maturity profile and low average interest rate (see Table 2, below). According to the 2019 budget, the government's overall borrowing strategy for the medium and long-term is 60% external and 40% domestic borrowing. The large surpluses projected for the INPS over the medium term (the current surplus exceeds 4% of GDP) and the excess liquidity in the banking system (exceeding 10% of GDP) suggest that the projected domestic borrowing terms are feasible.

Table 2: Cabo Verde – External debt profile by type of creditor, 2019				
	Percent of total external debt	Average grace period	Average amortization period	Average interest rate
Multilateral	46.2	9	33.0	0.94%
Bilateral	24.2	8	18.9	1.01%
Commercial	29.6	9	20.0	1.59%
Source: Cabo Verdean authorities and IMF article IV July 2019				

Cabo Verde's risk of external debt distress rating is assessed as high, as the present value (PV) of its external debt (estimated at 67.7% of GDP by end-2018) breaches the IMF's 50% of GDP threshold. Despite the high stock of public debt, debt service remains manageable due to the highly concessional terms of external debt, which accounts for 75% of total public debt. According to the latest IMF's Debt Sustainability Analysis (July, 2019 report), Cabo Verde's debt-service-to exports ratio is manageable and estimated at 10.3% by end-2018 (Figure 3), above São Tomé and Principe (4.3%), Mauritius (6.4%), Seychelles (6.2%) but below Madagascar (16.5%). This would remain below the threshold of 25% of GDP throughout 2037, although growth and exchange rate vulnerabilities remain elevated.

Figure 2: Public debt trends in Cabo Verde

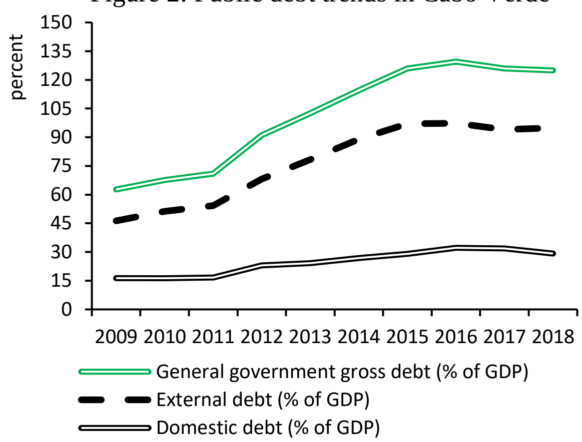
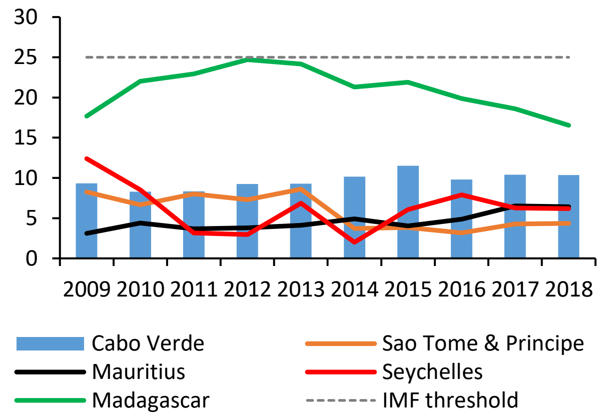


Figure 3: Total debt service to exports (%)



Source: AfDB Statistics Department

Cabo Verde experienced persistent decline in fiscal revenues during 2012-2015 as the debt crisis in the Eurozone and consequent slow economic growth led to a significant decline in general government revenues from 24.5% of GDP in 2012 to 22.9% of GDP in 2014 (see Figure 4). Similarly, tax revenue declined significantly during 2012-2015, falling from 25.6% of GDP in 2012 to 17.5% of GDP in 2015. Meanwhile, tax revenues to GDP have recently shown signs of recovery picking up from 17.5% of GDP in 2015 to 22.5% of GDP in 2018 (see Figure 5). This is mostly due to sustained implementation of reforms to broaden the tax base, increase efficiency in tax administration, and improve tax compliance. At the same time, general government expenditures have declined significantly due to government's strengthening of capital expenditure management, maintenance of tight control on current expenditure, and restructuring of non-performing SOEs (see Figure 4).

Figure 4: General government revenue and expenditure

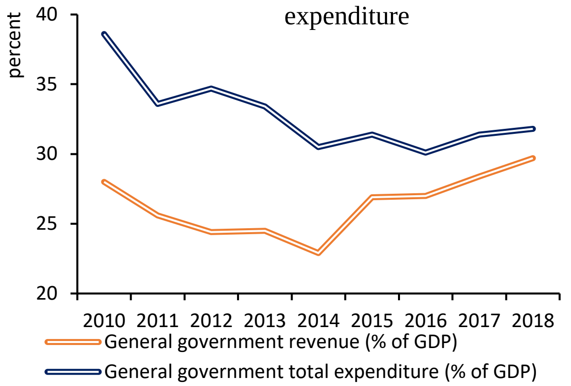
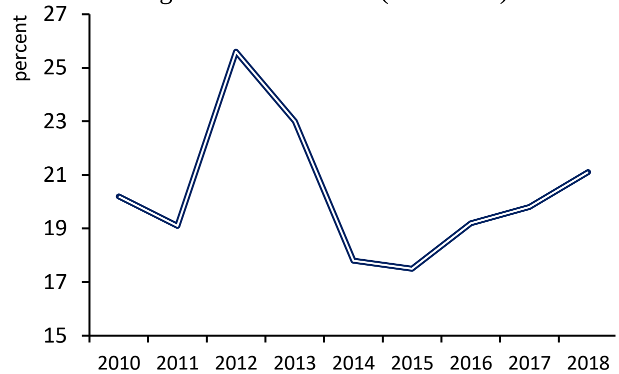


Figure 5: Tax revenue (% of GDP)



Source: AfDB Statistics Department

IV. Debt Management Strategy

To ensure the downward trend of the debt stock and mitigate fiscal sustainability risks, the government has prepared a mid-term debt management strategy (MTDS 2018-2021) that will guide decisions in contracting new loans in line with appropriate level of net financing needs. The MTDS sets the basis for fiscal consolidation, in order to not only ensure public debt remains sustainable, but also create conditions to stimulate domestic and external private investment. To this end, within the framework of the Government program, it seeks a suitable level of public investment, accompanied by economic policy measures, which enhance the dynamism of the private sector.

In accordance with the strategy, the Government will diversify funding sources by (i) streamlining the internal capital market, especially the secondary market, to make it more liquid; (ii) by further involving the diaspora in providing financing, including through diaspora bonds; and (iii) the monetization of State assets, establishing public-private partnerships, in particular the concession contracts. The new public investment policy will be selective, where projects that leverage existing infrastructures, particularly in the field of agriculture and tourism, as well as those with a multiplier effect to the economy are prioritized. The following criteria for efficient resource mobilization have been defined:

1. "Concessional" loans will continue to be mobilized (i) for budget support, where grants are not sufficient to cover the deficit and (ii) for projects with high economic and social impact, translating to an improvement of living conditions of the population.
2. Contracting public debt on "semi-concessional" and "non-concessional" terms will not exceed 40% of the external debt limit laid down for each year.
3. Considering the need to minimize the costs of debt service payments to the State budget, mobilization of this type of financing will prioritize deals with conditions of at least 15 years maturity and 5-year grace period. Also, the interest rate will not exceed 3%.
4. “Non-concessional" loans will be directed towards investment in infrastructure projects whose net present value is positive and with proven potential for financial returns and debt-repayment.
5. Concerning domestic debt, issuance of Treasury bonds will aim, in addition to the coverage of the budget deficit, the promotion of savings for investment and stimulating the development of the capital market, ensuring the macro fiscal balance.
6. Commercial borrowing will remain very low (below 10% of the envelope) and commercial external borrowing will be secured on highly-concessional terms. The current significantly-lower than market commercial borrowing rate reflects a special credit facility with back up and subsidy from Portugal, which will not be unwound anytime soon.

The Bank's current budget support has been integrated into the country's DSA. While being extended via the non-concessional ADB window, it falls within points 1 to 3 above. First, because the Bank's lending terms are not based on risk pricing but rather on the Bank's cost of borrowing. This means that the Bank technically passes on its AAA to the country at a small cost. The terms are therefore favourable and near concessional, especially as the Euribor rate upon which the Bank's lending rate is based has been in negative territory. Second, the Bank's terms allow for maturities and grace periods that fit with the MTDS.

The government's fiscal consolidation strategy also critically depends on successfully restructuring state-owned enterprises (SOEs). Support to SOEs is one on the main reasons underlying the rapid accumulation of public and publicly-guaranteed debt in recent years. Reform of the three largest lossmaking enterprises is a government priority.

Simulations for the MTDS exercise were made over a 9-year horizon based on assumptions from the Medium-Term Expenditure Framework (MTEF 2017-2021), and the simulation for the period 2022-2027 from the Service for financial operations (SOF).

V. The Bank's comparative advantage vis-à-vis other Government's financing options

The Government of the Republic of Cabo Verde has adopted in 2018, of a new Debt Management Law requiring government's overall borrowing strategy for short-term and medium-term public domestic and foreign debt not to exceed 60% of GDP at market prices. This includes the requirement for publication of total government debt commitments of the municipalities and SOEs. The adoption of this prudent borrowing strategy is due to the need to preserve the country's debt sustainability and create fiscal space for development projects. The adoption of the above-stated strategy poses minimal foreign exchange risks by placing significant reliance on the domestic market. The borrowing strategy will be implemented in such a manner that would minimize roll-over risks for the Government. Based on the current debt maturity profile, this implies issuing longer dated bonds with maturities that are well over the five-year tenor in the domestic market, and or shifting the concentration of allocations from short to medium and long term instruments. One critical element to be considered during the implementation of the country's medium-term borrowing strategy, is related to the choice of the right financing instruments to be used to cover the external financing needs while preserving sustainable debt ratios and economic growth. In this context, the Bank's long-term financing in EUR presents significant advantages as compared to other non-traditional financing instruments, in particular, commercial and bilateral borrowing, as illustrated in Table 3, below.

Table 3: Comparison of standard terms and conditions of Bank's financing in EUR versus the commercial/bilateral borrowing

Description	AfDB loan in EUR	Commercial borrowing in EUR/USD
Exchange rate risk	The Bank's loan denominated in EUR represent an advantage for Cabo Verde given the domestic currency (CVE) stable peg to the EUR. It also minimizes Government's exposure to exchange rate risk.	The bulk of the commercial financial market loans are denominated in foreign currency including the USD, thus exposing the Government to exchange rate risks.
Financing terms	Maturity: 25 years	Maturity: 10 – 20 years
	Grace period: 8 years	Grace period: 5-9 years.
	Interest rate: Base rate (floating 6 months EURIBOR) + funding margin+ 80 bps + maturity premium Example: Current pricing for **USD loans** = 1.86% to 2.3%	**Interest rate:** **USD:** 5.5% (US prime lending interest rate as at April 2019) **EUR:** 1.6%

	Current pricing for **EUR loans** = 0.404% to 0.8%	
	Interest rate features: Free option to fix + Option to fix, unfix and re-fix for a fee at any time, cap and collar	**Interest rate features:** No option to fix (based on market fundamentals)
	Currency features: Option to change currency at any time	**Currency features:** No option to change currency
Economic growth/population growth and debt sustainability	Cabo Verde's annual average GDP growth of 5% over 2019-2021 could sufficiently cater for its obligations on interest payments of Bank's loans denominated in EUR and USD currency (e.g. estimated at 0.404% to 0.8%, and 1.86% to 2.3%, respectively) as well as a significant pressure arising from population growth (e.g. average 1.2% per annum).	Cabo Verde's annual average GDP growth of 5% over 2019-2021 appears insufficient to cater for its obligations on interest payments for USD-denominated commercial loans (e.g. 5.5%) and population growth (e.g. 1.2%).

Annex XV: Cabo Verde Governance Context and Prospects

1. Recent sector developments over the past 5 years

A stable political scene with positive overall governance indicators

Cabo Verde is widely recognized amongst African countries for its good governance. According to the Mo Ibrahim Index of African Governance (IIAG), in 2018, the country scored 71.1 out of 100, ranking third out of 54 African countries. In Transparency International's Corruption Perceptions Index 2018, Cabo Verde, which ranked 45th out of 180 countries, was the third least corrupt African country at par with Rwanda. The political and institutional environment is characterized by a multi-party system and smooth political governance. Cabo Verde has a semi-presidential regime. Executive power is held by the Prime Minister and Head of Government, who is designated by the party or group of parties with a majority in the National Assembly. In 2018, Freedom House granted a rating of 1 to Cabo Verde due to a wide range of civil liberties (including freedoms of expression, assembly, association, education, and religion) and political rights (including free and fair elections) enjoyed by the population. The March 2016 legislative elections led to a change in the parliamentary majority with the victory of the Movement for Democracy (MpD). That change came about 15 years following governments led by the African Party for the Independence of Cabo Verde (PAICV). In September 2016, the MpD won the municipal elections (19 municipal councillors out of 22).

A change in growth paradigm requiring bold reforms

The authorities' pursuit of increase growth levels are underpinned by the willingness not to fall in the "middle income trap"[15] and a drive to substantially improve the life of citizens. There are however key binding constraints such as the indebtedness level, the low multiplier effects of public spending, and low/decreasing productivity. To overcome these, the government is working to place the private sector at the centre of economic growth and is initiating key structural reforms to improve productivity and economic diversification. Private sector led growth will in part provide an answer to the fiscal and debt constraint through growth, and will enable improvements in citizen's revenues and decrease unemployment. To do so and ensure that growth is spatially inclusive, it must be domestically sourced leveraging on the diverse comparative advantages held across the 9 inhabited islands. In other words, Cabo Verde's challenges are twofold: firm-up and move forward with the change in growth paradigm in favour of the private sector, and ensure that growth is inclusive across the territory and strata of society.

Sustaining and accelerating the growth momentum requires that the government address the various bottlenecks in the economy, which requires implementing measures to improve its human capital base, raising government effectiveness, improving the environment for private sector participation in the economy, and boosting local economic development. Lacking natural resources and economies of scale to sustain a significant manufacturing base, the economy is concentrated in the services sector. In 2017, the tertiary sector represented about 69.9% of GDP and was dominated by tourism, and foreign direct investment (FDI) in the tourism sector. Structural reforms – such as a better organization of local production of goods and services, or improvements in the inter-island transportation systems – are necessary to boost tourism so that it generates more substantial economic benefits. This in turn requires a further strengthening of the local private sector and capacity to generate development across islands relying on diverse sources of income[16].

[15] In the literature, the "middle income trap" is a situation where a country moves from "low" to "middle income" status but is unable to move to the next stage due to a lack of differentiation, specialization or incremental productivity gains.
[16] While some islands such as Sal of Boa Vista are mostly relying on tourism, others also lean on other incomes sources such as industry (Santiago), Agriculture (Sao Nicolau) or fishing (Santo Antão or Sao Vicente).

The productivity and economic diversification challenges call for the stimulation of the private sector. Cabo Verde's exposure to exogenous shocks remains a major concern. The impact of past exogenous crises on growth has papered over a major structural weakness, namely the low productivity of the economy. Indeed, data analysis undertaken by the Bank shows that total factor productivity (the share of growth not attributable to capital or labour) has been negative for the 2007-2014 period, while labour and capital contributions have somewhat declined. This suggests that other things being equal, growth levels should decrease over the long term. Hence, apart from diversification of sources of growth, structural reforms aimed at increasing productivity and private sector profile are necessary. As per the country's national development plan (PEDS), authorities intend to engage in this path through a new private-sector focused model of economic growth, and a new State model underpinned by higher efficiency of service delivery and locally induced development through a decentralization policy.

Economic governance is constrained by the debt stock and overhanging fiscal risks.

Following the 2008/2009 crisis, the authorities launched a counter-cyclical policy to stimulate the country's growth which led to a rapid deterioration of the budget deficit and an increase in public debt levels. Debt increased from 71.9% of GDP in 2010 to 129.6% in 2016. With this in mind, the authorities have made a commitment to strengthen budget consolidation. In 2015, the public deficit stood at -4.1% of GDP, and at -3.3% in 2016, less than the rates of -7.5% and -8.9% recorded in 2014 and 2013, respectively. In 2017 it stood -3.1% and further declined to -2.4% in 2018. The efforts compared to the pre-2014 situation stems primarily from achievements on the revenue side, with a significant increase in revenue accruing following the expansion of the tax base. On the expenditure side, compression of the public investment program also contributed to deficit reduction. Moreover, efforts are under way to address the fiscal risks related to poor-performing public enterprises. Over the past year, important efforts have been made to stop the running liabilities of Cabo Verde Air Transport Company (TACV)[17], circumscribe those of the housing scheme 'IFH', and decrease government funding dependence of the electricity company ELECTRA.

Local economic development and decentralization are important areas of work going forward

Local economic development is an important challenge to ensure spatial distribution of economic opportunities according to island specific comparative advantages. Decentralization efforts are based on the premises that decision making on areas of service delivery is best done at local level as sub-national governments are better informed of on the ground needs. Being an archipelago with diverse islands both geographically and economically, the government intends to invigorated local economic development as per the PEDS. Doing so will not only contribute to higher growth, but also respond to considerations such as (i) reducing inter-islands inequalities, (ii) easing pressure on inter-island migration (2015 AEO) and (iii) assist secondary cities across islands in leading the way on structural transformation (2016 AEO). Country specific analysis undertaken in the 2015 African Economic Outlook (AEO) focusing on territorial development and spatial inclusion suggests that territorial imbalances in Cabo Verde are not only based on social service delivery, but also on economic opportunities, leading to internal migration pressures. Similarly, the 2016 AEO focuses on sustainable cities and structural transformation, suggesting that the country's urban renewal (including based on economic opportunities) can be an important driver of structural transformation.

[17] Running a monthly deficit of nearly EUR 3m/month, TACV local and regional operations were dismantled and the market filled by a private operator (Binter). The international part of TACV has been taken over by Icelandair through a 1 year management contract in anticipation of privatization. The government still has a EUR 100 million liability (~6.5% of GDP) which it seeks to reduce through negotiations. The cost of TACV's retrenchment and winding-down is expected to cost about 2.2% of GDP in 2017-2018 (IMF 2018).

A broadly positive PFM system

The last public finance review notably the 2015 Public Expenditure and Financial Accountability (PEFA) assessment, the IMF 2017 mission, and the Bank's 2018 review indicate that Cabo Verde's public finance management (PFM) system has made significant strides. The 2015 PEFA assessment concluded that the performance of the country's PFM system was satisfactory, with 24 indicators out of 28 having a PEFA score of C+ or above (8 A, 9 B or B+ and 7 C+). Over the past few years, the authorities have taken several structural reform initiatives to further improve the public finance management system. Hence, progress has been achieved with respect to completeness, transparency and supervision, particularly through the introduction of programme-based classification, Treasury management reforms, and the deployment of an Integrated Financial and Budget Management System (SIGOF) in all ministries. Regarding SIGOF, work remains to be done for its integration with the Municipality information System (SIM), which would itself first require harmonisation and upgrade. This would ensure proper accounting of Municipal finances with that of central government. In addition, to further strengthen public financial management, it would be necessary to accelerate the State's property inventory, while also complementing internal control's capacity to oversee public private partnerships.

As regards to external control, the February 2018 law expanding the Court of Auditors remit is a positive move forward. This law will reinforce and enlarge the oversight and audit mandate of the Court of Auditors namely by increasing the scope of entities subject to external control, the adoption of performance audit and the possibility of carrying out concomitant audit. The posting on the Ministry of Finance website of the draft Budget Framework Bill and the draft Public Debt Bill for public consultation enabled increased transparency. The revisions of both Bills have been approved by the council of Ministers and are deemed to be fundamental steps in the consolidation of the PFM legal architecture and PFM reform which will contribute to the modernization of financial management and control processes. Lastly, there is a need to accelerate efforts to reinforce a performance and evaluation culture in the public sector. In a context of increasing modernization of the economy, it becomes increasingly crucial to provide sufficient quantitative and qualitative means to properly ensure the enforcement of 'checks and balances' and to preserve the overall good functioning of the administration.

2. Summary of issues and challenges facing the sector

Key issues faced in the governance sector are:

- **Pace up the reforms aimed at restructuring key state-owned enterprises**. This should (i) free fiscal space as subsidies and transfers to some SOEs would stop, (ii) ideally increase firm efficiency and services, (iii) reduce burden on the debt by getting rid of contingent liabilities and re-negotiating some SOE linked debt.
- **Keep up with the reform agenda on private sector development and competitiveness**. Many of the indicators available (WEF Competitiveness indicators, Doing Business report, etc.) highlight several categories of challenges for Cabo Verde, which include (i) access to finance, (ii) bureaucracy and the completeness and usefulness of the legal arsenal for businesses, (iii) skills and labour markets, (iv) factor efficiency including land or inputs such as electricity. While a number of critical policies and legislative frameworks have been approved, institutions and IT-systems established, two issues are currently coming up. First, not all are all fully effective. Important gaps remain such as for instance in the case of tax expenditure incentives, or the functioning of access to finance schemes. Second, much of the reforms targeting the private sector had a stronger focus on the attraction of foreign investment (investment code reforms, tax exemptions for FDI). This leaves gaps for the domestic private

sector which continues to suffer from important constraints linked to skills, access to finance and bureaucracy.

- **Enhance decentralization and local economic development reforms**. Local economic development is a new objective laid out in the PEDS for which structuring reforms are needed, which requires a set of new legislations (law on regionalization, law o statues of municipalities and law on municipal financing), improved local government support for enterprise development (linked to competitiveness as mentioned above), and improved local economic development planning. Local economic development is intrinsically linked to the attributes of each island, their geographic and economic features. In this regard, subnational governments are well positioned to provide support to the endogenous private sector.
- **Engage in a new PEFA assessment** to fully understand the achievements made over the past years and determine a strategy to address shortcomings. This is important to the extent that procurement in particular was found to suffer some shortcomings.

Annex XVI: Cabo Verde Agriculture Sector Context and Potential

Characterization of Agriculture sector in Cabo Verde

Agriculture in Cabo Verde remains subsistence farming, practiced on small farms of less than 2 hectares in view of the country's challenging landscape, with low access to factors of production, particularly water. Of the 45,399 existing farms, 59% are on the island of Santiago. Only 10% of the total land area is arable land and about 80% of the agricultural products consumed in the country are imported. National food production covers only 30% of food needs. The sector's contribution to GDP was estimated at 9.6% in 2018, and the sector has great potential to become an engine for growth and transformation in Cabo Verde. There are 35% of the population (182,396 people) involved in the agricultural and the sector generates more than 50% of rural jobs. Rain-fed agriculture is practiced on 73.4% of farms whilst irrigated agriculture on only 18.9%. Climate and soils favour maize, sugar cane, beans and pulses, vegetables, tomatoes, and a variety of tropical fruits. The livestock population consists mainly of goats, poultry, cattle and sheep. The potential of the 40-mile fishery is exploited at only 25 thousand tons, of which 80% is exported mainly tuna. Livestock provides nearly 100% of the supply of the meat and egg market, but is confronted by the problem of animal nutrition and health. Therefore, agriculture remains uncompetitive given the production costs (water, energy, transport) and lack of financing.

Agriculture transformation strategy

At strategic level, government approved the Growth and Poverty Reduction Strategy (DECRPIII, 2012 - 2016), in which agriculture is a key sector. The National Strategy for Food and Nutritional Security (ENSA 2020), is complementary to the DECRPIII, 2012-2016 and has the overall objective "to ensure the continuous access of the population to a sufficient, healthy and nutritious food, without prejudice to the satisfaction of other basic needs". This has been reinforced in the Strategic Plan for Sustainable Development (PEDS, 2017-2021) which aims to:

- Implement income-generating policies and strategies that make the sector more market orientated with tourism and exports as the principal target market;
- Introduce effective and efficient production techniques, the intensification of crop productivity, especially horticultural, fruit farming and vegetable production
- On livestock: Prioritize short-cycle species, intensive poultry farming, small ruminants in captive breeding pig and rabbits;
- On agro-processing: give added value to agricultural products, focusing on the increased production of cheese, wine, dried fruit, jams and jellies, tomato pulp, coffee to special market niches, cured meat products and other processed products
- Integrate climate change issues by: (i) introducing new techniques and strengthen capacities to strengthen resilience to climatic changes and improve production, productivity and quality in the sector
- Introduce sustainable agricultural techniques, promote carbon fixation, the reduction of soil erosion, increased vegetation cover, the sustainable use of water resources, including water recycling, and a decreased use of chemical pesticides.

Government has invested over EUR 398 million in the sector in the last 10 years (2008 - 2018). Overall, there are opportunities for:

- Private sector investment in commercial farming, agro-processing and marketing, and the supply of agricultural inputs;
- Boosting agriculture production to meet the demand from the domestic market and the tourism sector to reduce Cabo Verde's dependence on imported food;
- Development of the fruit and vegetable value chain, coffee and wine, meat and meat derivatives, eggs and dairy products;
- Commercial opportunities exist in agricultural logistics (factors of production, agricultural machinery, use of renewable energy to reduce the cost of production), irrigation systems and other agricultural and livestock inputs.

International development partners support and Bank's role in agriculture

Since the UA 5.96 million watershed project was implemented from 2002 to 2010 in two watersheds of the island of Santiago with the objective to reduce rural poverty through soil conservation, mobilization of water resources, support to agricultural production and community capacity building, the Bank has not approved new projects supporting agricultural production in Cabo Verde; with the exception of the support to agricultural statistics (ongoing) and two emergency assistance grants of USD 1 million each which were approved for the sector, namely: (i) livelihood restoration of the Fogo people; and (ii) control of the fall armyworm. International development partners currently provide an estimated EUR 86 million of financial support to the agriculture sector in Cabo Verde, and include: the AfDB, FIDA, BADEA, Portugal, Kuwait, European Union, and Spanish Fiduciary Fund.

Table 1: International partners interventions in agriculture in Cabo Verde

Partner	**Summary of interventions**	**Amount (in million Euros)**
FIDA	Food safety; strengthening incomes of rural families; reinforcement of resilience and adaptation to climate change	7.13
BADEA	Hydrographic Basin Studies; Management and exploitation of hydrographic basins; Reinforcement resilience and adaptation to climate change.	23.52
AfDB	Mobilization of water resources, hydrographic basin studies, biological control of crop pests	1.4
Portugal	Mobilization of water for irrigation (construction of dams, boreholes, water collection and distribution system); Lines of credit.	38
Kuwait	Hydrographic basin studies.	0.435
European Union	Emergency Programme for Mitigation of Drought 2017/18; Strengthening of Adaptation and Resilience of the Forestry Sector in Cape Verde.	11.5
Spanish Fiduciary Fund	Emergency Programme for Mitigation of Drought 2017/18; Food safety; strengthening the income of rural families.	3.8

Table 2: Sectoral productivity in Cabo Verde, 2011-2018

Total GDP output (constant prices – in million escudos)								
	2011	2012	2013	2014	2015	2016	2017	2018
GDP total	135,489	136,955	138,054	138,898	140,297	146,899	152,337	160,072
Agriculture and fisheries	11,731	12,779	12,611	12,589	13,609	13,132	11,487	9,299
Manufacturing	7,724	7,803	7,950	8,565	8,672	8,060	8,581	9,783
Services	77,517	79,864	79,638	79,320	78,081	84,520	87,153	90,163
Public Administration	20,289	20,517	21,407	22,415	22,638	22,249	23,274	25,267
Total employed workers								
	2011	2012	2013	2014	2015	2016	2017	2018
Total employed workers	178,571	187,904	185,474	182,831	194,485	209,725	203,775	195,000
Agriculture and fisheries	41,028	45,755	41,045	28,030	36,724	41,253	27,742	23,011
Manufacturing	15,376	17,394	15,770	17,669	18,760	19,243	20,801	19,811
Services	73,741	76,568	81,471	84,804	82,264	94,548	99,556	94,787
Output per worker – productivity proxy – in million escudos								
	2011	2012	2013	2014	2015	2016	2017	2018
Total output per worker	0.76	0.73	0.74	0.76	0.72	0.70	0.75	0.82
Agriculture and fisheries	0.29	0.28	0.31	0.45	0.37	0.32	0.41	0.40
Manufacturing	0.50	0.45	0.50	0.48	0.46	0.42	0.41	0.49
Services	1.05	1.04	0.98	0.94	0.95	0.89	0.88	0.95
Public Administration	0.60	0.61	0.67	0.67	0.61	0.63	0.63	0.67

Source: Author calculations using data GDP data from National Institute of Statistics of Cabo Verde, National Accounts data, 2007-2019 and 2011-2018 Labour Market survey data.

Note: the analysis excludes the figures related to “other services”, “non-governmental organizations” and “domestic workers”.

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