# AFRICAN DEVELOPMENT BANK

# CABO VERDE

# COUNTRY STRATEGY PAPER 2014-2018

ORWA Department/SNFO

March 2014

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**ANNEXES**

# ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| ACP | African, Caribbean and Pacific States |
| ADB | African Development Bank |
| ADEI | Agency for the Development of Enterprises and Innovation |
| ADF | African Development Fund |
| AGOA | African Growth and Opportunity Act |
| ALSF | Africa Legal Support Facility |
| ARTIN | African Regional Transport Infrastructure Network |
| ASA | Empresa Nacional de Aeroportos e Segurança Aérea |
| AWF | African Water Facility |
| EPA | Economic Partnership Agreement |
| ARAP | Public Procurement Regulatory Agency |
| ARE | Economic Regulatory Agency |
| BADEA | Arab Bank for Economic Development in Africa |
| BCV | Banco de Cabo Verde (Central Bank of Cabo Verde) |
| BIRD | International Bank for Reconstruction and Development |
| BSG | Budget Support Group |
| CCT | Court of Auditors |
| CODE | Committee on Operations and Development Effectiveness |
| CPIP | Country Portfolio Improvement Plan |
| CPMU | Central Procurement Management Unit |
| CPPR | Country Portfolio Performance Review |
| CSP | Country Strategy Paper |
| CStP | Country Statistical Profile |
| CVE | Cabo Verde Escudo |
| CV Telecom | Cabo Verde Telecom |
| DAC | Development Assistance Committee |
| DB | Doing Business |
| DBR | Doing Business Report |
| DP | Development Partners |
| DPG | Development Partners Group |
| DGPCP | General Directorate of Public Estate and Procurement |
| DSA | Debt Sustainability Analysis |
| EBID | ECOWAS Bank for Investment and Development |
| ECREE | ECOWAS Centre for Renewable Energies |
| ECOWAS | Economic Community of West African States |
| EEZ | Economic Exclusivity Zone |
| ELECTRA | Empresa de Electricidade e Agua (Electricity and Water Company) |
| ENAPOR | Ports Authority |
| ESW | Economic and Sector Work |
| ETS | Economic Transformation Strategy |
| EU | European Union |
| FDI | Foreign Direct Investments |
| GDP | Gross Domestic Product |
| GEF | Global Environment Fund |
| GG | Green Growth |
| GNI | Gross National Income |
| GoCV | Government of Cabo Verde |
| GPRSP | Growth and Poverty Reduction Strategy Paper |
| GSHDI | Gender-Specific Human Development Indicator |
| GSP | Generalized System of Preferences |
| HDI | Human Development Index |

| | |
|---|---|
| ICT | Information Communication Technology |
| IDA | International Development Agency |
| IEG | Institute of Equity and Gender |
| IFC | International Finance Corporation |
| IFH | Imobiliária Fundiária e Habitat |
| IGF | General Finance Inspectorate |
| IIAG | Ibrahim Index of African Governance |
| IMF | International Monetary Fund |
| INE | Instituto de Estatistica – National Statistical Institute |
| IPP | Independent Power Producer |
| JBIC | Japan Bank for International Cooperation |
| JICA | Japan International Cooperation Agency |
| LDC | Least-Developed Country |
| MCC | Millennium Challenge Corporation |
| MDG | Millennium Development Goal |
| M&E | Monitoring and Evaluation |
| MFI | Microfinance Institution |
| MFP | Ministry of Finance and Planning |
| MIC | Middle Income Country |
| MoU | Memorandum of Understanding |
| MPD | Movimento Para a Democracia (Movement for Democracy) |
| MSME | Micro, Small and Medium Enterprise |
| MTEF | Medium-Term Expenditure Framework |
| MTR | Mid-Term Review |
| NOSI | Operational Nucleus for Information System |
| NCB | National Competitive Bidding |
| NTF | Nigeria Trust Fund |
| OECD | Organization for Economic Cooperation and Development |
| OPEC | Organization of the Petroleum Exporting Countries |
| OSBP | One Stop Boarder Post |
| PAGE | Electronic Governance Action Plan |
| PAGEPPI | Public Corporate Governance and Investment Promotion Support Programme |
| PAICV | African Party for the Independence of Cabo Verde |
| PALOP | African Portuguese Speaking Countries |
| PANA | National Environmental Action Plan |
| PAP | Priority Action Plan |
| PCR | Programme Completion Report |
| PEFA | Public Expenditure and Financial Accountability |
| PER | Public Expenditure Review |
| PFM | Public Finance Management |
| PIDA | Programme for Infrastructure Development in Africa |
| PIP | Public Investment Programme |
| PEMFAR | Public Expenditure Management and Financial Accountability Review |
| PPP | Public-Private Partnership |
| PRS | Poverty Reduction Strategy |
| PSD | Private Sector Development |
| RE | Renewable Energy |
| RISP | Regional Integration Strategy Paper |
| RMC | Regional Member Country |
| SEFA | Sustainable Energy Fund for Africa |
| SIDS | Small Island Developing State |
| SIGOF | Integrated Government Budget and Financial Information Management System |
| SLL | Sustainable Lending Limit |

| | |
|---|---|
| SME/I | Small and Medium Enterprises/Industries |
| SNFO | Senegal Field Office |
| SOE | State Owned Entreprise |
| SPA | Special Partnership Agreement |
| SPE | Serviço das Participações do Estado (Unit of State Participations) |
| TA | Technical Assistance |
| TACV | Transportes Aéreos de Cabo Verde (Cabo Verde Air Transport Company) |
| TFPs | Technical and Financial Partners |
| TYS | Ten Year Strategy |
| PMU | Procurement Management Unit |
| UA | Unit of Account |
| UCRE | State Reform Coordination Unit |
| UGA | Procurement Management Unit |
| UGAC | Centralized Procurement Management Unit |
| UN | United Nations |
| UNDP | United Nations Development Programme |
| UNCCD | United Nations Convention to Combat Desertification |
| UNFCCC | United Nations Framework Convention on Climate Change |
| WACS | West Africa Cable System |
| WEF | World Economic Forum |
| WJA | Women Jurists' Association |
| WTO | World Trade Organization |

## CURRENCY EQUIVALENTS

February 2014

Cabo Verde currency unit = Cabo Verdean Escudo (CVE)

UA1 = CVE 123.135
UA 1 = USD 1.53420
UA 1 = EUR 1.13510

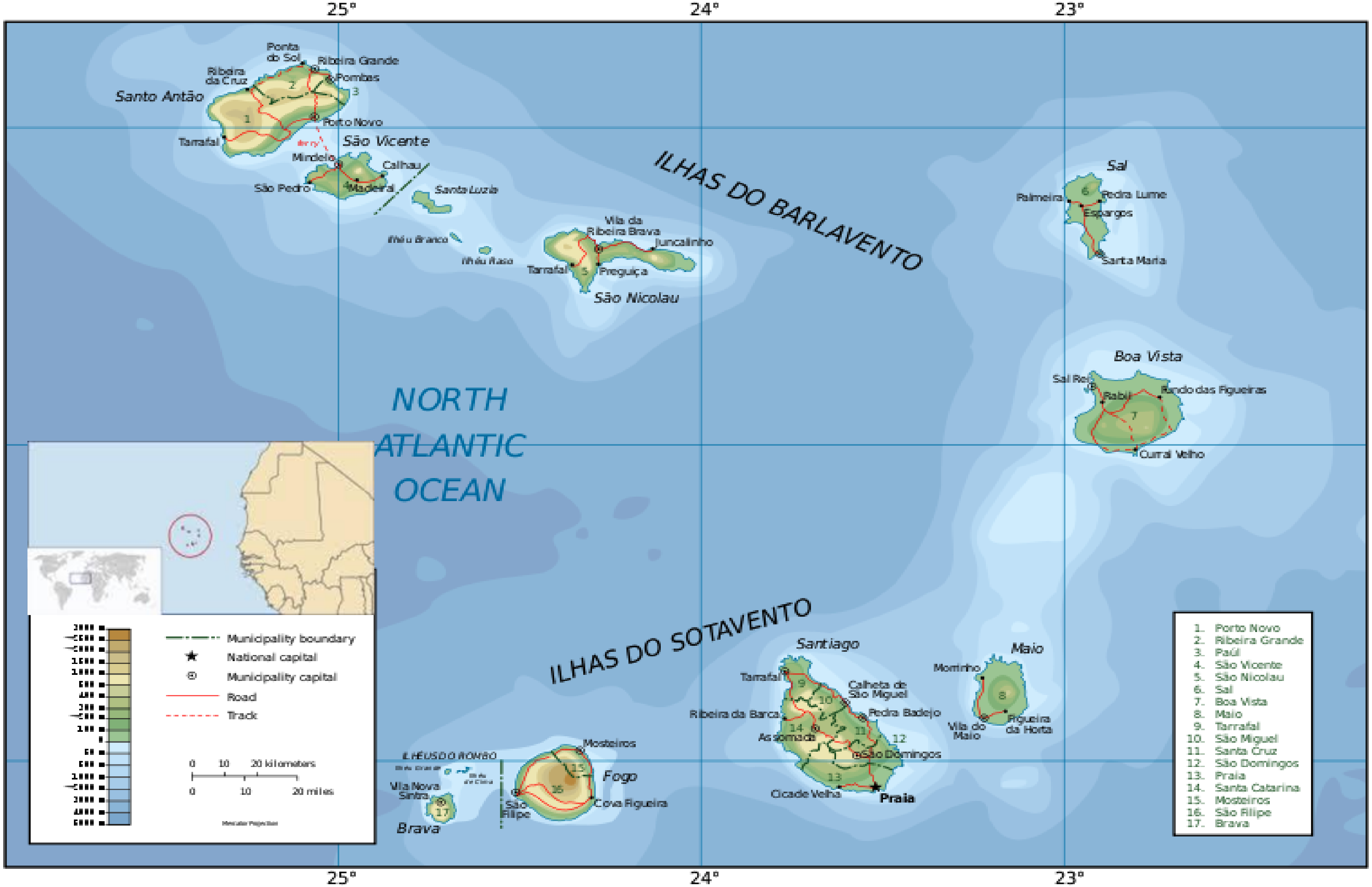
## FISCAL YEAR

1 January – 31 December

## WEIGHTS AND MEASURES

Metric System

**Map of Cabo Verde**



**EXECUTIVE SUMMARY**

1. The previous Bank Strategy for Cabo Verde (CSP) covering the 2009-2012 period was approved by the ADB Board of Directors in October 2009. Aligned with the country's priorities, the strategy (ADF/BD/WP/2009/132) centered on the following pillars: (i) Consolidation of the progress made in economic and financial governance; and (ii) Contribution to infrastructure development. A mid-term review of the CSP was conducted in November 2011, reaffirming the relevance of these pillars. The 2009-2012 CSP was extended to December 2013 following a request from the Government. The combined CSP Completion and Portfolio Performance Review Report prepared in November 2013 (ADB/BD/WP/2013/165) provided lessons learnt and guided the preparation of this 2014-2018 CSP.

2. Cabo Verde remains a model for political rights, civil liberties and good governance in Africa. It is characterized by the quality of its democratic system established in 1991 and consolidated over the years. The 2011 parliamentary and presidential elections resulted in the coalition between the two main parties for the first time. The next presidential and parliamentary elections are scheduled for 2016. Cabo Verde received the second-highest ranking in Africa for performance in governance in 2012.

3. 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 was graduated from the UN Least-Developed Country (LDC) status in 2007.

4. However, since 2009, its economic performance was severely affected by the global financial crisis and the European debt crisis, 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. The counter-cyclical expansionary fiscal policy stance taken by the Government to stimulate growth and mitigate the crisis has led to a heightened budget deficit and indebtedness, thereby increasing Cabo Verde's vulnerability to exogenous shocks. In particular, State Owned Enterprises (SOEs) operating in key sectors such as energy and transportation continue to experience financial losses as increasing the potential contingent liabilities for the state.

5. Cabo Verde is now at a crossroads and faces challenges to develop a more sustainable growth model, away from dependence on a concentrated services sector reliant on tourism and towards a more diversified productive base. This requires rethinking the country's development and financing strategies by boosting the private sector, accelerating the implementation of the transformation agenda to diversify the economy, to make it more climate-resilient, and to enhance its regional integration into the Economic Community of West African States (ECOWAS) region. The third Growth and Poverty Reduction Strategy (GPRSP III) for the period 2012-2016 adopted in April 2013 reflects the Government's structural agenda. It is aligned to the long-term national development vision that seeks to transform Cabo Verde into an emerging economy based on the utilization of the country's geo-strategic location to become an international platform/hub for high value added services and to expand its productive base.

6. The Government is well aware of the challenges and opportunities ahead, and has requested the Bank's support to address them. To assist the country in meeting these challenges, the Bank's strategy objective for the 2014-2018 CSP is to support the Government in its efforts towards *laying the foundations for a more inclusive, and green growth.* In the case of Cabo Verde, key challenges for inclusiveness appeared to be rooted in both country's geography (isolated and poorly linked islands with unequal development status) and gender disparities. Additionally, the country high vulnerability to climate change affects sustainable development.

In this specific context, the key areas where the Bank would provide support include infrastructure development (maritime transport and renewable energy), and improved governance. Therefore, this CSP lays emphasis on two pillars: (i) Enhancing and Diversifying Infrastructure for Sustainable Development; and (ii*)* Strengthening Economic Governance in the Public and Private Sectors.

7. **Pillar 1.** Investment in sea ports construction and rehabilitation, will contribute to consolidating territorial integration and facilitating movement of goods and people and positioning Cabo Verde as a regional hub for transhipment. The Bank will also promote Cabo Verde regional integration by improving its maritime connection to mainland and strengthening cooperation between the country and the ECOWAS. Accessibility and connectivity to ECOWAS larger markets will contribute to address the slow growth and to diversify the productive base. The Bank will furthermore contribute to strengthen the electricity production and network, thereby significantly reducing the cost of doing business. Supporting investments in renewable energy will also contribute to promote green growth.

8. **Pillar 2.** The Bank will support the Government to take specific measures to enhance the overall business and investment climate stimulating private sector competitiveness including for small and medium enterprises, and to support economic diversification. To cope with chronic fiscal deficits and public debt consolidation and sustainability issues and to improve the quality of infrastructure and services, the Bank will promote (i) public investment program prioritization and rationalization, and (ii) improvement and modernization of the management and operations of state-owned enterprises (SOEs). The Bank will assist the country to better leverage private sector funding as well as innovative financing mechanisms and instruments, including mobilizing resources through PPPs. The Bank will also contribute to strengthening the national monitoring and evaluation system with an emphasis on gender, and promote policy actions that directly seek to create a better gender balance or mitigate gender disparities.

9. The implementation of the strategy will be guided by permanent consultation on the expected outcomes of the Bank's interventions through a country work programme aimed primarily at helping Cabo Verde to remove major constraints that hamper its economic and social development. The choice of the intervention areas is justified by their significant potential impact on strengthening the bases of green and inclusive growth through support for competitiveness of the economy, jobs creation, especially for women and the youth, private sector development and diversification of economic growth sources.

10. The Bank Group will deliver its assistance through various financing modes including budget support, stand-alone local projects and private sector support. In order to support the improvement of the business climate and the development of PPP initiatives, the Bank will explore the possibility of direct interventions in the private sector. The Bank acknowledges that vulnerability to climate change and extreme weather events could pose risks to the long-term sustainable development of the Country and will mainstream climate resilience in all its pertinent projects.

11. ***Recommendations****:* The Board is invited to approve the strategy proposed in this Country Strategy Paper for Cabo Verde for the 2014-2018 period.

# I.INTRODUCTION

**1.1 This report aims to propose a Bank Group strategy for Cabo Verde, a Middle-Income Country (MIC) and also a Small Island Developing State (SIDS)[1], for the period 2014-2018. Cabo Verde's successful socio-economic development during the last decade is widely recognized.** Despite its vulnerability due mainly 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 performance in Africa from 1991 to 2008. As a result, it has graduated from the Least-Developed Country (LDC) status of the UN since 2007. In 2009, the country migrated from Category A (eligible for ADF resources only) to Category B (blend status) in line with the Bank Group Credit Policy. In 2011 Cabo Verde GNI per capita reached US$3,500, which placed the country in the World Bank lower MIC category and in the Bank's category C (ADB only) with exceptional access to ADF resources until 2015.

**1.2 However, since 2009, Cabo Verde's economic performance has deteriorated following the global financial crisis and the Eurozone debt crisis.** The country is now at a crossroads and faces new challenges, including how to avoid the well-known Middle Income Trap. This requires a much higher level of economic and institutional capacity to compete with success, rethinking the country's development and financing strategy by boosting the private sector, diversifying the economy and making it more climate-resilient and enhancing its regional integration into the Economic Community of West African States (ECOWAS) region. The third Growth and Poverty Reduction Strategy Paper (GPRSP III) for the period 2012-2016 adopted in April 2013 reflects the government's structural agenda to respond to these challenges.

**1.3 This Country Strategy Paper (CSP) for Cabo Verde follows the last CSP for the 2009-2012 period, which was approved in October 2009, updated in November 2011 and subsequently extended to December 2013 following a request from the Government[2].** The new CSP assesses the country's development prospects and challenges based on three Economic and Sector Work (ESW) documents prepared by the Bank[3], the Government's strategic options highlighted in the GPRSP III, the Bank's Ten-Year Strategy for 2013-2022, the lessons learnt from implementing the previous CSP, and consultations with key stakeholders[4]. In particular, it focuses on the role the Bank Group can play, in partnership with other Development Partners (DPs), to support Cabo Verde's development agenda, by providing support for strategic investments and advisory services, consistent with its areas of expertise, to help the country achieve the goals it has set in taking the reforms and transition agenda forward.

# II.COUNTRY CONTEXT AND PROSPECTS

## 2.1 Political, Economic, Social, Environmental and Regional Context

***Geography and Political Context***

**2.1.1 Cabo Verde is made up of ten islands and eight islets (see Map on page ix), located in the Atlantic ocean, some 450 km west of Senegal.** It has a land area of 4,033 square kilometers, and a 700,000 square kilometers Economic Exclusivity Zone (EEZ). The 10 islands are grouped into *Barlaventos* (northern islands group) comprising Santo Antao, Sao Vicente, Santa Luzia, Sao Nicolau, Sal, Boa Vista, and *Sotaventos* (southern islands group) consisting of Maio, Santiago, Fogo, Brava. Only nine islands are inhabited. The country has an estimated population of 500,000 people concentrated in Santiago Island (55.7% of the population). Nearly half of the Santiago population

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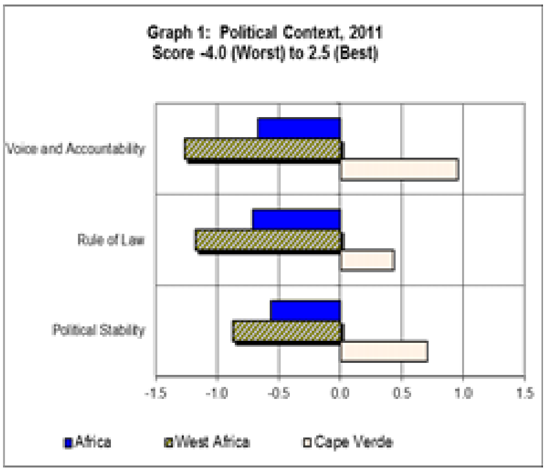
1 , Established in June 1992 by the United Nations Conference on Environment and Development, SIDS is a category of countries , which faces special development challenges due to their small size, limited resources, remoteness, susceptibility to natural disasters, vulnerability to external shocks, excessive dependence on international trade, and fragile environments.

2 The 2009-2012 CSP mid-term review was approved by CODE in November 2011. The extension of the CSP up to December 2013 was approved by the Board of Directors in April 2013.

3 In the course of the CSP 2009-2012 implementation the AfDB completed three flagship studies (ESW): The "Private Sector Profile", "Cabo Verde: a Success Story" and "Cabo Verde: the Way Forward", to inform and guide the preparation of GPRSP III and the new CSP for Cabo Verde.

4 A CSP preparation mission was conducted from 9 to 19 July 2013 in Cabo Verde and a stakeholders' meeting was organized in Praia on 16 July, 2013.

lives in Praia, the capital city (25.6% of country's population). Located in Sao Vicente Island, Mindelo is the second largest city (15% of country's population) and houses the principal port. The insularity, geographic discontinuity and the micro-nature of the Cabo Verde islands have made it difficult right from its inception to have a unified national economy. Cabo Verde has been a country of emigration for many years and the number of Cabo Verdeans living abroad today is estimated to be double those living within the country.



Source: AfDB Statistics Department using data from the WEF, 2012

**2.1.2 Cabo Verde is characterized by the quality of its democratic system established in 1991 and consolidated over the years.** The 2012 Freedom House Report ranks it among the leading African countries in terms of civil liberties, political rights and stability. Since 1991, presidential and legislative elections have been marked by a peaceful transition of power between the two major parties in the country: the African Party for the Independence of Cabo Verde (PAICV) and the Movement for Democracy (MPD). The PAICV captured parliamentary elections in February 2011, while the opposition MPD won the presidency in August 2011. However, the coalition is peaceful and sustainable, due to a consensus among the main political parties regarding the country's development strategy. The next presidential and parliamentary elections are scheduled for 2016.

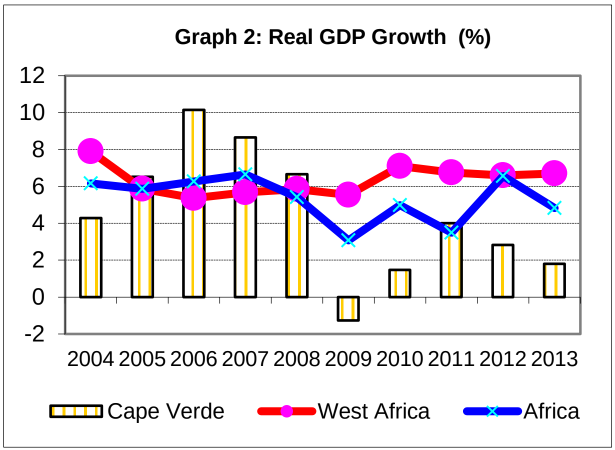
***Economic Context***

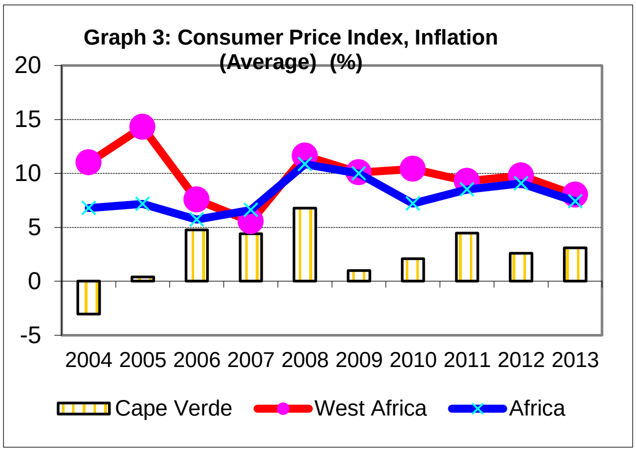
**2.1.3 Cabo Verde's economic performance during the 2009-2013 CSP implementation period was weak.** This was mostly due to a deterioration of the external economic environment, resulting from the international financial crisis which broke out in 2008 and the public debt crisis in the Eurozone. Real GDP growth dropped from 6.2% in 2008 to -1.3% in 2009[5]. 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. In 2010, Cabo Verde adopted countercyclical fiscal measures, primarily in the form of higher capital expenditure outlays. As a result, 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. It is likely to rise up to 4% if the current recovery in the Eurozone is sustained. This weak performance has resulted in increasing inequality, therefore creating some challenges for inclusiveness, as some islands were more affected than others.

**2.1.4 The economy needs diversification and offers great potential for greening.** Lacking natural resources and economies of scale to sustain a significant manufacturing base, the economy is concentrated in the services sector. In 2012, the tertiary sector represented about 70% of the GDP and was dominated by tourism and by FDI in the tourism sector. However, tourism neither significantly contributed to job creation nor substantially supported the expansion of others sectors, except construction (12% of the GDP) through foreign owned all-inclusive resorts and real estate. Structural reforms—such as a better organization of local production of goods and services, the creation of a quality certification system for local products, and improvements in the inter-islands transportation systems—are necessary for the dynamism in tourism to translate into broader economic benefits. Due to poor natural conditions, agriculture is poorly developed and therefore accounts for less than 10% of GDP. Nevertheless, it remains a critical sector for poverty alleviation,

5 INE, the national statistical institute, recently released new GDP estimates for the period 2007-2011. The new GDP figures indicate that the negative effect of the ongoing crisis in the Eurozone on Cabo Verde's economy was much stronger than previously thought. Cabo Verde in fact experienced a recession in 2009 with GDP growth dropping from 6.2% in 2008 to -1.3% in 2009 and recovering modestly to 1.5% in 2010 and 4% in 2011. In contrary the narrative of Cabo Verde's economic performance for that period had been that the country weathered the crisis relatively well—with a deceleration of growth to 3.7% in 2009, recovering to 5.2% in 2010 and 5.1% in 2011.

green growth, and climate-resiliency. In the past, the Bank has supported the agriculture sector through soil conservation and water resource mobilization projects. Presently other donors (including FAO, Japan, USA and BADEA) have increased their support to the sector. The industry sector which accounts for 8% of GDP, is marginally developed and highly concentrated on export-oriented fishing activities.



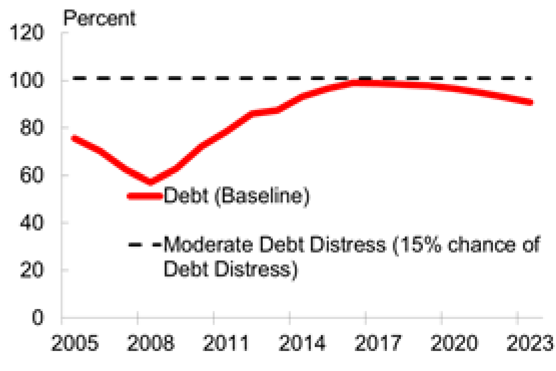

Source: AfDB Statistics Department, African Economic Outlook, September 2013.

***Macroeconomic Management***

**2.1.5 The monetary policy has remained prudent to strengthen the resilience of the economy to shocks as the country is facing a difficult external environment**. Monetary policy is constrained by the need to maintain the CVE pegged to the Euro[6]**.** Since 2011, tight measures have been taken to reduce inflation and stabilize foreign-exchange reserves. Due to tighter monetary conditions and the slowdown of economic activity, inflation fell from 4.5% in 2011 to 2.5% in 2012. Also, international reserves recovered from 3.2 months of imports in December 2011 to 4.1 months in October 2013. In addition, the current-account deficit declined, due to the sharp contraction of imports resulting from the economic slowdown and drop in imported food prices and to the resilience of tourism and remittances. A relatively benign inflationary outlook is expected in 2014.

**Graph 4: Fiscal Balance (% of GDP)**

**Graph 5: Public Debt (% of GDP)**




*Source: Ministry of Finance and Planning & World Bank, November 2013*

**2.1.6 The expansionary fiscal policy stance taken by the Government to stimulate growth and mitigate the crisis has led to a heightened budget deficit and an increase in its indebtedness level**. The overall budget deficit increased from an average 1.3% of the 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) have been responsible for this fiscal situation. In addition, weak financial performance

[6] Since 2000, the Cabo Verdean escudo (CVE) is pegged to the Euro with a fixed parity set at 110.265 CVE to 1 Euro.

of major public enterprises that resulted in their recapitalization (amounting 0.7 percent of GDP in 2012) put additional pressures on the government's fiscal position. The GoCV has started to implement corrective measures including cuts in recurrent budget and reduction of public investments, thereby contributing in 2013 to a reduction in the fiscal deficit to 7.3% of GDP, from 8% projected. The phasing-out of the PIP should occur gradually, without jeopardizing economic growth, and within the public debt sustainability framework. It is therefore expected to drop from 12.6% of GDP in 2013 to 10% in 2017, gradually reducing the pressure on the public debt. On the revenue side, despite tax administration reforms and the implementation of new revenue-enhancing measures by the Government since 2012[7], the fiscal revenue is expected to slightly increase to 19.2% of GDP by 2017 from 17.8% in 2012. This is due to weak economic dynamics.

**2.1.7 The high level of Cabo Verde's debt represents relative sustainability risks.** As a result of the increase in the public sector's borrowing requirements to finance large investments in infrastructure, the total nominal government debt has increased from 69% of the GDP in 2009 to an estimated 86% in 2012. The external debt represents 64.5% of the GDP in 2012 although it is predominantly concessional. Contracted mostly from the non-banking sector, the domestic debt represents 21.5% of the GDP. The DSA jointly conducted by GoCV and the World Bank in November 2013 concluded on a moderate debt-distress (15% chance of debt distress). It revealed an improving fiscal deficit in the short-term. After a peak in 2016 (99% of GDP), the Cabo Verde's public debt would fall afterwards as amortization payments pick up and deficit is contained. Over the medium-term, the Government has committed itself to re-focusing its public investment program, limiting it to approximately 10% of GDP. The DSA exercise included ongoing projects and critical investments foreseen in the coming 5 years. Nonetheless, consolidation of fiscal adjustment is needed to ensure debt sustainability. Especially, strengthening the governance of public enterprises is expected to limit their drain on the general government budget and mitigate their public finance risks. A public debt management department has been created and benefits technical assistance from the World Bank.

***Governance and Transparency***

**2.1.8 Cabo Verde is widely recognised for its good governance in Africa.** It has received the second-highest ranking for governance performance in the 2012 Mo Ibrahim Index of African Governance (IIAG), out of 52 countries. In terms of accountability mechanisms in place (transparency, prevention of corruption and abuse of power, accountability of public employees), the

**Box 1: State Owned Enterprises (SOEs)**

The State of Cabo Verde actively participates in the creation and management of enterprises. The SOEs sector is made up of 29 enterprises (14 public enterprises and 15 para-public companies). These SOEs play an important role in various sectors of the economy of the country, especially utilities, energy, telecommunications and transport (the 5 largest SOEs account for 70% of state owned capital and their assets represent 32% of GDP and, more importantly, their liabilities 25% of GDP). The financing requirements of the main 6 SOEs burden the State budget, limit alternative public investment and tend to crowd out private investment. State ownership and oversight of SOEs are ensured by the Unit of State Participations (SPE - *Serviço das Participações do Estado*) at the General Directorate of Treasury. The effectiveness of this institutional framework is limited by the low capacity of the SPE and its limited institutional authority to control SOEs. As a result, the risk of contingent debt coming from the SOEs could undermine the government financial performance.

country scored 81.7 on 100—which is above the average of African Island States (60.7 on 100) — and was ranked second among all African countries. Transparency International's 2012 Corruption Perception Index ranked Cabo Verde as the second least-corrupt African country. Its ranking improved from 41st in 2011 to 39th out of 176 countries in 2012.

[7] The tax-to-GDP ratio had steadily grown and peaked at 25% in 2008 but has been plunging since 2009. This is likely due to the inefficiency of the tax administration and to the increased share in GDP of some sectors, such as tourism, that benefit from tax incentives. In 2012, the GoCV initiated reforms in its tax policy, tax procedures and tax administration with the objective of raising the tax-to-GDP ratio to 25% by 2016 from 17.8% in 2012.

**2.1.9 The implementation of Public Finance Management (PFM) reforms has made some strides.** Cabo Verde's PFM system has clearly improved with 24 out of a total of 28 indicators having a PEFA score of C+ or above (3 As, 14 Bs or B+ and 7 C+). Although revenue and expenditure forecasts (deemed adequate in 2008) deteriorated from the impact of the global economic and financial crisis, significant progress was made in terms of exhaustiveness, transparency and supervision, seen especially in the introduction of a programme-based classification, the reform of the State treasury management (*bancarização*), revision of tax codes, extension of an integrated PFM system (SIGOF) in all departmental ministries, and regular use of the Medium Term Expenditure Framework (MTEF) for the preparation of annual budgets. Despite these achievements, several weaknesses remain. The external control of public spending remains inefficient, some components of the system of public procurement are not yet operational. There is need for Cabo Verde to improve the effectiveness of its General Finance Inspectorate (IGF) and to give more power to the Court of Auditors (CCT), (see Annex XI). In addition, SOEs operating in key sectors such as energy and transportation continue to experience financial losses, thereby causing additional costs for the state and the private sector. An accurate assessment of contingent liabilities of the state is necessary for better management of the overall public debt and financial risk (see Box 1).

**2.1.10 Despite the relative strength associated with the country's current procurement rules and regulations, the procurement sub-system is rated Moderate** (See Annex X). Public procurement in Cabo Verde is regulated by the Public Procurement 17/VII/2007 Law (the Act) approved in September 10, 2007. Along with this new regime, a new regulated system of procurement was commissioned. However, different reviews including PEMFAR, PEFA, PFM and Bank's assessment on bidding procedures have identified shortcomings pertaining to the legal and regulatory framework which need to be corrected. Furthermore, some gaps related to the institutional framework and management capacity have been identified. The Bank's strategy in the use of the Cabo Verde system will be in line with its strategy for all RMCs—strengthening the use of country procedures in National Competitive Biddings (NCBs). The Cabo Verdean procedures could be used for all NCBs funded by the Bank during the CSP period. In the application, the Bank will initiate discussions with the Government to address the key divergences contained in its regulatory framework and highlighted in the 2011 NCB Main Assessment Report. The use of the country system in its entirety will be envisaged in the future. Its assessment will generally be based on the performance of the country system using OECD/DAC system.

***Private Sector, Business Environment and Competitiveness***

**2.1.11 The Cabo Verdean private sector is nascent and essentially concentrates around trade and tourism (see 2.1.4).** Most companies are small: An enterprise with more than 20 employees qualifies as a large company. The informal sector is predominant and encompasses 70% of jobs, for about 25% of GDP contribution. While the agricultural potential of the country could constitute a main driver of growth for private entrepreneurship, the limited level of processing of agricultural products, and the lack of certification of products remain key impediments to thriving SMEs in this sector. In addition, the fishing potential, mostly lobster and tuna, is not fully exploited.

**2.1.12 To foster entrepreneurship, the Government has created in 2009 the Agency for the Development of Enterprises and Innovation (ADEI).** This agency has been promoting investments for small and medium-sized enterprises (SMEs). Its achievements over the last two and half years are encouraging, having helped 50 entrepreneurs design business plans and provided training for 260 people in pragmatic management topics, such as financial management and marketing. It has also developed a business incubator and provided services to the first round of eight businesses. The Bank is supporting ADEI through the on-going Capacity Building Grant for MSMEs Development through Business Incubators. The Government is planning to establish a Mutual Guarantee Fund. The objective of this fund is for banks to increase SMEs access to finance.

**2.1.13 In Cabo Verde two major banks control 70% of total banking assets. The sector is highly concentrated in real estate and construction activities, and is mainly characterized by a persistent situation of excess liquidity.** Banks have the capacity to provide medium- to long-term loans but still hesitate to provide commercial credit due to: (i) lack of guarantees from the project sponsors/collateral; (ii) general tightened credit origination policies suspected to be due to decision centers being located in countries outside Cabo Verde; (iii) lack of bankable projects; and (iv) weak macroeconomic environment and flat growth prospects. This level of liquidity in the banking system signals a severe credit crunch in which banks prefer to hoard the non-remunerated asset instead of extending marginal quantities of loans. This has resulted in an asymmetrical distribution of loans across sectors and in penalizing the productive sectors, by increasing lending rates and making access to credit extremely difficult. Lending rates are as high as 12-14% from commercial banks and 24% from Microfinance Institutions (MFIs), per annum. For more established industrial firms, the stock exchange does not provide an option to accessing credit as it is dominated by Government securities and has only 4 listed firms. A large part of the country's economy is financed through remittances from its large pool of emigrants which supplements GDP by more than 10%. However, there is no efficient mobilization mechanism for diaspora remittances which could foster SMEs development.

**2.1.14 Cabo Verde's business environment has markedly improved thanks to the adoption of new or revised regulations**. Key changes include the reforms adopted to facilitate Cabo Verde's admission to the World Trade Organization (WTO), as well as the simplification of business licensing, property registration and bankruptcy/liquidation procedures. These achievements made Cabo Verde one of the top performers in the World Bank's Doing Business (DB) rankings for 2012, with the country's overall position rising from 129$^{th}$ in 2011 to 122$^{nd}$ in 2012. The ranking in 2013 (121$^{st}$), however, highlights that the pace of reforms has stagnated. There is, therefore, a need to recover the previous pace. Micro businesses are facing severe lack of financing and are solely financed by microfinance institutions, thus reducing significantly their development and migration to more structured and professionalized enterprises. The development of the private sector is also strongly hampered by lack of competeveness of SMEs arising from both inadequate business management skills that hinder productivity, and infrastructure bottlenecks in energy and transport sectors. Other factors affecting private sector competitiveness are insufficient skills of the workforce, rigid labor laws but also access to land issues.

**Table 1: Doing Business in 2012 and 2013 (Rank)**

| Item | 2012 Rank | 2013 Rank | Status - Improvement (▼) |
|---|---|---|---|
| Ease of Doing Business | 122 | 121 | ▼ |
| Starting a business | 129 | 66 | ▼ |
| Dealing with licenses | 122 | 135 | ▲ |
| Registering property | 69 | 64 | ▼ |
| Getting credit | 104 | 109 | ▲ |
| Protecting investors | 139 | 138 | ▼ |
| Paying taxes | 102 | 80 | ▼ |
| Trading across borders | 63 | 95 | ▲ |
| Enforcing contracts | 38 | 35 | ▼ |
| Closing a business | 185 | 189 | ▲ |

Source: AfDB Statistics Department using data from Doing Business,WB

**2.1.15 The main obstacles to investment in Cabo Verde are related to fiscal incentives, quality and labour market regulations and relevance of human capital.** Tax incentives have been introduced to promote private investment and encourage the consumption of some goods. These incentives, however, have resulted in significant fiscal pressure over the last few years. Therefore, the government is considering rationalizing tax incentives to maintain fiscal revenues. Also, the private sector usually complains about the quality and relevance of human capital. Domestic and foreign investors often cite the rigidity of the labour market as a significant constraint. Labour regulations focus more on the protection of the employees and, added to the slow pace of the legal system, impose a high cost on businesses. The rigidity of the labour market explains, in part, the high level of informality and the reliance on foreign workers in sectors such as construction. The quality of human resources is an area to strengthen, with cross-cutting impacts. The education and qualification system still needs to ensure quality levels, based on control systems and unique standards.

*2.1.16 Transport Sector*

**2.1.17 The geographical fragmentation of the country imposes special challenges for transportation and is the source of a strong demand for the development of maritime and air transport modalities that provide inter-island integration.** The vision of the Government of Cabo Verde in the transport sector is to ensure internal and external accessibility of the country so as to boost international service-oriented activities, such as the tourism economy, while ensuring social and territorial cohesion within a framework of sustainable development.

**2.1.18 The maritime transport sub-sector is based on a port system that consists of three major infrastructures capable of handling international trade and passenger flows: Praia, Mindelo and Palmeira.** The infrastructures of Mindelo and Praia have the characteristics of deep-water ports and have processing facilities and storage container traffic. These facilities help ensure not only the integration of the Archipelago into the world but also serve towards the distribution of goods to other islands. The country's geographical location at the crossroads of international shipping lines, is favourable to the development of a "hub" function, more at a regional level than international level. The Cabo Verdean port system is under the responsibility of ENAPOR (*Empresa National de Administraçao dos Portos*), a public company responsible for the management and operation of the ports of Cabo Verde.

*2.1.19* **Cabo Verde has a relatively dense airport network reflecting the heavy weight of air transport in its transportation system.** The country has a dozen airports and airfields, including four international facilities in Sal, Santiago, Sao Vicente and Boavista islands. Cabo Verde National Airline (TACV—*Transportes Aéreos Cabo Verde*) long term financial solvency has been hampered for years by an array of managerial and structural issues such as the lack of economically viable routes and ticket pricing, high labour costs, revenue leakage, lack of appropriate controls and financial reporting, rapid accumulation of arrears, etc. As a result, TACV has been unable to generate revenues not only to refund capital investments but also to finance recurrent costs, demanding frequent on-lending operations. This has resulted in huge fiscal costs to the owner and sizeable contingent liabilities that put under risks the overall financial situation of the public sector. Due to the high fiscal risks that TACV operation generates, there is urgency in TACV restructuring not only to mitigate these risks but also to activate and leverage the company to provide a solid response to the transportation constraint.

*Energy Sector*

**2.1.20 Cabo Verde has a high renewable energy potential, including solar energy, wind and biomass. However, most of the electricity is currently generated through imported fossil fuels**. This represents a heavy burden on the national economy. The country's high dependence on petroleum products is increasing with the demand for electricity, which is growing by 8.1% per year. The installed capacity increased from 82.3 MW in 2010 to 155.8 MW in 2013. The insular nature of the country, the distribution and the density of the population in the different islands are serious obstacles to the development of the electricity sub-sector. Despite improvement in the electricity sub-sector, ELECTRA (*Empresa de Electricidade e Agua*), the electricity public utility, financial results in 2012 were substantially negative and the government needed to transfer resources to ELECTRA to improve its balance sheet. The situation was due to the fact that tariffs are still not fully cost-reflective and collection level low, especially in the southern islands. Corporate reform and regulatory improvements have been implemented to sustain ELECTRA commercial viability, in addition to investment projects that should reduce costs generation.

**2.1.21** The Government’s 2008 National Energy Policy established a target goal of achieving 50% of its electricity from renewable sources by the year 2020. With the implementation of the Cabeólica Project, co-financed by the Bank the share of renewables in the energy mix has increased from 11.6% in 2010 to 21% in 2012. The country recently became more ambitious and is now looking at reaching 100% of its electricity from renewable sources. However, about one billion EUR investment is required for installation of power plants (wind, solar, and biomass) and the relevant storage capacity. Additional studies are still needed such as financial feasibility, environmental and social studies as well as review of the legal and regulatory framework for renewable energy in order to attract the private sector.

***ICT Sector***

**2.1.22 Cabo Verde has had a very positive performance in recent years with regard to information communication technology (ICT) penetration such as Internet and mobile communications.** Nevertheless, communication tariffs are still among the highest in the world. When the ICT market was liberalized in 2005, new competitors entered the market, accelerating the penetration of telecommunication services, primarily in the areas of mobile telephony from 21% in 2005 to 83% penetration in 2012, while the Internet service increased from 8% in 2005 to 38% penetration in 2012. There has also been an increase in the number of ICT service companies from 35 in 2005 to 95 in 2012. The telecommunications sector, including telephones and internet, faces the same management and regulatory challenges as the energy sector. Even if costs have reduced significantly in recent years communication tarifs are still among the highest in the world.

**2.1.23** The country currently has network coverage on its nine (9) islands, thanks to investments in communication infrastructure by both the public and private sector. It also has external connections to two major transatlantic fibre optic cables, the Atlantis II and West Africa Cable System (WACS). The Government aims to create a cyber-island providing services such as business process outsourcing, back office operations and software development and maintenance. The creation of the Technology Park financed by the Bank is a step in the right direction, although the main ingredients for successful implementation of the Government's ICT strategy are not yet in place, given the very expensive rates for Internet access and telephone usage, particularly internationally.

***Social Context***

**2.1.24 Even if Cabo Verde is on track to achieve most of the MDG targets, significant challenges remain.** The country has already achieved four of the eight MDGs, and features among the leading African countries with good social indicators. In particular, it has achieved the education target on most of the islands, and is well on its way to achieving the health sector targets. The literacy rate is currently above 80% and life expectancy has reached 71 years. The main indicators of the health sector are much higher than those of most African countries. The Human Development Index (HDI) stood at 0.568 in 2011, ranking Cabo Verde 113$^{th}$ out of 169 countries. Over the 2000-2011 period, the rating progressed by only 0.6% a year on average. The slow progress challenges the Government to redouble its efforts to improve the population's living standards.

**2.1.25 Robust growth and substantial investments in human capital helped to scale back the poverty rate. However, progress has been uneven, particularly among the different islands and among rural and urban areas.** National poverty rates dropped significantly from 49% in 1990 to 26.6% in 2007. Poverty rates on islands with the best tourism infrastructure, Sal and Boa Vista, are less than half of the national average. Similarly, whereas poverty in urban areas dropped from 25% to 13.2 % between 2002 and 2007, poverty in rural areas decreased only from 51.1% to 44.3%. Therefore, a more equitable development between islands and between rural/urban areas is key for inclusive growth in the country.

**2.1.26 High unemployment, persistent inequality and rising costs of living could lead to social instability.** Unemployment among the youth, who account for 50% of the working-age population, is another issue of concern. The 2010/2011 fiscal recovery plan helped to scale unemployment down from 13.1% in 2009 to 10.7% in 2010. Yet unemployment rose again to 12.2% in 2011 and 16% in 2012, and the plan did not create enough first-job opportunities for young workers. An estimated 20.1% of 15-to-24 year olds were unemployed in 2010, rising to 27.1% or more than twice the overall average in 2011.

*Gender*

**2.1.27 Cabo Verde has made significant progress in gender equality in recent years but some discrimination and violence against women persists.** Women enjoy the same legal rights as men, including rights under family law, property law, and in the judicial system. In 2013, the World Economic Forum (WEF) ranked Cabo Verde 25$^{th}$ among 136 countries in terms of political empowerment of women with respectively 21% of women in parliament and 47% of women in ministerial position. However the country is ranked 96$^{th}$ for economic participation and opportunity of women. Gender disparities in unemployment rates, especially between young men and women, indicate an uneven access to resources. More than a third of women aged 15-24 were unemployed in 2011, well above the 22.1% unemployment rate recorded for men in the same age category. Access to jobs for women in Cabo Verde is especially important to further reduce poverty, considering that households headed by women tend to be one and a half times more likely to be poor than those headed by men.

**2.1.28** Gender is often mentioned in official strategic documents, including the GPRSP. Yet concrete policy actions that directly seek to create a better gender balance or mitigate gender disparities remain limited. The Cabo Verdean Institute of Equity and Gender (IEG) works for the protection of legal rights of women. The Women Jurists' Association (WJA) provides free legal assistance to women throughout the country suffering from discrimination, violence, and spousal abuse. Despite legal prohibitions against sex discrimination and provisions for full equality, including equal pay for equal work, discrimination against women continued. Although the law in Cabo Verde guarantees equal rights to men and women, traditional patriarchal stereotypes on the roles and responsibilities of women and men within the family and society remain deeply rooted and prevent the effective implementation of laws protecting women's rights. In addition the gender situation is not well documented due to lack of relevant data. The Bank envisages contributing in the preparation of a Gender profile for the country in collaboration with UNDP, Spain and Portugal which provide support to the IEG and WJA. The Bank will also promote policy actions that directly seek to create a better gender balance or mitigate gender disparities.

*Water and sanitation*

**2.1.29 Water is a scarce resource in Cabo Verde.** According to the most recent national water balance assessment, 13% of the precipitation seeps into the aquifer while 87% flows on the surface or evaporate. The average annual surface water resources are estimated at 181 million m$^3$, but are difficult to use because of their torrential flow and the lack of adequate storage facilities. In terms of water supply and sanitation, the average coverage is 89% for water supply and 63% for sanitation. However, significant disparities exist between the different islands.

**2.1.30 Reducing pressure on groundwater is a major challenge that the country is facing.** The mobilization of surface water, the rational use of groundwater, wastewater reuse and water conservation offer potential solutions. The National Integrated Water Resource Management Action Plan offers a framework for the rational development of water resources and covering the demand, especially for agriculture, which accounts for nearly 90% of the total water abstraction. The support of the Bank through the African Water Facility (AWF) and other partners aims at improving water security through the development of infrastructures to mobilize water resources (dams) and improve access to drinking water and sanitation. This is supporting the outcomes and results of the Picos and Engenhos Catchment Basins Improvement and Development Project financed by the Bank and completed in 2010. Several donors are involved in the water sector development including JICA.

*Environment and Climate Change*

**2.1.31 Cabo Verde faces adverse climate conditions, and it is highly vulnerable to climate change and extreme weather events.** Historical data and projections show that temperature has increased by 0.6°C between 1960 and 2006, and will continue to increase in the coming decades, with probably a reduction in the rainfall in the wet season. The key productive sectors are vulnerable to climate variability and change, including water resources, the agro-pastoral and forestry sectors, coastal zone infrastructures and tourism, fisheries, energy and transport[8]. This vulnerability is worsened by the social and economic conditions that put severe strain on the already limited and fragile natural resources and ecosystems, increasing the risks of environmental degradation and poverty.

**2.1.32 In the last decade, the Government has made significant efforts to strengthen environmental protection and improve climate resilience[9]**. However, there are still challenges for improving environmental governance, which include sector specific regulations and enforcement, as well as strengthening their institutional capacities. To respond to these challenges, institutional reforms are underway in the country. In terms of mitigation, Cabo Verde is developing an ambitious renewable energy plan to reduce the import of fossil fuels and the costs of electricity generation (see section 2.1.21)[10].

***Regional and Global Integration***

**2.1.33 A member of the ECOWAS, Cabo Verde is also the only island country in the sub-region.** It hosts the West Africa Institute for International Research on Regional Integration and Social Transformations and the ECOWAS Centre for Renewable Energies (ECREEE). However its level of participation in other ECOWAS institutions remains low. Similarly, the volume of trade between Cabo Verde and the other ECOWAS member countries remains insignificant (about 0.1% of Cabo Verde's total trade).

**2.1.34 Integration into the global economy.** Cabo Verde embarked on an active global integration policy. In particular, it has a privileged partnership with EU[11]. In July 2008, it became the 153rd member of the WTO. The country has also a fishing agreement with Japan, and lately it has begun to develop cooperation with China, and India.

**2.1.35 A potential for close economic links with the ECOWAS region.** The country geo-strategic position for international air and sea transportation, and its integration into the global economy offer a great opportunity to strengthen its economic ties with the West African countries and further diversify its economic partners. Cabo Verde's ambition is to become a cyber-island and provide services such as business process outsourcing, call centers, and development of software for export especially in electronic and integrated governance. The country could also become a key player on renewable energy through the establishment of a regional renewable energy observatory (RREO) to collate best practices on renewable energy that are adaptable in the region, serve as a platform for knowledge sharing, provide the scope to standardize and harmonize renewable energy practices, etc.

## 2.2 Strategic Options

### *A. Country Strategic Framework*

**2.2.1** The Government has, since 2003, embarked on the implementation of its Economic Transformation Strategy (ETS), its long-term national development vision that seeks to transform Cabo Verde into an emerging economy. The ETS is based on the utilization of Cabo Verde's geostrategic location to become an international platform/hub for high value added services and to expand its productive base. The idea is to build a competitive, highly diversified and sustainable

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[8] This is further explained in the Climate Fact Sheet that the Bank has prepared for the country, (see Annex XII)

[9] The country ratified the UNFCCC and the UNCCD conventions in 1995, as well as the Kyoto protocol in 2005. It has approved several plans and policy instruments, including the Action Plan on Biodiversity (2000), the Second Action Plan for the Environment (2005), and the National Adaptation Programme of Action (2007). It has also submitted two National Communications to the UNFCCC (2000 and 2010), and has established a proper institutional framework to design and implement both mitigation and adaptation policies.

[10] It has developed the legal framework to allow Independent Power Producers (IPPs) and is aiming to reach 100% of energy from renewable energy (RE) sources by 2020.

[11] In late 2007 it entered into two important and innovative partnerships with the EU: the Special Partnership Agreement (SPA) and the Mobility Partnership. In 2011, it was the first African country to receive "GSP+" status that provides enhanced access by Cabo Verdean goods and services to the European market.

economy through the development of 7 key economic clusters:[12] (i) Tourism: promoting high value added tourism; (ii) Maritime economy: building a maritime economy around fisheries, transshipment, and marine services; (iii) Aero-business: making Cabo Verde a regional hub for air cargo and passengers, duty free shopping, and services for airlines; (iv) Information Technology: building Cabo Verde as a cyber-island, developing and offering services in the ICT sector; (v) Finance: making Cabo Verde a center for financial and investment services; (vi) Creative economy: building an export oriented service industry and services around Cabo Verdean culture and cultural activities; (vii) Agri-business: promoting agri-business activities and enterprises and facilitate linkage with the tourism value chain.

**2.2.2** The Growth and Poverty Reduction Strategy Paper (GPRSP), which reflects the principles of the ETS and those of the Government Programme, is the reference framework for donor operations in the various sectors. The two generations of poverty reduction strategies implemented to date have helped to strengthen human capital and significantly reduce the prevalence of poverty in Cabo Verde. The GPRSP-III (2012-2016) was approved in April 2013. Strong domestic ownership and broad participation characterized its preparation. Its main objective is to transform Cabo Verde into a dynamic, competitive, innovative and inclusive economy. To support the growth and development of the seven ETS key clusters, the GPRSP-III defines five axes of intervention: (i) infrastructure; (ii) developing human capital; (iii) good governance; (iv) support to the private sector, and (v) development of global partnerships. The Bank Group and other international development partners' support is critical to implementing the GPRSP III, which preliminary estimates put the cost of the GPRSP III at CVE 291.6 billion over the five years. Therefore, Cabo Verde's development objectives will rely on prioritization in light of economic returns and contributions to inclusive growth.

***B. Challenges and Weaknesses***

**2.2.3 Macroeconomic risks, public debt and public expenditures management, including public utilities management.** Large fiscal deficits since 2009, prospects of growth slowdown and less concessional financing in the future raise concerns about the sustainability of Cabo Verde's public debt. Also poor quality services, management and financial performance of the public utilities like TACV and ELECTRA remain a big concern for GoCV.

**2.2.4 Infrastructural bottlenecks.** Significant challenges remain especially with respect to cost and quality of infrastructure delivery. Costs of electricity, telephone, internet, water and transport (road, air and maritime) are quite high. Yet, the quality is not particularly good. Notwithstanding the significant public investment the country has made over the last decade, much more is required in terms of the scope, cost, management and quality of infrastructure.

**2.2.5 Human Capacity Constrains.** The quality of education right from pre-school through tertiary education has become a key concern vis-à-vis the vision of economic transformation based on Cabo Verde becoming globally competitive in knowledge driven services. In that sense, the government has already started to implement more vocational and technical schooling programs that are expected to alleviate high unemployment rate among graduated students.

**2.2.6 Constrained Private Sector Environment:** The private sector remains small in size and faces significant constraints: high cost of labour, a rigid and inefficient labour code, high transportation[13] and electricity costs and bureaucratic system.

**2.2.7 Vulnerability to Climate Change.** Cabo Verde's vulnerability to climate change is high. In particular the strongest vulnerability exist in the areas of water management, agriculture and forestry and coastal development (by implication, tourism).

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[12] Government of Cabo Verde, Ministry of Finance (2013). DECRP III, Praia, Cabo Verde.

[13] One of the consequences has been that only 6% of manufacturing businesses have access to foreign markets.

### *C. Strengths and Opportunities*

**2.2.8 A still significant tourism potential.** A sector strategy that is currently being formulated represents a real opportunity for greening the tourism sector, ensuring its long term sustainability, increasing its revenues, improving its benefits for the local people, as well as preserving the natural capital on which the tourism sector is based.

**2.2.9 An ingenious management of relations with the Diaspora estimated at about one million persons.** The peg with the euro and the favorable interest rates made Cape Verdean bank deposits particularly attractive. Diaspora remittances presently constitute a major source of income and foreign exchange earnings for the country. However, further transforming those savings into productive assets remains problematic.

**2.2.10 A geo-strategic position for international transport and a good integration into the global economy.** Situated at the crossroads between Africa, Europe and the Americas, the country intends to take advantage of its geographic position with regard to international air and maritime transport. However, exploiting this asset to the full requires the development of infrastructure up to international standards.

**2.2.11 A potential for the development of renewable energy sources.** The absence of fossil energy and rising oil prices on the international market calls for a rethink of the country’s energy policy and the need to develop its great renewable energy potential.

## 2.3 Aid Coordination/Harmonization and Bank’s Positioning in Cabo Verde.

**2.3.1 Aid Coordination/Harmonization.** Significant progress has been made in the implementation of the Paris Declaration Principles in Cabo Verde, thus strengthening aid effectiveness. Aid to Cabo Verde is aligned with national priorities. For all Development Partners (DPs) interventions, there is role in sharing in the formal institutional structure: the Ministry of Foreign Affairs coordinates the interventions of bilateral donors, while the Ministry of Finance and Planning through the Directorate of National Planning coordinates multilateral cooperation (loans, budget support, and technical assistance). The main partners include: Portugal, USA, EU Institutions, Spain, Japan, Luxembourg, World Bank, The African Development Bank, Netherlands, France and, BADEA (see Annex VI). The Bank has aligned its assistance on the GPRSP priorities and harmonized its activities with Cabo Verde's other development partners, including Japan (JICA) and the ECOWAS Bank for Investment and Development (EBID) within the framework of energy projects. In addition, the use of parallel project implementation units is no longer in practice.

**2.3.2** Since 2006, Cabo Verde’s major bilateral and multilateral donors have harmonized their budget support around a mutually agreed-upon policy matrix, which is based on the government’s current GPRSP[14]. The budget support instrument, which is increasingly taking precedence over project lending in recent years, is used to leverage collaboration with other development partners in the country's public finance management and sectoral support. The BSG members conduct joint reviews twice a year, which reduces transaction costs for the government and promotes harmonization of partners’ procedures and processes.

**2.3.3** The Development Partners Group (DPG) was formally established in 2009 as a platform of dialogue to build a coordinated DPs support to the Government, within the overarching framework of the implementation of the GPRSP and Cabo Verde’s graduation from LDC status as well as against the context of the Paris Principles on Aid Effectiveness. In May 2013, after 3 years of relative inaction the members agreed to resume DPG activities under the UNDP Coordination and to create thematic (sector) subgroups.

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[14] Six donors comprise the Budget Support Group (BSG), which signed a Memorandum of Understanding (MoU) in 2006. The BSG consists of the African Development Bank, the European Union, The Luxembourg Agency for Development Cooperation, the Government of Portugal, the Spanish Agency for International Development Cooperation, and The World Bank.

**2.3.4** The Bank's commitment to the country's transformation agenda has served as the impetus to the quality of the dialogue and partnership with the Government. The strengthening of the Dakar Regional Office (SNFO), which also covers Cabo Verde has helped to foster closer dialogue with the Government and other development partners. In fact, strengthening the team of experts at SNFO helps to further reinforce project monitoring missions and to ensure: (i) sustained stakeholder consultations; and (ii) monitoring of the Bank's portfolio in Cabo Verde.

**2.3.5 Bank's Positioning in Cabo Verde.** The Bank's active portfolio in Cabo Verde as of January 2014 comprises 8 operations: two energy sector projects; the Praia airport expansion and modernization project approved in May 2013; The technology Park project approved in July 2013; three multi-sector operations; and the water and sanitation sector study for net commitments of approximately UA 82.8 million. The sectoral breakdown is as follows: ICT (33.81%), transport (30.7%); multi-sector (18%); energy (16%) and water and sanitation (1.5%).

**2.3.6** The 2009-2012 CSP, approved by the Boards of Directors in October 2009, was aligned on the ETS and GPRSP II. It focused on two pillars, namely: (i) consolidation of the progress made in economic and financial governance; and (ii) contribution to infrastructure development. The mid-term review confirmed the relevance of the two pillars. The 2009-2012 CSP completion report presented to CODE in December 2012 highlighted that the implementation of the Bank's operational programme in Cabo Verde over the CSP period was moderately satisfactory mainly due to postponement of two key projects owing to the delays in their feasibility studies. Following a Government request, the 2009-2012 CSP was extended up to December 2013. As a result, the combined 2009-2013 CSP completion report and CPPR 2013 was presented to CODE in November 2013.

**2.3.7 Portfolio Performance.** During the period 2009-2013, the Bank financed 11 operations for a total of UA 148.57 million, net of cancellations, in following main areas of intervention: multi-sector with budget support programs for the poverty reduction strategy; the energy sector; the water and sanitation sector; transport and ICT. The performance of Bank Group operations was deemed satisfactory on the whole, with an average score of 2.3 out of 3 following the 2013 CPPR combined with the 2009-2013 CSP Completion Report. The portfolio is 1.5 years (from 5.5 years in 2009) old on average with no project classified as at risk (PP or PPP). Time-frames prior to effectiveness have reduced from 11.9 months in 2009 to 8.6 months in 2013 and fulfillment of conditions precedent to first disbursement from 12.3 months in 2009 to 11 months in 2013. The main challenges in the portfolio relate to: (i) timely availability of preliminary and feasibility studies of projects; (ii) weak follow-up of recommended actions for improving the portfolio performance; (iii) strengthening the capacity of agencies and departmental structures in charge of the Bank's operations.

**2.3.8 Key lessons learned from previous CSP implementation and the portfolio performance review have guided the design of this new strategy.** The lessons are detailed in the combined 2009-2013 CSP completion report and 2013 CPPR and include: (i) the need to consolidate investments in the transport and the energy sectors—gaps in infrastructure are still an impediment for private sector development; (ii) the need to enhance the added value of the Bank's interventions in support of reform programmes and investment projects through economic and sector work and technical assistance operations; (iii) the need to enhance private sector interventions and public-private partnership (PPP) initiatives; (iv) the importance of adopting a more flexible approach to meet the specific and changing needs of Cabo Verde as a middle income country; (v) the need for training of executing agency staff to maximize the results of their respective operational programs; and (vi) the need for greater realism in programming as the inability of the Bank and the Government to ensure that projects were implemented on schedule seriously affected the overall effectiveness of the previous CSP.

## III. BANK GROUP COUNTRY STRATEGY FOR THE 2014-2018 PERIOD

### 3.1 Rationale for Proposed Bank Group Intervention

**3.1.1 Cabo Verde is experiencing one of the most critical period in its development trajectory.** On the one hand, the country is structurally vulnerable as a SIDS [15] and has been hit hard by the global financial crisis and the public debt crisis in the Eurozone leading to sluggish FDI, reduced foreign aid, high unemployment rates especially among youth and women, tighter fiscal environment and high public debt levels. On the other hand, it has to address new challenges to avoid the Middle-Income Trap[16]. This requires establishing new bases of sustainable growth through boosting the private sector, diversifying the economy, improving infrastructure efficiency, human resources quality and institutional capacity to compete with success. Also the country's development financing strategy has to be reviewed and redirected towards heavily leveraging private sector funding as well as innovative financing mechanisms and instruments.

**3.1.2 In light of these challenges, Cabo Verde needs the support of all its development partners, including the Bank, to mobilize the required financial resources, technical assistance and advisory services.** The GoCV and the Bank recognize the need to strengthen their cooperation which, over the next five years, will focus on a strategic partnership, based on pertinent and dynamic dialogue. To ensure effectiveness of its action in this MIC and SIDS, the Bank needs to reconcile selectivity and flexibility in its interventions so as to contribute more to the achievement of the country's objectives, namely the transformation agenda, remove infrastructure bottlenecks, develop skills and stimulate the private sector's nascent potential.

**3.1.3 Consultations held with stakeholders (administration, private sector operators, civil society organizations, and development partners) during the CSP preparation concluded on the need to target inclusive and green growth, while fostering synergy and complementarity with other development partners' activities. The Bank's objective for this 2014-2018 CSP is, therefore, to support the Government in its efforts towards laying the foundations for a more inclusive and green growth.** In case of Cabo Verde, key challenges for inclusiveness appeared to be rooted in country's geography (isolated and poorly linked islands with unequal development status), inadequate employment opportunities and gender disparities. Also as further explained in the climate fact sheet (Annex XII), Cabo Verde is highly vulnerable to climate change affecting its sustainable development. In this specific context, the key areas where the Bank would provide support are through infrastructure development (maritime transport and renewable energy) and improved governance. Therefore, taking into account the lessons learned from the implementation of the previous CSP, and the 2013 CPPR the CSP relies on two pillars: **(i) Enhancing and Diversifying Infrastructure for Sustainable Development;** and **(ii) Strengthening Economic Governance in the Public and Private Sectors.** These pillars are well aligned with core priority focus of the GPRSP III, the Bank's Ten-Year Strategy (TYS), the Regional Integration Strategy Paper (RISP) for West Africa, and the Bank's Private Sector Development (PSD) Policy.

***Pillar 1: Enhancing and Diversifying Infrastructure for Sustainable Development***

**3.1.4** This pillar is aligned on the GPRSP-III Axis 1 (infrastructure), 4 (support to private sector) and 5 (development of global partnership). It is also aligned on the Bank's operational priorities 1 (infrastructure development) and 2 (regional economic integration). During the previous CSP, the Bank has contributed to building Cabo Verde's infrastructure in energy, air transport and ICT.

In line with the GPRSP III, the previous CSP mid-term review and completion reports have highlighted that gaps in infrastructure (scope and efficiency) are still an impediment for private sector development. Building infrastructure is a necessary condition to increase productivity and competitiveness and, therefore, promote economic diversification and sustainable development,

15 SIDS face following challenges: high vulnerability to global macroeconomic fluctuations due to their considerable degree of openness and global integration; heavy reliance on an undiversified set of economic drivers; a small domestic labor pool and consumer market that limit the potential for economies of scale; high unit costs of core infrastructure and public goods arising from indivisibilities in public goods supply; and significant exposure to natural hazards and environmental degradation.

16 The Middle-Income Trap occurs when a country's growth plateaus and eventually stagnates after reaching middle-income levels. The problem usually arises when developing economies find themselves stuck in the middle, with rising wages and declining cost competitiveness, unable to compete neither with advanced economies in high-skill innovations, nor with low income, low wage economies in the cheap production of manufactured goods.

including jobs creation and improving the quality of life of families. Pillar 1 will focus on development and improvement of critical infrastructure in the maritime transport and energy sectors where serious gaps have been identified.

**3.1.5** The projects identified for this pillar will support competitiveness cluster 4 (Maritime Economy), improve maritime connection to mainland and contribute to regional integration with ECOWAS, and increase electricity generation capacity. Accessibility and connectivity to ECOWAS larger markets will contribute to address the slow growth and to diversify the productive base. In addition, Cabo Verde vulnerability to climate change arises from being both a SIDS and an arid Sahel country. The Bank plans to support Cabo Verde in transitioning towards climate resilient development in order for the country to better mitigate climate risks and ensure sustainability of its investments.

**Box 2: Promoting Economic Growth while Insuring Debt Sustainability**

The global financial crisis and the Eurozone sovereign debt crisis have dampened Cabo Verde's growth performance. At the same time, counter-cyclical policies undertaken to mitigate the crisis have led to widen fiscal deficit and heightened debt sustainability risks. As a new MIC, Cabo Verde faces challenge to keep growing and move expediently to higher levels in the income ladder, which needs additional investment to ensure sustained growth. But the country also has to ensure macroeconomic resilience, which greatly depends on the adoption of strong fiscal consolidation to curb increasing indebtedness.

Due to limited space on the revenue side, to attain fiscal consolidation objective, the Government has to operate substantial cuts in the investment programme, postpone non-essential projects, strengthen the governance of public enterprises and limit their drain on the general government budget, and accelerate the reform agenda for a greater participation of the private sector in the management of infrastructures. Through pillar 2, the Bank will promote: (i) public investment program prioritization and rationalization; (ii) improvement and modernization of the management and operations of SOEs, thus helping to reduce the burden on the State budget and corresponding risks on public finances. In addition, the Bank will assist the country to better leverage private sector funding as well as innovative financing mechanisms and instruments, including mobilizing resource through PPPs.

To partially avoid the middle-income trap, the country has to find new sources of growth by diversifying its production base. This needs additional public investment to bridging the infrastructure gap. Therefore policies aiming at reducing the debt burden need to include strategies for growth acceleration. Phasing out of the public investment program should occur gradually in order to mitigate potential negative effects on economic growth. Through pillar 1, the Bank will support development and improvement of critical infrastructure in the maritime transport and energy sectors where serious gaps have been identified. The Bank's approach is to finance public projects that contribute to economic diversification, opening up space for the involvement of the private sector, and strengthening the growth drivers.

Looking closer at the debt trajectory resulting from the DSA exercise, it is noticeable that from 2016 onwards there is a downward tendency (See Graph 5). This trajectory reflects the phasing out of some public investment projects, thus creating space for private sector investment. In parallel, considering the constraints expected from the phasing out of the traditional financing model, the Government aims to negotiate infrastructure concession contracts and establish Public Private/Project Finance partnerships so as to promote a heightened private sector role and participation.

***Pillar 2: Strengthening Economic Governance in the Public and Private Sectors***

**3.1.6** This pillar is aligned with elements of GPRSP-III axis 2 (developing human capital), 3 (good governance) and 4 (support to private sector). It is also aligned with the Bank's operational priorities 3 (private sector development), 4 (governance and accountability) with an emphasis on gender equity. In spite of the reforms already implemented, the private sector remains small in size and still faces significant constraints.

Pillar 2 will focus on supporting reforms pertaining to private sector development and entrepreneurship, and efficient and conducive business environment. The Bank will support the Government to take specific measures to enhance the overall business and investment climate thus stimulating private sector competitiveness including for SMEs, and to support economic diversification. The Bank will also strive to avail adequate instruments and products in supporting entrepreneurship.

**3.1.7** Pillar 2 will also focus on supporting reforms pertaining to fiscal consolidation, enhancing public investment management and public service delivery efficiency. Due to the significant fiscal constraints it currently faces, over the coming years the GoCV will need to continue to tighten its fiscal management and improve the cost-effectiveness of its spending. Streamlining public expenditure will help to preserve debt sustainability and restore budgetary flexibility. The country also has to improve the quality of its infrastructure and services. The Bank will promote (i) public investment program prioritization and rationalization, and (ii) improvement and modernization of the management and operations of SOEs.

**3.1.8** In addition, the pillar will promote a better monitoring and evaluation system and an efficient mobilization of resources through public private partnerships (PPPs). Based on its recent MIC graduation, Cabo Verde will increasingly resort to non-concessional loans[17].

**3.1.9** In collaboration with other partners, the Bank will contribute towards gender equality promotion in Cabo Verde by providing resources and technical assistance for knowledge management. In addition, through budget support operations, the Bank will promote (i) women's access to employment; (ii) eliminating discriminatory practices concerning gender differences in salaries and recruitment practices; and (iii) increasing the number of women, girls and youth participating in the private sector development and entrepreneurship.

## 3.2 Expected Results, Deliverables and Targets

### *3.1.1 Pillar 1 will have five outcomes:*

*Outcome 1.1: Consolidating territorial integration and facilitating movement of goods, services and people*. Cabo Verde geographic discontinuity is translated in high transport costs. The ten islands are spread out over a large area. The GoCV is striving to establish a reliable inter-island transport system in order to strengthen economic linkages among islands and reduce transportation and storage costs thus supporting inclusive growth. Two seaport projects in Maio and Sao Nicolau islands, financed by the Bank, will contribute to the development of the maritime economy and tourism clusters by providing a new terminal for passengers and a cargo zone and creating appropriate conditions/facilities to support the fishing industry and the recreational boating and sea-tourism activities. The Bank will also contribute to rehabilitate the fishing port of Mindelo.

*Outcome 1.2: Positioning Cabo Verde as a regional hub for transshipment and improving maritime connection to mainland.* The development of deep-sea port in Mindelo (Sao Vicente Island) with support from the Bank's private sector window will further increase economic interactions of islands among themselves and between them and the mainland. Also within the PIDA Priority Action Plan (PAP)[18] the Planned Praia-Dakar-Abidjan Multimodal Corridor will improve maritime transport and the connection between Cabo Verde and mainland countries by creating a new maritime service between regional ports and facilitating this with a modern information system to link ports and road services in the Dakar-Abidjan corridor[19]. This will further support inclusive growth.

*(Outcome 1.3) Improving access to renewable energy.* The Bank will support investments in renewable energy to promote green growth, while significantly reducing the cost of doing business. Also, projects to increase electricity production capacity (thermal power plants in Maio), and to restructure the distribution network and efficiency are envisaged to achieve best energy mix suited to Cabo Verde by 2020. Targeting islands with lower energy production capacity will contribute to inclusiveness and green growth. The Bank will promote private-sector led initiatives that contribute to developing renewable electricity production, through innovative financing products and technical assistance to local service providers, with the aim of creating a self-sustaining renewable energy market. During the implementation, the gender dimension will be taken into consideration, for making sure that, men and women have equal opportunities to access the renewable energy.

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17 As a recent graduate to category C, a five-year transitional period (2011-2015) was granted to Cape Verde to continue benefiting exceptional access to the ADF. During this period, the country has access to both ADB and ADF resources. ADF phasing out is ending in 2015. The expected allocation to the country from the ADF XIII cycle is therefore very limited. As such, the amount of resources at its disposal on the ADB window will be determined by the sustainable lending limit (SLL) and will take into account the Bank's equity adequacy framework and the risk exposure management policy with the achievement of the CSP objectives over the 2014-2018 period.

18 The PIDA's PAP presents actionable projects and programmes that promote sound regional integration between 2012 and 2020.

19 This program would also modernize one of the most heavily travelled African Regional Transport Infrastructure Network (ARTIN) corridors in West Africa (trade facilitation, OSBPs, capacity enhancement possibly through PPP) for eight countries: Cabo Verde, Senegal, Gambia, Guinea-Bissau, Guinea, Sierra Leone, Liberia, and Cote d'Ivoire.

*(Outcome 1.4) Enhancing Climate Resilience.* In line with the national climate change adaptation policy, the Bank will support Cabo Verde in its transition towards climate resilient development. This will be done through: integrating climate risks mitigation in all new projects[20], especially in the infrastructure sector; strengthening the national policy framework for water resource management; and supporting the collection and analysis of economic and environmental statistics and climate data. Such interventions will be critical to ensure the long-term sustainability of the planned investments for transitioning towards climate smart development.

*(Outcome 1.5): Gender is mainstreamed in Infrastructure*: The Bank will ensure that gender is adequately mainstreamed in its support for infrastructure development. Towards this end, all infrastructure development interventions to be financed by the Bank under this strategy will include adequate measures to promote gender. This initiative will also be supported by the planned activities, aimed in particular at strengthening the national monitoring and evaluation systems and preparing a gender profile (cf. outcome 2.4).

### *3.1.2 Pillar 2 will have four outcomes:*

*(Outcome 2.1) Enhancement of overall Private sector competitiveness, entrepreneurship and skills development.* The Bank will promote reforms for improving the business climate through Budget Support. The Bank will also continue to support the Government to put in place a network of business incubators. In addition a MIC Trust Fund project will focus on reforms to adapting the skills provided by the education and training systems to the needs of the labour market. Efforts will be made (i) to support the employability of young graduates by improving the quality of higher education and supporting the vocational and technical training system; (ii) to improve women's access to education, especially in sciences and ICT, and employment and to eliminate discriminatory practices concerning gender differences in salaries and recruitment practices. All these actions will contribute to improving the inclusiveness of Cabo Verde economic outcomes and FDI attraction.

*(Outcome 2.2) Fiscal Consolidation, Public Investment Management and Service Delivery Improvement.* Through budget support, the Bank will promote budgetary consolidation to slow debt-burden growth, reduce the Government's total financing needs over the medium term, and mitigate the likelihood of debt distress. This will include (i) monitoring both the financial performance of SOEs and the quality of their service delivery, and (ii) gradually scaling back the public investment program. Reforms in SOE's oversight will mitigate the risks coming from contingent liabilities. Also redefining relations between the State and SOEs for better public services is critical for the development of the GPRSP III economic clusters. All this will contribute towards macroeconomic stability necessary for the inclusive growth.

*(Outcome 2.3) Resources Mobilization.* The Bank will support Cabo Verde to mobilize resource through PPPs, to structure finance for some infrastructure projects and to develop valuable expertise in negotiating and supervising PPP agreements for major infrastructural investments. These are complex and demanding transactions, involving detailed research and preparation. Building up a country's administrative and technical capacity to manage these new financing modalities and to implement the infrastructural investments is critical for achieving value for money and high quality results. Also the Bank will assist the country to better leverage resources from its large diaspora remittances and to transform these resources into productive assets. The Bank will also mobilize climate finance for co-financing its lending operations; co-financing will be sought for renewable energy investments with the Sustainable Energy Fund for Africa (SEFA), and for climate resilient projects through the GEF and the Nordic Development Fund. Improved resources mobilization will give the GoCV more means to implement its inclusive and green growth program.

[20] This will be done through the new Bank's Integrated Safeguard System.

*(Outcome 2.4) A Gender-Sensitive M&E System is Developed.* Lack of actual statistics in general, and poverty and gender desegregated data and national accounts in particular, pose serious challenges to monitoring and analyzing socio-economic developments, as well as formulating policy responses. The Bank will contribute to strengthening the national monitoring and evaluation systems through support to the national statistical system (see Box 3), preparation of a gender profile, and conducting a national study evaluating the opportunity cost of gender inequalities to the GDP. It is also envisaged to provide technical assistance to INE, the Ministry of Finance and the Central Bank (BCV) to restructure the forecasting system and to design tools that will help the national planning system to monitor the implementation of the GPRS-III. In its support to the national M&E systems, the Bank will also put strong emphasis on the gender-related components based on the gender profile. The improved gender sensitive monitoring system will contribute to the inclusiveness of Cabo Verde growth process.

**Box 3: Monitoring & Evaluation and Statistics**

In Cabo Verde, quality statistics is critical for an efficient Monitoring and Evaluation (M&E) system of the GPRSP III. GoCV and the INE are committed to improve on statistical production, process and institutional arrangements. The statistical agenda (SNDS) over the period 2012-2016 is well aligned with the GPRSP III and its total cost over the 5 years amounts to EUR 20 Million or 0.7% of the GPRSP III total cost. However, in this period of scarce resources, the implementation of the statistical agenda is lagging behind.

Through its Regional Statistical Capacity Building Program (SCB), the Bank has been providing technical assistance to INE since 2003 in areas such as national accounts, price statistics and data development and dissemination platforms (Open Data and Data portal) in the framework of Bank's Information Highway Initiative. Within the 2014-2018 CSP, the Bank will continue to provide its technical assistance and in addition contribute to two key operations: poverty households' survey (US$ 1.23 million) and agricultural census (US$ 1.2 million). The total cost amounts up to US$ 1.8 million for the Poverty Survey and US$ 5 million for the Agriculture Census. Other contributions are expected from the Government and partners. The two operations will also contribute to provide quality statistics on gender.

## 3.2 Indicative Work Programme

***3.2.1*** In line with the strategic pillars proposed for this CSP, the Bank will support the Government in its reform efforts and in the implementation of sector strategies through an indicative work programme, which was defined jointly with the Cabo Verdean authorities (see Annex II & III). To ensure selectivity and complementarity, the Bank's intervention takes into account the focus areas of other partners operating in the same sectors. Especially, the Bank will work closely with the World Bank and EU to promote reforms within a common Budget Support matrix. Close collaboration with Luxembourg Cooperation, European Union and other partners will be envisaged in renewable energy and vocational training sectors. The work programme combines both lending and non-lending activities. To maintain Bank flexibility, these will be reviewed during the mid-term review to cope with changing conditions and Government priorities.

### *Lending Operations*

***3.2.2*** The Bank Group will deliver its assistance through various modes including budget support, stand-alone local projects and private sector support. In all these modes of financing, the Bank will utilize and support improvements in country systems. In order to support the improvement of the business climate and the development of PPP initiatives, the Bank will explore the possibility of direct interventions in the private sector.

**Box 4: Proposed Economic and Sector Work**

- Economic cooperation and Cabo Verde integration into the ECOWAS region
- Growth and Poverty Reduction in Cabo Verde
- Transport Infrastructure New Model of Management
- Transforming diaspora transfers into productive assets and Investment: Profile for Cabo Verde Migrants
- Gender Profile
- Opportunity cost of gender inequalities to the GDP

*Non-lending Operations*

***3.2.3*** In line with lessons learned from the 2009-2013 CSP, to complement the proposed and on-going lending operations (see Annex IV) as well as respond to emerging country demand for knowledge work, the Bank will consider the extent to which it can better leverage available trust funds and grants money to provide a package of technical assistance, targeted analytical work, advisory services and institutional strengthening. Correspondingly, planned Economic and Sector Work (ESW) will inform Bank-supported programs and Government policies, and assess progress in reforms. Critical studies have been identified to support the preparation and implementation of different projects and technical assistance. In addition, specific actions will be identified in support to SMEs access to finance.

### 3.3 Monitoring and Evaluation of the Bank Strategy

3.4.1. The CSP Results Measurement Framework is anchored in the national M&E system. Annex I provides a set of indicators to measure the output and outcomes of Bank's support under this CSP. They will serve as basis for monitoring the CSP implementation and progress towards achievement of Cabo Verde's ETS's and GPRSP III's targets. The proposed M&E framework consists of specific output and outcome indicators drawn from the GPRSP III Policy Matrix. To facilitate results measurement, M&E systems will be mainstreamed in all Bank Group operations through the use of the Execution Reports of the GPRSP-III monitoring matrix. The participatory process that has made it possible to anchor this strategy more firmly on Cabo Verde's priorities will be pro-actively intensified during its implementation in order to achieve sustainable results.

3.4.2. Consistent with the results agenda, the Bank has prepared a Country Statistical Profile (CStP) for Cabo Verde to evaluate the national statistical system and identify potential areas of assistance. The Profile will serve as an important instrument of dialogue with GoCV and DPs for coordinated statistical development in the country. The Bank will contribute to address the weaknesses in the national statistical system through the provision of technical and financial support to INE (see Box 3).

3.4.3. The Bank will undertake a Mid-Term Review (MTR) of the CSP in 2016. It will assess progress and make necessary adjustments to ensure the achievement of the desired results in the remaining CSP period. The MTR will also draw inputs from the GPRSP-III Annual Progress Reports and MDG Reports. A CSP completion report will be prepared in 2018.

### 3.4 Potential Risks and Mitigations

**3.4.1 Capacity constraints may stall design or implementation of reforms including the efforts to maximize the benefits from PPPs.** This is a major constraint that has affected the limited Bank operations. Moreover, all the reforms being put in place require the existence of qualified technical staff in many sectors. To address this shortcoming, the Bank will work closely with the Government to provide technical assistance to train Cabo Verdeans in key skill areas.

**3.4.2 The level of political will and power of the country's leaders to quickly push through major reforms over the interests of established interest groups is another potential risk**. Financial and technical support from the Bank Group depends on the economic reform program implementation and on the macroeconomic and fiscal stability. The Bank Group will liaise closely with the authorities and other partners to monitor developments to ensure that potential problems are identified and addressed in a timely manner.

**3.4.3 The third risk is related to the instability of the international financial markets and the debt crisis,** particularly in the Eurozone which, if they persist, could undermine the country's recovery due to its strong link to that zone. This risk could be mitigated by implementing sound macroeconomic and sector policies towards diversification so as to maintain the economic growth potential.

## 3.5 Country Dialogue Issues

3.5.1 **Portfolio Performance:** The overall performance of the Bank's active operations in Cabo Verde is deemed satisfactory. However, some infrastructure projects experienced delays and schedule slippages. Further efforts from the Bank, project executing agencies and the Government are needed to speed up the implementation of projects. The Bank will continue dialogue with the Government to emphasize on improvement of portfolio performance and development impact.

3.5.2 **Enhancing Regional Integration:** An increase in the economic cooperation and integration into the ECOWAS region will be an important and necessary condition to facilitate the transformation of Cabo Verde into a regional hub for high value added services. The Bank Group will maintain dialogue with the Government with a view to assisting the country to effectively harness prospects and opportunities, as well to mitigate the challenges of regional cooperation and integration.

3.5.3 **Improvement of the business climate**. The Bank will intensify dialogue on the private sector support policies and public-private consultation on the country’s key economic options. Issues relating to PPP initiatives, local areas of jurisdiction and powers and reforms aimed at reducing regulatory impediments to private sector development will be addressed. Furthermore, the Bank will lay emphasis on the need to strengthen coordination and consistency of sector strategies.

# 4 CONCLUSIONS AND RECOMMENDATIONS

4.1 **Conclusion:** Cabo Verde remains a model for political rights and civil liberties in Africa. In addition, the Government is committed in undertaking reforms in economic and financial governance for the implementation of the GPRSP-III that focuses on transformation, competitiveness, economic sustainability and poverty reduction. However, the country’s economic performance continues to be undermined by the economic and financial crisis around the globe, and in the Eurozone in particular. The country is also at crossroads and faces new challenges, including how to avoid the Middle-Income Trap, which requires new bases of growth and a much higher level of economic and institutional capacity to compete with success.

4.2 The Government is well aware of the challenges and opportunities ahead, and has requested the Bank’s support to address them. To assist the country in meeting these challenges, the Bank’s strategy objective for the 2014-2018 CSP is to support the Government in its efforts towards *laying the foundations for a more inclusive and green growth.* The CSP will lay emphasis on two pillars: *(i) Enhancing and Diversifying Infrastructure for Sustainable Development; and (ii) Strengthening Economic Governance in the Public and Private Sectors.*

4.3 **Recommendation:** The Board is invited to consider and approve the strategy proposed in this Country Strategy Paper for Cabo Verde for the 2014-2018 period.

# Annex I: Cabo Verde 2014-2018 CSP Results-Based Monitoring Matrix

| Development Goals (ETS/GPRSP III) | Issues hindering the achievement of Development Goals | FINAL OUTCOMES (expected by the end of the CSP in 2018) | FINAL OUTPUTS (expected by the end of the CSP in 2018) | MID-TERM OUTCOMES (expected at CSP Mid-Term by 2016) | MID-TERM OUTPUTS (expected at CSP Mid-Term by 2016) | Bank's Interventions expected to be ongoing during the CSP period |
|---|---|---|---|---|---|---|
| ***PILLAR I: Enhancing and Diversifying Infrastructure Development for Sustainable Development*** | | | | | | |
| **Transport** | | | | | | |
| **The provision of a duly articulated and integrated intermodal system of transport that offers reliable, safe quality services** | Low transport capacity and high transport cost, notable that of inter-land transport<br><br>Lack of unified market | **Increased efficiency of inter-island movement of goods and people.**<br><br>Increased rate of international, intra-regional and domestic air traffic<br><u>Indicator</u><br>*The country's total air traffic, From 1.85 million PAX* in 2011 to *3 million PAX* in 2018<br><br>Increased capacity and efficiency of Praia airport (Santiago)<br><u>Indicator</u><br>• *No. of passengers handled per hour (% of women), From* 400 in 2012 to 700 in 2018<br>• *Average time taken to complete (a) departure process (check-in and security) From 2* in 2012 to1 in 2018; *and (b) arrivals procedures (immigration, customs and baggage), From 2* in 2012 to1 in 2018 | - Maio and Sao Nicolau sea port projects construction 100% completed<br><br>- Fishing ports rehabilitation project in Mindelo and Praia 100% completed<br><br>- Praia Airport: Construction 100% completed. | *Average time of air shipment of 100Kg of freight between Island (3most transited routes), From 16h* in 2012 to 10h in 2016 | - Maio and Sao Nicolau sea port projects construction 30% completed<br><br>- Fishing ports rehabilitation project in Mindelo and Praia 25% completed<br><br>- Praia Airport: Construction 80% completed. | **Proposed:**<br>- Seaport project in Maio and Sao Nicolau<br>- Fishing ports rehabilitation project in Mindelo and Praia<br>- Transport Infrastructure New Model of Management Study<br><br>**On going:**<br>- Praia Airport (Santiago) Expansion and Modernization |
| **Cabo Verde established as a regional hub for container transhipment** | Infrastructure bottleneck (deep-sea port) | **Capacity of Cabo Verde established to competitively manage transshipment of maritime freight.**<br><u>Indicator</u><br>• *Average number of days required to transship a 40ft container of dry goods., From* 6 days in 2012 to 4 days in 2018<br>• *Number of steps required to process the transshipment of a container. From* 10 in 2012 to 6 in 2018<br><br>**Increased movement of goods and people between Cabo Verde and ECOWAS region**<br>• *Number of boats per month from Cabo Verde to other ECOWAS countries*<br>*From* 0 in 2012 to 3 in 2018 | Deep-sea port Construction 80% completed.<br><br>Capacity of ENAPOR, Mindelo port and other relevant agencies developed to deliver competitive maritime transshipment services.<br><br>- Praia-Dakar-Abidjan Multimodal Corridor/Regional Project 100% Completed | | - Signature of concession between a Private Sponsor and the Government<br><br>- Mindelo Deep-sea port Construction 20% completed.<br><br>- Praia-Dakar-Abidjan Multimodal Corridor / Regional Project 30% Completed | **Proposed:**<br>- Deep-sea port development (Mindelo)<br><br>- Praia-Dakar-Abidjan Multimodal Corridor / Regional Project<br><br>- Building ENAPOR and other relevant agencies capacity to manage transshipment of maritime freight |
| **Energy** | | | | | | |
| **Increase Improve and Diversify Energy Supply Source** | Inefficient energy services and high costs | **Increased level of population access to an affordable and sustainable electricity supply.**<br><u>Indicator</u><br>• *% of population connected to grid* | - Increased electricity generation using renewable energy sources.<br><u>*Indicator*</u><br>*Total installed generation capacity using* | Increased efficiency of the electricity production and distribution system. | - Increase electricity production capacity 15% from 2012 and 2016 | **Proposed:**<br>- Thermal power plant of 5 MW in Maio island<br>- Renewable Energy |

| Development Goals (ETS/GPRSP III) | Issues hindering the achievement of Development Goals | FINAL OUTCOMES (expected by the end of the CSP in 2018) | FINAL OUTPUTS (expected by the end of the CSP in 2018) | MID-TERM OUTCOMES (expected at CSP Mid-Term by 2016) | MID-TERM OUTPUTS (expected at CSP Mid-Term by 2016) | Bank's Interventions expected to be ongoing during the CSP period |
|---|---|---|---|---|---|---|
| | High Dependence of country on fossil energy imports<br><br>High technical and non-technical losses | *electricity (*increase of 10% *women households), From* 87.1% in 2012 to 95% in 2018*% of total electricity supply sourced from renewable sources, From* 21% in 2012 to 60% in 2018:<br>Increased efficiency of the electricity production and distribution system.<br>Indicator<br>• *Average number of hours per day of continuous supply (average for all 9 islands), From* 20 h in 2012 to 22,5 h in 2018:<br>*Average cost of electricity (CVE/Kwh) (as % of ECOWAS average), From 33.03* in 2012 to 25 in 2018 | *renewable energy sources, From* 8,400Kw in 2012 to 20,000 Kw in 2018: *Average utilization rate (%) of installed generation capacity. From 44%* in 2012 to 65% in 2018<br>- Improved physical efficiency of the electricity transmission system.<br>*Indicator*<br>*% physical losses from distribution system, From 26%* in 2012 to 10% in 2018 | Indicator<br>*Average number of hours per day of continuous supply (average for all 9 islands), From 20h* in 2012 to 21h in 2016*Average cost of electricity (ECV Cents/Kwh) (as % of ECOWAS average), From 33.03* in 2012 to 30 in 2016 | - Support the interconnection of inter-island electric grids,<br><br>- Reduce technical and non-technical losses, *From 26%* in 2012 to 15% in 2018: | Project<br>- Renewable energy Implementation plan Study<br>**On going:**<br>- Project for electricity interconnection, distribution and transmission between the 6 islands<br>- Santiago Island Electricity Improvement Project |
| **ICT** | | | | | | |
| **Building Cabo Verde as a cyber-island, developing and offering services in the ICT sector** | High costs of telecommunication Small stakes of national companies in the ICT sector Insufficient investment in the ICT | **Increased importance of ICT in the economy.** Job creation, build local capacity and increase ICT contribution to the economic growth in a sustainable manner<br>*Indicators*<br>*- % contribution of ICT sector to total GDP, From* 0.7% in 2012 to 2% in 2018*- Total number of people employed in the ICT sector From* 321 in 2012 to 1014 in 2018 *(50 % women)*<br>*- Internet penetration, From 27%* in 2012 to 50% in 2018 (increase of 20% of women using internet and other ICT services)<br>*- Internet speed, From* 1 Gbps in 2012 to 10 Gbps in 2018 | - Technology Park operational<br>*Indicators*<br>*- Number of startups and new business From* 95 in 2012 to 186 in 2018 *(50% of SMEs lead by women,- No. of annual customers with access to advanced ICT/business facilities. From* 1000 in 2012 to 2000 in 2018 *(50 % of women) - No. of population trained and certified From* 22 in 2012 to 150 in 2018 *(50 % of women).* | | - Data Centre Construction 50% completed.<br>- Partnership with anchor international companies to be able to provide the competitive, innovative and added value ICT services<br>- Take advantage of the accumulated experience acquired by NOSI to launch ICT products and industries | **On going:**<br>- Praia Technology Park |
| **Environ. &Water** | | | | | | |
| **Water supply and sanitation improvement and fight against climate change** | Water supply threatened by climate change: low rainfall and salination of water table | -The poverty rate decreased from 21% in 2010 to 15% in 2018 (% of women)<br>- Jobs created in rural areas through greater redistribution and development of agricultural land (increase of 20 % of women owners of the land titles)<br>-Agricultural production is increased through the increase of cultivated land areas and the use of more efficient irrigation techniques. (increase of 20 % of women in modern agriculture)<br>-The legal framework for water resources management is reinforced and operational. | National policy framework for water resources management implemented. | - At least 2,000 families identified, ready to develop irrigated perimeters (30% of households headed by women)<br>- Land irrigated increases by 500 hectares<br>- At least 5 operational watershed management committees | - Water Resource Mobilization Study completed<br>- A strategy on water resource mobilization in Cabo Verde is designed<br>- Improved availability of water resources management data and analysis for policy-making. | **On going:**<br>- Water Resource Mobilization Study |
| | | | | | | |

| *PILAR II: Strengthening Economic Governance in the Public and Private Sectors* | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | |
| **Business climate** | | | | | | |
| -Improve access to financial services, skills and technology for SMEs | Business climate not conducive to private sector development. | **Enhancement of overall Private sector competitiveness, entrepreneurship and skills development**. Improved performance of the micro, small and medium enterprise sectors.<br><u>*Indicator*</u><br>• *No. of new SMEs registered, From 360* in 2012 to 1000 in 2018 *(40 % led by women)*<br>• *% of SMEs established in the last 2 years which are still operating, Increase of 20% from* 2012 to 2018: *(40 % led by women)*<br>*Number of SMEs which have increased their turnover (by at least 5%) in the last year (Increase of 20% from* 2012 to 2018: *40% led by women)* | Reduced level of tax administration burden on SMEs.<br><u>*Indicator*</u><br>• *Average time required to submit small enterprise tax returns, from* 3 months in 2012 to 2 months in 2018:<br>*Average time taken for GoCV to process small enterprise tax returns, From 9 months* in 2012 to 4 months in 2018:<br><br>Improved level of state support for small enterprise start-ups in non-traditional sectors.<br><u>*Indicator*</u><br>*Number of recently established SMEs provided with business support services (% led by women), from ?* in 2012 to ? in 2018: | Improved enabling and investment environment for micro, small and medium enterprises.<br><u>*Indicator*</u><br>• *Number of small and medium enterprises registered per year (a) overall b) In non-traditional exports sector) (% led by women., from ?* in 2012 to ? in 2018:<br>• *Total number of employees (FTE) employed by SMEs (a) overall From* 53,394 in 2011 to 70,000 in 2018 *(40% of women),* | • Tax reform MIC grant project<br>• Budget Support (PAGEPPI & II) Condition 1: Adoption of a decree to operationalize the 2012 General Investment Code Law.<br>Condition 2: Adoption by cabinet of Special Regime for Micro and Small Enterprises.<br>Business incubator MIC grant project | **Proposed:**<br>- Budget Support (PAGEPPI II)<br>- Tertiary education reforms and jobs creation<br>- Study on Economic cooperation and Cabo Verde integration into the ECOWAS region<br>- Opportunity cost of gender inequalities to the GDP<br><br>**On going:**<br>- Capacity Building Grant for Micro, Small and Medium-Sized Enterprises Development through Business Incubators (Phase I )<br>- Praia Technology Park Project |
| **Consolidation of the macroeconomic framework** | **Poor financial management and performance of public utilities** | **Public service delivery Improvement.** Improved financial performance of State Owned Enterprises (SOEs)<br><u>*Indicator*</u><br>*Total value of government annual transfers (subsidies) to 5 biggest (SOEs* ASA, ELECTRA, ENAPOR, IFH, TACV).<br>*Total level of debt of 5 biggest SOEs (*ASA, ELECTRA, ENAPOR, IFH, TACV).<br>*Total value of private sector investment in a) Electricity production/distribution; b) air transport; c) Port services d) WatSan*<br><br>**Macroeconomic stability**<br>- Budgetary balance less than or equal to 1% of GDP<br>- Maintaining inflation at less than 3%<br>- Maintaining the external debt ratio- GDP growth rate: 5% | Government's capacity to regulate and govern SOEs strengthened.<br><u>*Indicator*</u><br>*Number and quality of GoCV-SOE performance contracts and performance assessments.*<br><br>Increased capacity of GoCV to plan, appraise, prioritize public investments | Increased quality of government's oversight of SOEs.<br><br><u>Indicator</u><br>*Quality of approved SOE business plans*<br>*Quality of regulatory instruments (tariff policies etc.)*<br>- Budgetary balance less than or equal to -4.3% of GDP<br>- Maintaining inflation at less than 3%<br>- Maintaining the external debt ratio Domestic debt/GDP maintained at less than 20%.<br>- GDP growth rate: 5% | Budget Support (PAGEPPI I & II)<br>Operationalization of the GoCV's unit for management of state participation in SOEs.<br>Signature of performance contracts between GoCV and SOEs. | **Proposed:**<br>- Budget Support (PAGEPPI II)<br><br>**Ongoing:**<br><br>- Budget Support (PAGEPPI)<br><br>- Efficient Tax and Revenue Administration for Improved Business Life-Cycle Services in Cabo Verde |
| | | | | | | |
| **Strengthen the role of the state as the main** | Lack of institutional framework to accelerate the use of | **Increased proportion of public infrastructure investment financed through PPPs.** | Increased capacity of GoCV to design and implement successful PPPs to support | Increased efficiency of state management of | Budget Support (PAGEPPI) | **Proposed:**<br>- Institutional, Regulatory and Capacity Building |

| | | | | | | |
|---|---|---|---|---|---|---|
| **facilitator and regulator agent for participation of Private Sector in key strategic sectors. Rationalization of the state structures and improving practices of evaluation and selection of public investment projects.** | PPPs in Public Investment programme<br><br>The private sector is still inadequately involved in the implementation of national strategies. | *<u>Indicator</u>*<br>90% of Public Investment Projects assessed as 'good' or better in terms of achievement of targeted results.<br>Total value of private-sector financing mobilized as participation in Public-Private Partnership projects<br><br>Increased effectiveness of public investments. | priority public investments.<br>*<u>Indicator</u>*<br>• *PPP unit established and operating satisfactorily.*<br>• *Number of PIPs designed as PPPs: 2*<br>*Number of PIPs implemented as PPPs (at least 35% private financing: 2*<br>Increased capacity of GoCV to plan, appraise, prioritize, and M&E public investments.<br>*<u>Indicator</u>*<br>*90 % of PIPs covered by project appraisal and results monitoring systems.* | public investments<br><br>*<u>Indicator</u>*<br>• *% of monitored PIPs implemented within original budget and schedule (From 70% in 2012 to 80% in 2016.*<br>• *1 project designed as PPPs which succeed in attracting private sector partners.* | Condition 1:<br>Review and rationalization of PIP portfolio – identifying projects susceptible to being financed by the private sector.<br>Condition 2:<br>Establishment of PIP appraisal (ex-ante evaluation) and M&E system | Assistance for PPPs Mobilization TA Project<br>- Concessions Contracts Renegotiation TA Project<br>- Budget Support |
| | | | | | | |
| **Improve the Monitoring and Evaluation (M&E) System** | Lack of technical capacity to provide reliable and on-time statistical data<br><br>Mainstreaming Gender in the M&E process | **National statistical system strengthened**<br><br>**Improved national monitoring and evaluation Systems**<br><br>**A gender-sensitive M&E system is developed**<br>- Tools for M&E and reporting on the implantation of the strategy<br>- Improvements in gender-tracking and reporting to improve country policies and strategy | - Rebased National accounts<br>- Publication of National Accounts<br>- New Forecasting Economic Model<br>- A study evaluating the opportunity cost of gender inequalities in the GDP produced by 2017 | Improvement of the Monitoring and Evaluation system<br>- | Publication of new data on poverty (desegregated by Gender)<br><br>Publication of new data on agriculture (desegregated by Gender)<br>Gender profile for the Cabo Verde produced with main recommendations | **Proposed:**<br>- Household Consumption Survey (Statistics)<br>- Agriculture Census (Statistics)<br>- National planning system Improvement to monitor the implementation of the GPRS-III<br>- Gender Profile Study |

## Annex II: The Bank Group's 2014-2018 Indicative Lending Program for Cabo Verde

| Project | Target Board Date | Amount (Million UA) | Sector | Status | Financing Source |
|---|---|---|---|---|---|
| ***Pillar 1*** | | | | | |
| Seaport project in Maio and Sao Nicolau | 2015 | 22 | Transport | Feasibility | ADB Public |
| Fishing project in Mindelo | 2015 | 20 | Transport | Identification | ADB Public |
| Deep-sea port development (Mindelo) | 2017 | TBD | Transport | Identification | ADB Private/PPP |
| Praia-Dakar-Abidjan Multimodal Corridor | 2016 | TBD | Transport | Feasibility | PIDA/Regional |
| 1 thermal power plants of 5 MW in Maio island | 2016 | 5 | Energy | Identification | ADB Public |
| Renewable Energy Project | 2017 | TBD | Energy | Identification | ADB Private/PPP |
| ***Pillar 2*** | | | | | |
| Budget Support | 2014 | 13 | Multi-Sector | Appraisal | ADB Public |
| Two year-Budget Support | 2015 | 27 | Multi-Sector | Identification | ADB Public |

## Annex III: The Bank Group's 2014-2018 Indicative Non-Lending Program for Cabo Verde

| Project | Target Completion Date | Type | Sector | Financing Source |
|---|---|---|---|---|
| ***Pilar 1*** | | | | |
| "100% Renewable Energy" Program Implementation – Financial Transaction Structuring | 2015 | Technical Assistance | Energy | SEFA & WEF |
| Transport Infrastructure New Model of Management Study | 2017 | ESW | Transport | TBD |
| ***Pilars 1 & 2*** | | | | |
| Institutional, Regulatory and Capacity Building Assistance for PPPs Mobilization | 2015 | Technical Assistance | Governance | MIC Trust Fund |
| Concessions Contracts Renegotiation | 2014 | Technical Assistance | Governance | ALSF |
| Economic cooperation and Cabo Verde integration into the ECOWAS region | 2015 | ESW | Regional Integration | TBD |
| ***Pilar 2*** | | | | |
| Household Budget and Expenditure Survey | 2016 | Technical Assistance | Statistics | MIC Trust Fund |
| Agriculture Survey | 2017 | Technical Assistance | Statistics | MIC Trust Fund |
| Gender Profile | 2016 | ESW | Social/Gender | TBD |
| Opportunity cost of gender inequalities to the GDP | 2017 | ESW | Social/Gender | TBD |
| Growth and Poverty Reduction in Cabo Verde | 2017 | ESW | Governance /Social | TBD |
| Transforming diaspora transfers into productive assets and Investment: Profile for Cabo Verde Migrants | 2016 | ESW | Private Sector | Migration and Development Trust Fund |
| Tertiary education reforms and jobs creation (youth & women) | 2015 | Technical Assistance | Social/Education | MIC Trust Fund |

# Annex IV: Development Partner Interventions by Sector – July 2013

| PARTNER | SECTOR/ACTIVITIES | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Macro-economic Stability** | **PFM** | **Procu-rement** | **Statistics, M&E** | **Private Sector** | **Security** | **Infrast-ructures** | **Water & Sanitation** | **Environ-ment** | **Energy** | **Education Vocational Training** | **Agri-culture** | **Health** |
| *AfDB* | X | X | X | X | X | | X | X | | X | | | |
| *IMF* | X | | | | | | | | | | | | |
| *World Bank* | X | X | X | X | X | | X | | X | X | X | | |
| *European Union* | X | X | | X | | X | | X | | X | | | |
| *Portugal* | X | | | | | X | | X | | | X | | X |
| *United States* | | | | | X | | X | X | X | | X | X | |
| *Spain* | | X | X | X | | | | X | X | | | | |
| *Japan* | | | | | X | | X | X | X | X | | X | X |
| *Luxemburg* | | | | | 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 | | |
| *Koweit* | | | | | | | | X | | | | | |
| *UNDP* | | | | | | | | X | X | | X | | |
| *FAO* | | | | | | | | | | | | X | |
| *OPEP* | | | | | | | X | X | | X | | | |
| *BADEA* | | | | | | | | X | | | | X | |

## Annex V: Bank group activities in Cabo Verde as at February 2014

| Project Name | Approval Date | Entry into Force | Disburse Deadline | Amount Approved (UA) | Amount Disbursed (UA) | Disbursed Rate (%) | Outstanding Implementation Issues | Assessment of Implementation performance (Traffic Lights) |
|---|---|---|---|---|---|---|---|---|
| Project for reinforcing the electricity production, trans-mission and distribution capacities on the island of Santiago | 19/12/2007 | 12/12/2008 | 30/06/2014 | 4,82 | 4,29 | 88,99 | The main activities of the project have been completed. The Bank approved an additional period of six months (by 30 June 2014) to use the loan balance of Eur 434.920. | |
| Electricity transmission and development network development project | 03/11/2011 | 13/04/2012 | 31/12/2017 | 8,42 | 0 | 0 | The contract for rehabilitation, reinforcement and expansion of MV and LV network in six islands has been signed on 27 December 2013. The contract will use 100% of ADF resources for the project. | |
| Praia airport expansion and modernization (PEMAP) | 22/05/2013 | | 31/12/2016 | 25,48 | 0 | 0 | Loan agreement signed on 25 June 2013; not effective yet. Project launched from 7th to 8th October 2013. | |
| Technology park Project | 24/07/2013 | | 31/12/2018 | 28,04 | 0 | 0 | Loan agreement signed on 30 September 2013; not effective yet. Project launched from 2th to 6th December 2013. | |
| Mobilization of water resources | 05/01/2012 | 28/02/2013 | 31/12/2014 | 1,25 | 0,18 | 14,6 | First disbursement made on 27 June 2013; the main activities of the project have been launched from to 2th to 7th July 2013. | |
| Capacity building Grant for SME development through business incubators | 08/03/2013 | 10/05/2013 | 31/12/2015 | 0,77 | 0,01 | 1,2 | Grant agreement signed on 10 May 2013 and effective for disbursement on 17 July 2013; first disbursement made on 09 December 2013. | |
| Tax and revenue administration for improved business life-cycle services | 16/08/2013 | 08/11/2013 | 31/12/2015 | 0,78 | 0 | 0 | Grant agreement signed on 08 November 2013 and effective since 08 November 2013. | |
| Public corporate governance and investment promotion support program (PAGEPPI | 09/10/2013 | 29/11/2013 | 31/12/2015 | 13,32 | 13,32 | 100 | Loan agreement signed on 08 November 2013, effective on 29 November 2013 and 100% of funds disbursed on 10 December 2013. | |
| **Total** | | | | **82.88** | **17.80** | **21.5%** | | |

Source: African Development Bank

Highly Satisfactory: Satisfactory: Unsatisfactory:

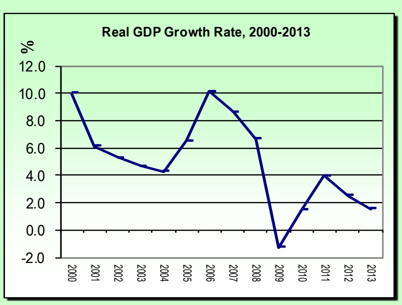
# Annex VI: Cabo Verde Country Portfolio Improvement Plan

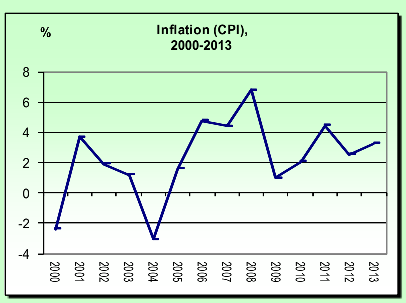
| Issues | Action Required | Measurable Indicators Framework | Responsible | Timeframe |
|---|---|---|---|---|
| **Procurement** | | | | |
| Insufficient expertise with regard to Bank procurement rules and procedures, and slippage on the processing schedule | - Systematically prepare procurement plans and have them approved by the Bank.<br>- Pursue efforts to improve procurement documents, to ensure compliance with the Bank's procedures and use of standard bidding documents.<br>- Systematically organize launching missions and make provision for procurement training for implementation units.<br>- Conduct training sessions on Bank rules and procedures.<br>- Establish and operationalize at the level of project executing agencies and implementation units, procurement and bid evaluation committees.<br>- Facilitate the exchange of information between the units responsible for Bank projects, in particular, by organizing quarterly meetings. | - Projects are completed within the planned schedule.<br>- Smooth procurement processes.<br>- Project staff trained on procurement | PIU/SNFO<br>PIU/SNFO<br>SNFO/PIU<br>SNFO/Gvt /PIU<br>Gvt/DGP | Continuous<br>Continuous<br>Continuous<br>Continuous<br>Continuous |
| **Quality of Operations at Entry** | | | | |
| Delays and preparation quality | - Establish benchmarks during the conduct of preparatory studies and after the launching of an operation<br>- During project preparation, designate a coordinator at the operational Ministry and responsible units.<br>- Control study quality and adherence to the deadlines for the submission of documents. | Preparatory and feasibility studies are available before the project preparation or appraisal. | SNFO/Gvt/PIU<br>Gvt/Operational Ministry | Preparation/ Launching<br>Preparation<br>Preparation |
| Delays in meeting the conditions precedent to first disbursements | - At the project design stage, ensure that the conditions precedent are realistic and limited in number.<br>- Monitor the progress made towards meeting other conditions through activity reports and during supervision missions. | Conditions precedent to first disbursement fulfilled within six months. | SNFO/Gvt<br>PIU/Gvt/SNFO | Preparation<br>Continuous |
| Accumulation of difficulties and obstacles facing co-financed projects | - Ensure close coordination with the co-financing partners and effective application of the established procedures.<br>- Encourage joint preparation, launching and supervision missions. | Smooth and timely take-off of the operations. | Gvt/SNFO<br>Gvt/SNFO/ Partners | Continuous<br>Continuous |
| **Operational Modalities** | | | | |
| Monitoring and evaluation weaknesses | - Establish the monitoring and evaluation system at central level.<br>- In the quarterly activity reports, include progress aligned on the key indicators. | M&E in place both project and central level. | Govt<br>PIU | Continuous<br>Continuous |
| **Financial Management and Disbursements** | | | | |
| Non-existence of accounting systems or delays in setting them up | - Ensure the adoption of accounting software and accounting procedures handbooks after project launching. | Accounting software and accounting system are operational. | Gvt/PIU | Project start-up |
| Delays in conducting audits | - Ensure effective audit programming, recruit firms in accordance with the PP. | Audit reports received before June 30. | DGP/PIU | Continuous |
| Payment delays especially with regard to first disbursement requests | - Attach supporting documents to payment requests and ensure that the requests are submitted in an appropriate manner.<br>- Reduce as much as possible delays in processing payment requests, especially regarding first disbursement requests. | Disbursement requests are submitted in the right format. | PIU<br>SNFO | Continuous<br>Continuous |
| Justification of previous revolving funds, closing of the account and the transfer of balances | - Submit the supporting documents for the last revolving funds of closed projects to the Bank.<br>- Transfer special account balances and provide evidence of closure of the special account. | Last revolving funds are justified and balance transferred to ADB account. | PIU/Gvt/<br>DG Treasury | Continuous<br>Six months after project completion. |

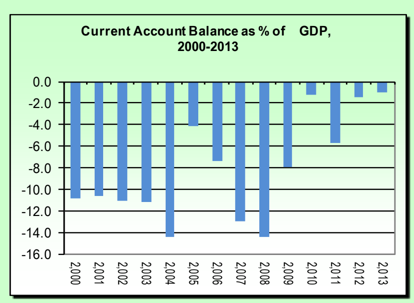
# ANNEX VII

## SELECTED MACROECONOMIC INDICATORS

| Indicators | Unit | 2000 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 (e) |
|---|---|---|---|---|---|---|---|---|
| **National Accounts** | | | | | | | | |
| GNI at Current Prices | Million US $ | 580 | 1,419 | 1,562 | 1,627 | 1,773 | 1,882 | ... |
| GNI per Capita | US$ | 1,310 | 2,927 | 3,215 | 3,337 | 3,614 | 3,806 | ... |
| GDP at Current Prices | Million US $ | 539 | 1,793 | 1,716 | 1,666 | 1,852 | 1,815 | 1,894 |
| GDP at 2000 Constant prices | Million US $ | 539 | 893 | 882 | 895 | 930 | 954 | 969 |
| Real GDP Growth Rate | % | 10.0 | 6.7 | -1.3 | 1.5 | 4.0 | 2.5 | 1.5 |
| Real per Capita GDP Growth Rate | % | 7.9 | 6.4 | -1.5 | 1.1 | 3.3 | 1.7 | 0.6 |
| Gross Domestic Investment | % GDP | 36.6 | 48.5 | 43.8 | 47.6 | 47.1 | 46.2 | 45.1 |
| Public Investment | % GDP | 6.1 | 12.6 | 12.1 | 18.2 | 21.6 | 17.3 | 16.1 |
| Private Investment | % GDP | 30.5 | 36.0 | 31.7 | 29.4 | 25.5 | 28.9 | 29.0 |
| Gross National Savings | % GDP | 19.9 | 30.5 | 23.4 | 25.3 | 20.5 | 24.7 | 25.8 |
| **Prices and Money** | | | | | | | | |
| Inflation (CPI) | % | -2.4 | 6.8 | 1.0 | 2.1 | 4.5 | 2.5 | 3.3 |
| Exchange Rate (Annual Average) | local currency/US$ | 119.7 | 75.3 | 79.4 | 83.3 | 79.3 | 85.8 | ... |
| Monetary Growth (M2) | % | 11.5 | 9.5 | 2.9 | 5.0 | 3.4 | ... | ... |
| Money and Quasi Money as % of GDP | % | 63.6 | 72.5 | 73.9 | 76.2 | 74.4 | ... | ... |
| **Government Finance** | | | | | | | | |
| Total Revenue and Grants | % GDP | 26.6 | 29.5 | 26.9 | 27.9 | 28.4 | 26.1 | 27.0 |
| Total Expenditure and Net Lending | % GDP | 34.4 | 31.0 | 32.7 | 38.5 | 38.6 | 35.1 | 34.2 |
| Overall Deficit (-) / Surplus (+) | % GDP | -7.8 | -1.6 | -5.9 | -10.6 | -10.2 | -9.0 | -7.2 |
| **External Sector** | | | | | | | | |
| Exports Volume Growth (Goods) | % | 25.2 | -25.3 | 4.2 | 28.1 | 33.9 | -9.9 | 1.4 |
| Imports Volume Growth (Goods) | % | -5.8 | 11.0 | -5.3 | -1.1 | 18.2 | -5.9 | 7.4 |
| Terms of Trade Growth | % | 17.7 | 78.0 | -16.5 | 6.1 | 6.3 | -4.2 | 1.8 |
| Current Account Balance | Million US $ | -59 | -258 | -136 | -21 | -105 | -27 | -18 |
| Current Account Balance | % GDP | -10.9 | -14.4 | -7.9 | -1.3 | -5.7 | -1.5 | -1.0 |
| External Reserves | months of imports | 1.0 | 3.5 | 4.4 | 4.1 | 3.0 | 3.6 | ... |
| **Debt and Financial Flows** | | | | | | | | |
| Debt Service | % exports | 27.8 | 8.5 | 9.3 | 8.3 | 8.0 | 8.1 | 8.4 |
| External Debt | % GDP | 63.9 | 50.5 | 59.2 | 64.6 | 69.3 | 85.9 | 89.0 |
| Net Total Financial Flows | Million US $ | 119 | 270 | 239 | 317 | 286 | ... | ... |
| Net Official Development Assistance | Million US $ | 94 | 222 | 196 | 328 | 246 | ... | ... |
| Net Foreign Direct Investment | Million US $ | 43 | 209 | 119 | 112 | 93 | 71 | ... |




Source : AfDB Statistics Department; IMF: World Economic Outlook, October 2013 and International Financial Statistics, October 2013; AfDB Statistics Department: Development Data Portal Database, Octobre 2013. United Nations: OECD, Reporting System Division.

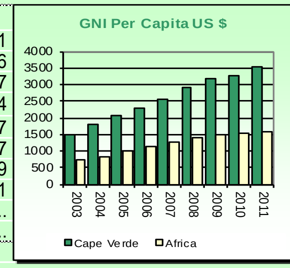
Notes: ... Data Not Available (e) Estimations

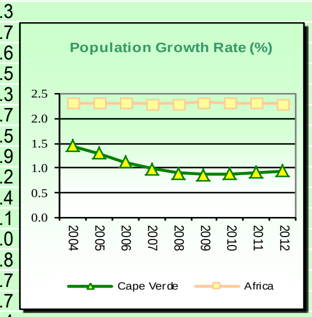
Last Update: October 2013

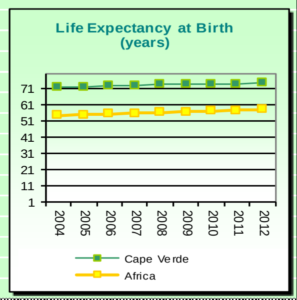
# ANNEX VIII

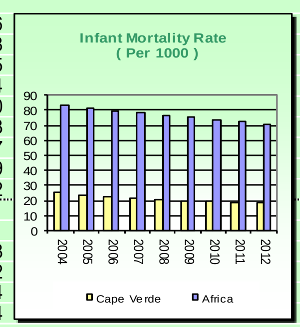
## COMPARATIVE SOCIO-ECONOMIC INDICATORS

| | Year | Cape Verde | Africa | Develo-ping Countries | Develo-ped Countries |
|---|---|---|---|---|---|
| **Basic Indicators** | | | | | |
| Area ( '000 Km²) | 2011 | 4 | 30,323 | 98,458 | 35,811 |
| Total Population (millions) | 2012 | 0.5 | 1,070.1 | 5,807.6 | 1,244.6 |
| Urban Population (% of Total) | 2012 | 62.5 | 40.8 | 46.0 | 75.7 |
| Population Density (per Km²) | 2012 | 124.1 | 34.5 | 70.0 | 23.4 |
| GNI per Capita (US $) | 2011 | 3 540 | 1 609 | 3 304 | 38 657 |
| Labor Force Participation - Total (%) | 2012 | 45.7 | 37.8 | 68.7 | 71.7 |
| Labor Force Participation - Female (%) | 2012 | 39.0 | 42.5 | 39.1 | 43.9 |
| Gender -Related Development Index Value | 2007-2011 | 0.701 | 0.502 | 0.694 | 0.911 |
| Human Develop. Index (Rank among 186 countries | 2012 | 132 | ... | ... | ... |
| Popul. Living Below $ 1.25 a Day (% of Populatio | 2002-2011 | 21.0 | 40.0 | 22.4 | ... |
| **Demographic Indicators** | | | | | |
| Population Growth Rate - Total (%) | 2012 | 0.9 | 2.3 | 1.3 | 0.3 |
| Population Growth Rate - Urban (%) | 2012 | 2.0 | 3.4 | 2.3 | 0.7 |
| Population < 15 years (%) | 2012 | 30.2 | 40.0 | 28.5 | 16.6 |
| Population >= 65 years (%) | 2012 | 5.6 | 3.6 | 6.0 | 16.5 |
| Dependency Ratio (%) | 2012 | 55.8 | 77.3 | 52.5 | 49.3 |
| Sex Ratio (per 100 female) | 2012 | 98.6 | 100.0 | 103.4 | 94.7 |
| Female Population 15-49 years (% of total populatic | 2012 | 27.0 | 49.8 | 53.2 | 45.5 |
| Life Expectancy at Birth - Total (years) | 2012 | 74.3 | 58.1 | 67.3 | 77.9 |
| Life Expectancy at Birth - Female (years) | 2012 | 77.8 | 59.1 | 69.2 | 81.2 |
| Crude Birth Rate (per 1,000) | 2012 | 20.0 | 33.3 | 20.9 | 11.4 |
| Crude Death Rate (per 1,000) | 2012 | 5.4 | 10.9 | 7.8 | 10.1 |
| Infant Mortality Rate (per 1,000) | 2012 | 18.4 | 71.4 | 46.4 | 6.0 |
| Child Mortality Rate (per 1,000) | 2012 | 21.6 | 111.3 | 66.7 | 7.8 |
| Total Fertility Rate (per woman) | 2012 | 2.3 | 4.2 | 2.6 | 1.7 |
| Maternal Mortality Rate (per 100,000) | 2010 | 79.0 | 417.8 | 230.0 | 13.7 |
| Women Using Contraception (%) | 2012 | 63.3 | 31.6 | 62.4 | 71.4 |
| **Health & Nutrition Indicators** | | | | | |
| Physicians (per 100,000 people) | 2004-2010 | 57.2 | 49.2 | 112.2 | 276.2 |
| Nurses (per 100,000 people)* | 2004-2009 | 131.7 | 134.7 | 187.6 | 730.7 |
| Births attended by Trained Health Personnel (%) | 2005-2010 | 77.5 | 53.7 | 65.4 | ... |
| Access to Safe Water (% of Population) | 2010 | 88.0 | 67.3 | 86.4 | 99.5 |
| Access to Health Services (% of Population) | 1988 | 81.7 | 65.2 | 80.0 | 100.0 |
| Access to Sanitation (% of Population) | 2010 | 61.0 | 39.8 | 56.2 | 99.9 |
| Percent. of Adults (aged 15-49) Living with HIV/AID | 2011 | 1.0 | 4.6 | 0.9 | 0.4 |
| Incidence of Tuberculosis (per 100,000) | 2011 | 243.0 | 234.6 | 146.0 | 14.0 |
| Child Immunization Against Tuberculosis (%) | 2011 | 99.0 | 81.6 | 83.9 | 95.4 |
| Child Immunization Against Measles (%) | 2011 | 96.0 | 76.5 | 83.7 | 93.0 |
| Underweight Children (% of children under 5 years | 1994-2011 | 11.8 | 19.8 | 17.4 | 1.7 |
| Daily Calorie Supply per Capita | 2009 | 2 644 | 2 481 | 2 675 | 3 285 |
| Public Expenditure on Health (as % of GDP) | 2010 | 4.1 | 5.9 | 2.9 | 8.2 |
| **Education Indicators** | | | | | |
| Gross Enrolment Ratio (%) | | | | | |
| Primary School - Total | 2010-2012 | 109.3 | 101.9 | 103.1 | 106.6 |
| Primary School - Female | 2010-2012 | 104.9 | 98.4 | 105.1 | 102.8 |
| Secondary School - Total | 2010-2012 | 89.7 | 42.3 | 66.3 | 101.5 |
| Secondary School - Female | 2010-2012 | 96.9 | 38.5 | 65.0 | 101.4 |
| Primary School Female Teaching Staff (% of Total) | 2011 | 67.3 | 43.2 | 58.6 | 80.0 |
| Adult literacy Rate - Total (%) | 2010 | 84.3 | 67.0 | 80.8 | 98.3 |
| Adult literacy Rate - Male (%) | 2010 | 89.3 | 75.8 | 86.4 | 98.7 |
| Adult literacy Rate - Female (%) | 2010 | 79.4 | 58.4 | 75.5 | 97.9 |
| Percentage of GDP Spent on Education | 2008-2010 | 5.6 | 5.3 | 3.9 | 5.2 |
| **Environmental Indicators** | | | | | |
| Land Use (Arable Land as % of Total Land Area) | 2011 | 11.7 | 7.6 | 10.7 | 10.8 |
| Annual Rate of Deforestation (%) | 2000-2009 | -9.3 | 0.6 | 0.4 | -0.2 |
| Forest (As % of Land Area) | 2011 | 21.0 | 23.0 | 28.7 | 40.4 |
| Per Capita CO2 Emissions (metric tons) | 2009 | 0.6 | 1.2 | 3.1 | 11.4 |




*Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators;* *last update :* *May 2013*

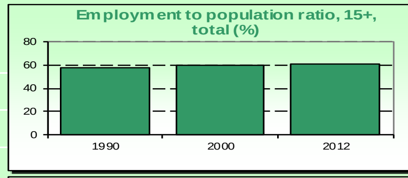
*UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports.*

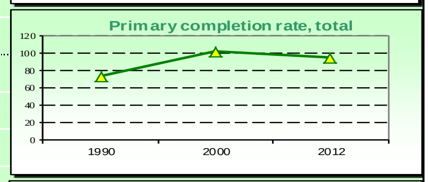
*Note : n.a. : Not Applicable ; ... : Data Not Available.*

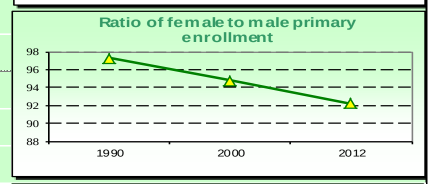
# ANNEX IX

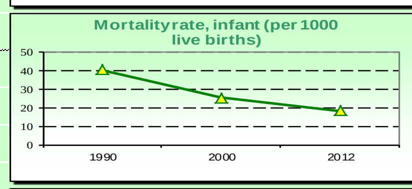
## PROGRESS TOWARD ACHIEVING THE MILLENNIUM DEVELOPMENT GOALS

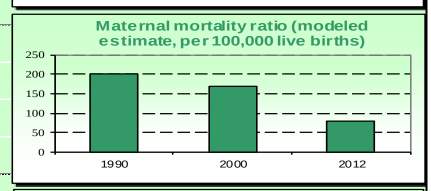
| Goal 1: Eradicate extreme poverty and hunger | 1990[1] | 2000[2] | 2012[3] |
|---|---|---|---|
| Employment to population ratio, 15+, total (%) | 57.9 | 59.4 | 61.2 |
| Malnutrition prevalence, weight for age (% of children under 5) | 11.8 | ... | ... |
| Poverty headcount ratio at $1,25 a day (PPP) (% of population) | ... | 21.0 | ... |
| Prevalence of undernourishment (% of population) | 15.6 | 11.9 | 8.9 |
| **Goal 2: Achieve universal primary education** | | | |
| Literacy rate, youth female (% of females ages 15-24) | 86.4 | 98.0 | 99.1 |
| Literacy rate, adult total (% of people ages 15 and above) | 62.8 | 80.0 | 84.3 |
| Primary completion rate, total (% of relevant age group) | 73.8 | 102.0 | 95.0 |
| Total enrollment, primary (% net) | 99.0 | 97.7 | 93.5 |
| **Goal 3: Promote gender equality and empower women** | | | |
| Proportion of seats held by women in national parliaments (%) | 12.0 | 11.1 | 20.8 |
| Ratio of female to male primary enrollment | 97.3 | 94.8 | 92.2 |
| Ratio of female to male secondary enrollment | 96.6 | ... | 117.3 |
| **Goal 4: Reduce child mortality** | | | |
| Immunization, measles (% of children ages 12-23 months) | 85.0 | 91.0 | 96.0 |
| Mortality rate, infant (per 1,000 live births) | 40.4 | 25.4 | 18.4 |
| Mortality rate, under-5 (per 1,000) | 50.9 | 30.5 | 21.6 |
| **Goal 5: Improve maternal health** | | | |
| Births attended by skilled health staff (% of total) | 54.0 | ... | 77.5 |
| Contraceptive prevalence (% of women ages 15-49) | 42.6 | 59.1 | 63.3 |
| Maternal mortality ratio (modeled estimate, per 100,000 live births) | 200.0 | 170.0 | 79.0 |
| **Goal 6: Combat HIV/AIDS, malaria, and other diseases** | | | |
| Incidence of tuberculosis (per 100,000 people) | 206.0 | 317.0 | 243.0 |
| Prevalence of HIV, female (% ages 15-24) | ... | ... | 1.1 |
| Prevalence of HIV, male (% ages 15-24) | ... | ... | 0.1 |
| Prevalence of HIV, total (% of population ages 15-49) | ... | ... | 1.0 |
| **Goal 7: Ensure environmental sustainability** | | | |
| CO2 emissions (kg per PPP $ of GDP) | 0.3 | 0.5 | 0.5 |
| Improved sanitation facilities (% of population with access) | 37.0 | 52.0 | 61.0 |
| Improved water source (% of population with access) | 80.0 | 85.0 | 88.0 |
| **Goal 8: Develop a global partnership for development** | | | |
| Net total ODA/OA per capita (current US$) | 293.0 | 306.4 | 490.7 |
| Internet users (per 1000 people) | ... | 53.6 | 310.0 |
| Mobile cellular subscriptions (per 1000 people) | ... | 140.9 | 749.7 |
| Telephone lines (per 1000 people) | 54.4 | 153.6 | 145.1 |

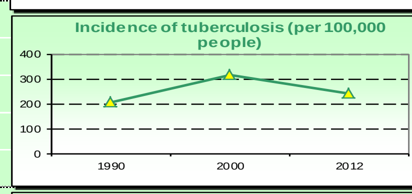


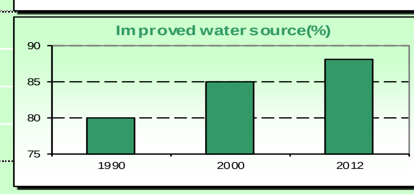



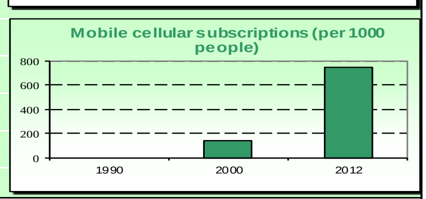




*Sources : ADB Statistics Department Databases; World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports,*

*last update : May , 2013*

*Note : n.a. : Not Applicable ; ... : Data Not Available,*

*[1] Latest year available in the period 1990-1995; [2] Latest year available in the period 2000-2004; [3] Latest year available in the period 2005-2012*

# ANNEX X

## PUBLIC PROCUREMENT

| Fiduciary risk | Moderate |
|---|---|

**1.** Public procurement in Cabo Verde is regulated by the Public Procurement 17/VII/2007 Law (the Act) approved in September 10, 2007 which became effective on January 1, 2008. The Act was followed by the following implementation decrees; decree-Law No: 15/2008 of May 8, 2008, creating the Regulatory Agency for Public Procurement (ARAP) and defining its statute to regulate, supervise, and resolve conflicts in public procurement; decree-Law No: 1/2009 of January 5, 2009, approving the regulation of public procurement law. However, the creation, structure, and operation, defining tasks, certification process, promotion, disqualification of decentralized Procurement Management Units (UGAs) or members in line Ministries and a single Central Procurement Management Unit (UGAC) in the Ministry of Finance was only approved by decree-Law No: 4/2010 of March 8, 2010. The statutory regime of public works entry into force in February 2011, through decree No; 31/94, of May 2, 2011. Along with this new regime, was the commissioning of a new regulated system of procurement, therefore there is a need to adapt this legal regime to the law of public procurement. Contracts awarded for purposes of contracts and public works concessions, also objects of the law governing public procurement. However, given their complexity, a regulation was defined in statute, published since November 29, 2010.

The issues and shortcomings pertaining to the legal and regulatory framework which need particular attention based on the PEMFAR[21]; Global Action Plan for PFM Reforms 2012-2016; Public Expenditure & Financial Accountability[22]; and the Bank's assessment of the national competitive bidding procedures report[23] have been identified. These are related to: (i) contradictions between the Procurement Act and the various implementation decrees (notably on the selection of consultants and regarding pre-qualification conditions) weaken the system; (ii) the Act does not cover transactions concluded by public enterprises and authorizes direct negotiations and contracts when a government agency extends an existing contract for the procurement of similar products; (iii) evaluation criteria allows the use of a merit system that does not necessarily lead to the selection of the best and most economical offer; (iv) inexistence of system for early detection of fraud; (vi) the Act restricts participation under open national competitive bidding only to national bidders.

**2.** With regards to institutional framework, the procurement law requires the creation of decentralized procurement units in individual ministries and other public institutions; a single central unit for the purchase of goods common to several government departments; and a central regulation agency to coordinate and monitor the overall procurement system. The new individual procurement management units (UGAs) are responsible for handling most procurement operations concerning their line ministry or institution until the signing of the contract. The central procurement management unit (UGAC) manages the procurement of "common goods" (vehicles, fuel, computers, office supplies, etc.). Above both the UGAs and UGAC, there is a Directorate General of Public Property and Public Contracts (DGPCP). The DGPCP's role is providing oversight over of the public procurement in government institution and to provide ex-ante controls to UGAs, but due to lack of staffing, this functionality is significantly undermined. In addition, the setup of ARAP as an independent regulatory authority responsible for elaborating procurement regulations, organizing the training of procurement staff, handling claims, preparing manuals and standard documents, disseminating information about public contracts, organizing independent audits, evaluating the overall performance of the procurement system and fighting corruption. Within ARAP, a Dispute Settlement Committee is tasked with arbitrating claims presented by bidders and/or contractors.

[21] **PEMFAR** - Public Expenditure Management and Financial Accountability Review (PEMFAR) main report of May 2012.
[22] **PEFA** - Assessment of Public Finance Management in Cabo Verde 2007, released December 2008.
[23] **Rapport Principal** - Evaluation des procédures nationales de passation des marchés pour les appels d'offres nationaux dans le cadre des projets financés par la Banque, 2011.

The following were identified as needing attention on institutional framework and management capacity: (i) confusion in the primary role of ARAP and lack of financial autonomy of the regulation agency; (ii) lack of ex ante controls on procurement decisions made by UGAs; (iii) the role of Courts of Accounts on ex-post

3. The Government is generally making concerted efforts in advancing the private sector agenda and this is evidenced by the initiation under the two projects funded by the Bank, *'Capacity building grant for Micro, Small and Medium-Sized enterprises development through Business Incubators'* (May 2013), intended to foster entrepreneurship and sustainable private sector development for inclusive economic growth; and *'Technology Park'* (June 2013), with the objective to facilitate the emergence, development and sustainability of enterprises, and thereby create new jobs by helping entrepreneurs establish new sustainable micro- small- or medium-sized enterprises.

**4.** DGPCP is expected to play a key role in procurement oversight over UGAs and UGAC, as part of the control systems for public procurement. Since April, 2013, UGAC prepares a consolidated annual procurement reports which takes into account all the procurement plan from all the UGAs and once approved on the basis of the annual budget, are published in three local newspapers. However, it is worth noting that challenges still remain; (i) procurement decisions made by UGAs should be submitted to appropriate ex ante controls; (ii) DGPCP should be reinforced and should assume the role of ex ante controller of procurement decisions; (iii) The criteria for evaluation of tenders indicated in National Standard Bidding Documents have flexibility regarding their definition, hence not creating transparency in the process; (iv) The fraud and corruption clauses are absent in the National Standard Bidding document.

***Current Risk* –** The key risk for this sub-system relates to the very low human capacity and lack of clarity on the functionality and interrelationships of DGPCP, UGAs, UGAC, ARAP and Courts of Accounts. The lack of enforcement in the Act renders the proper functioning of the system questionable.

***Mitigation* –** The government is encouraged to finalize and adapt the revised Act which will clarify the roles of the different structures in the procurement system. In addition, it should intensify its training program to ensure that the UGAs, UGAC, DGPCP, Court of Accounts and public enterprises have the human capacity to undertake procurement under the new revised Procurement Act. The Government needs to also provide extensive training and disseminate information to all stakeholders include private sector and civil society on the new Act.

***Overall rating* -** Despite the relatively good procurement system and structures associated with the country's current procurement rules and regulations, the pervasiveness of weak human capacity across the board means that the risk associated with the procurement sub-system was assessed as **Moderate** in March 2013.

The Bank's strategy in the use of the Cabo Verde system will be in line with its strategy for all RMCs by strengthening the use of country procedures in NCBs; Thus: (a) **The Cabo Verdean procedures could be used for all NCBs funded by the Bank during the CSP period**. In the application of phase 1, the Bank will initiate discussions with the Government to address the key divergences contained in its regulatory framework and highlighted in the '**Rapport Principal**' in 2011. (b) The use of the country system in its entirety will be envisaged for the medium and long term. The assessment performance of the system will be using OECD/DAC system.

**During the current CSP period, the Bank's procurement strategy will involve the following**: (i) conclusion of negotiations with the Cabo Verdean government for the use of country procedures for NCBs in future projects and programmes to be financed; (ii) support for the implementation of Action Plans of previous studies.

# ANNEX XI

## ASSESSMENT OF THE BANK'S FIDUCIARY RISKS AND INTERVENTION STRATEGY - AUGUST 2013

The fiduciary risk assessment is based on the Bank's policy note on fiduciary risk management and policy-based operations, as well as on recent diagnostic studies on the public financial management system, namely: PEMFAR 2012, PEFA 2008, the Public Expenditure Review of 2009, as well as the World Bank/Government joint debt sustainability analyses in 2009 and debt management assessment in 2010.

I. FIDUCIARY RISK ASSESSMENT AND MITIGATION MEASURES

The strengths and weaknesses of the public financial management system, as well as the mitigation measures, were assessed as follows in terms of financial management components.

I.1 Budget

(a) *Budget credibility.* Though considered adequate in 2008, resource and expenditure predictability has deteriorated as a result of the financial and economic crisis.

(b) *Comprehensiveness and transparency*. Progress has been made, but **the consolidation of public expenditure and development of tools for transmission of budget information still pose challenges**.

(c) *Policy-based budgeting*. The budget preparation process is participatory and based on MTEFs, but the budget estimates are not always aligned with the sector strategies and macroeconomic and fiscal targets. **A performance management system should be put in place for the programme budget approach.**

I.2 Auditing and financial reporting

a) *Predictability and control in budget execution*. The laws and procedures applicable to the major taxes are comprehensive and give limited discretionary powers to government entities. The recourse mechanism is working. SIGOF has control mechanisms. **It is necessary to prepare a budget execution procedures manual, and ensure more efficient internal audit and implementation of inspection and audit recommendations.**

(b) *Accounting and financial reporting*. Cash account auditing has improved, but the accounting system still has many weaknesses. Revenue centralization is not reliable, and the traceability of revenue and expenditure in primary service units is not adequate. The new accounting plan complies with IPSAS standards, but its implementation is still limited. The lack of accrual accounting and non-compliance with international standards affect the consistency and comprehensiveness of recorded transactions. **Priority should be given to application of the new accounting system, as well as establishment of a data collection mechanism concerning the revenue of primary service units.**

(c) *Auditing and Internal Control*. The internal audit function performed by the General Finance Inspectorate has been strengthened. Some risk assessment criteria based on a combination of trading volumes (number and amount) and strengths of the internal control system have been developed to audit the most risky areas. **However, monitoring of the implementation of inspection and audit recommendations remains weak.**

(d) *External scrutiny and audit*. The TDC mandate does not comply with international standards, and its scope of investigation, which is limited strictly to the public sector, is a significant risk. Public and semi-public enterprises and concessions are not subject to its supervision. **A new law is needed to address the situation, and sufficient qualified staff should be recruited.**

(e) *Decentralization*. Cabo Verde municipalities have administrative and financial autonomy, and develop their own policies and programmes, but they lack supervision and control capacities. **Non-compliance with the accounting and reporting framework for municipalities weakens budget execution and control.**

I.3 *Governance and corruption*. In 2012, Cabo Verde was ranked the second African country for its governance performance out of 52 States by the MO Ibrahim African Governance Index and the second least corrupt country by the Corruption Perception Index out of 174 countries worldwide.

The table below summarizes the major risks identified and the mitigation measures recommended.

| Pillars | Indicators | Risk Factors | Initial Risk | Mitigation Measures | Residual Risk |
|---|---|---|---|---|---|
| **1. Budget : Preparation, Execution, Control** | *PEFA 2008, PEMFAR 2012*<br>➢ Credibility PI 1-4<br>➢ Comprehensiveness PI 5-7<br>➢ Transparency PI 8-10<br>➢ Policy-based budgeting PI 11-12<br>➢ Effectiveness (predictability and control in budget execution) PI 13-21 | ➢ Systematic non-alignment of budget estimates with sector strategies<br>➢ Non-control of municipality expenditures<br>➢ Lack of a budget execution manual | **Moderate** | i. **Measures implemented**<br>➢ Introduction of a pragmatic budget classification<br>➢ Strategic resource allocation<br>➢ Good quality of budget documents and communication<br>➢ Adoption of resource transfer system from the central to the local level<br>ii. **Measures to be continued**<br>➢ Improve the fiscal risk monitoring system in autonomous institutions<br>➢ Establish a government and municipal expenditure consolidation system<br>➢ Establish the programme budget with a performance management system | **Low** |
| **2- Financial information and auditing** | *PEFA 2008, PEMFAR 2012*<br>➢ Comprehensiveness<br>➢ Effectiveness<br>➢ Quality<br>➢ Timeliness<br>➢ PI 22-25<br>➢ Review PI 26-28 | ➢ Lack of inspection and audit recommendations monitoring system<br>➢ Non-application of the new accounting system<br>➢ Lack of a data collection system for primary service units<br>➢ TDC's limited control mandate<br>➢ Lack of budget monitoring and control capacity in municipalities | **Moderate** | i. **Measures implemented**<br>➢ Fiscal recourse laws and procedures.<br>➢ Accounting plan in compliance with IPSAS approved<br>➢ SIGOF efficient, with control mechanisms<br>➢ Strengthening of IGF<br>➢ Risk mapping<br>ii. **Measures to be continued**<br>➢ Prepare a budget execution procedures manual.<br>➢ Establish a data collection system for primary unit revenues<br>➢ Establish a monitoring mechanism for inspection and audit recommendations<br>➢ Adopt a law to extend TDC mandate<br>➢ Strengthen TDC staffing<br>➢ Build budget monitoring and control capacity of municipalities | **Low** |
| **3- Corruption** | *PEFA 2008 (PI 19), PEMFAR 2012, 2012 African Governance Report,, 2012 Transparency International Report*<br>➢ Scale of corruption<br>➢ Prevention and control measures | ➢ Corruption perception index | **Moderate** | i. **Measures implemented**<br>➢ Good ranking in 2012 by the African Good Governance Index (Ibrahim MO)<br>➢ Good ranking in 2012 by the Corruption Perception Index<br>ii. **Measures to be continued**<br>➢ Extend transparency to all areas of public life<br>➢ Strengthen public audit institutions | **Moderate** |
| **Overall fiduciary risk assessment** | | | **Moderate** | | **Low** |

## II. INTERVENTION STRATEGY

The successful implementation of the Bank's strategy for the 2013-2017 period will depend on synergy between the country and the other technical and financial partners. In compliance with the Paris Declaration, the Bank will continue its support for the PFM reform action plan. Its 2013-2017 fiduciary strategy will focus on three pillars:

i. *The use of country systems* (management systems and national structures) for all activity programmes or public investment projects. The use of parallel project implementation units should be systematically justified, and mitigation mechanisms should be designed to strengthen national systems and procedures.

ii. *The use of entire country systems for budget support operations*. The operations should be accompanied by conditionalities to strengthen public financial management systems.

iii. *Dialogue with the other technical and financial partners* to pool efforts for effective inclusion of reforms in the action plan, and Government implementation of the measures in the fiduciary risk assessment table above.

# ANNEX XII

## CABO VERDE'S Climate Change Fact Sheet

***(AUGUST 2013)***

**GENERAL CLIMATE CONTEXT OF THE COUNTRY:** The main characteristics of Cabo Verde's Climate include:

- An average temperature of 23.5 °C, with a limited excursion between the coolest months (NDJ - November, December and January, 21.3 °C) and the warmest (MJJ - May, June, July, 25.0 °C).
- Three seasons: Dry (March - June) with very low rainfall, between 9 and 24 mm per month in average; Wet (July - October) with sporadic intense rainfall and a monthly average of 94 mm; and a Transition season (November - February), however, the distinction between the dry and the transition seasons has been less clear in recent years.
- Large inter-islands and intra-island climate variability, with the presence of many microclimates.
- Strong NE trade winds that blow from 60% to 80% of the time, over the year, accelerating water evaporation.

**RECENT AND FUTURE CLIMATE TRENDS:** Table 1 provides a summary of the current climate trends and projected future climate scenarios for the country. It shows projected increase in temperature, uncertain rainfall forecast, and a trend to increasing extreme weather events. IPCC projects the sea level in this region to be between 0.13m and 0.56m higher by 2090 under all scenarios.

**Table 1**
**Summary of Climatic Trends and Future Scenarios in Cabo Verde**

| Period | Temperature | Rainfall | Extreme Events |
|---|---|---|---|
| Historical (1960 – 2006) | Temperature increased by 0.6°C between 1960 and 2006, an average rate of 0.14°C per decade. The increase in the wet season (August, September, October - ASO) is higher, at 0.23 °C per decade. | The average rainfall has not changed, although there could be large difference in precipitation year by year and island by island. | Some unusually extreme rainfall events happened in the latest decade. |
| 2060s | Increase of 0.7°C - 2.5°C.<br>16% – 32% increase in hot days<br>23% – 49% increase in hot nights | Models are not consensual, except for a further reduction in the rainfall in the dry season | Not enough data available |
| 2090s | Increase of +1.2 – 3.7°C.<br>23 –51% increase in hot days<br>31% – 79% increase in hot nights<br>Cold nights decrease to zero in all scenarios. | Models are not consensual, except for a further reduction in the rainfall in the dry season | Not enough data available |

**COUNTRY VULNERABILITY:** Cabo Verde vulnerability arises from being both a Small Island Developing Country and an arid Sahel country, with the following main characteristics:

- **Water resources** are extremely scarce, the physical characteristics of the islands, with limited vegetation and steep mountain slopes, constrain the capacity of the soils to absorb water, while the coastal aquifers are vulnerable to depletion and intrusion of saline water, with strong repercussions on human activities and the ecosystem.

- **In the rural areas, the agro-pastoral and forestry sectors,** characterized by inefficient irrigation techniques, salinization of lands and desertification threats, would suffer negative consequences from rising temperatures and irregular rainfall, leading to negative social impacts.

- **Coastal zones and the tourism sector** are vulnerable to sea level rise and coastal erosion.

- **The energy sector and the industry** shows vulnerability due to the increased energy consumption to face increased temperatures, the possible damages to infrastructures in coastal zones, and the need to have high levels of generating capacity in standby to cover peak demand.

**COUNTRY CLIMATE CHANGE STRATEGY**: Cabo Verde has been very active on Climate Change. Among African Portuguese Speaking Countries (PALOPs), it was the first to ratify the Framework Convention on Climate Change in 1995, and the first to create a Designated National Authority. Cabo Verde submitted the first and the second National Communication to the UNFCCC respectively in 2000 and in 2010, ratified the Kyoto protocol in 2005, and in 2007 produced the National Adaptation Programme of Action (NAPA); it has also established a proper institutional framework to design and implement both mitigation and adaptation policies.

**COUNTRY ADAPTATION POLICY:** Cabo Verde has established a National Climate Change Adaptation policy whose main sectors and adaptation measures are summarised in Table 2.

**Table 2 - Priority Adaptation Measures**

| Sector | Priority Adaptation Measures |
|---|---|
| **Water Management** | • Build mobilization, supply and storage infrastructure and for groundwater recharge<br>• Promote action to combat desertification and for watershed protection,<br>• Modernize and expand drip irrigation technology |
| **Agro-Sylvo-Pastoral** | • Promote environmentally sustainable production techniques and bio<br>• Diversify income-generating activities in rural areas<br>• Promote applied research of technological packages to address the negative impacts of climate change |
| **Coastal areas / Tourism** | • Rehabilitate and/ or build infrastructure to protect coastal areas<br>• Modernize stations network for climate and maritime monitoring<br>• Promote sustainable use of coastal resources |

**COUNTRY MITIGATION POLICY:** Cabo Verde submitted its GHGs inventory in 2010, and its Second National Communication to the UNFCCC pointing to an emission level of 306.08 Gg of $CO_2$ (or 0.7 tonnes per capita), 3.28 Gg of $CH_4$, 0.30 Gg of $N_2O$, with an increase of 11.3% in terms of carbon dioxide equivalent between 1995 and 2000, although in absolute terms Cabo Verde emissions remain very low.

The Government has the priority policy objective of improving energy security, reducing the dependence from imported fossil fuels and fostering renewable energy and set ambitious renewable energy targets. The most important renewable energy project is Cabeólica, consisting of four wind farms in Santiago, Bela Vista, São Vincente and Sal able generating around 20% of the total electricity produced and approved as a CDM project by the UNFCCC EB. For the transport sector, the GoCV envisages measures to improve the energy efficiency of land, maritime and air transport fleets. For the agro–pastoral-forestry sector, the GoCV envisages improving the management of ruminant livestock, ameliorating the efficiency in the utilization of nitrogen fertilizers; discouraging the use of wood as a domestic fuel and improving the treatment of solid waste.

**INSTITUTIONAL FRAMEWORK AND ACTORS**: the institutional and legal framework of Cabo Verde take into account Climate Change in many ways:

- Environment is recognised as one of the pillars of the GPRSP;
- The country is a member of the international environmental treaties and conventions;

- National environmental policies have been approved and are implemented;
- There exists a growing awareness of climate issues by the economic actors, the general public, local actors and non-governmental institutions.

**ASSESSMENT OF NATIONAL CAPACITIES, READINESS AND WILLINGNESS TO HANDLE CLIMATE CHANGE RELATED ISSUES:** Cabo Verde has a strong political willingness and an established institutional framework to deal with Climate Change. Several collaborations are active with international partners, notably with other Portuguese speaking countries. The establishment of the International Climate Research Centre for Africa and CPLC Countries (CIICLAA), to be based in Praia, will further reinforce these relationships. Another important international climate related institution already active in Cabo Verde is the ECOWAS Centre for Renewable Energies (ECREEE). National capacity to deal with climate change does not seem to be the major obstacle for implementing climate change adaptation and mitigation policies and projects. Finance availability however is often perceived as a limiting factor.

**RECOMMENDED PROJECTS OR PROGRAMS:** There exists multiple opportunities to improve climate resilience and adaptation, fostering an environmentally conscious and climate friendly development and at the same time reinforce the private sector. In the mitigation area, Cabo Verde has ambitious Renewable Energy targets that could open the market for local enterprises for the design and installations of Renewable Energy and energy saving equipment. In the adaptation and resilience area, large opportunities exist to make of Cabo Verde a high quality - sustainable tourism destination. The Bank could also provide technical assistance to Cabo Verde institutions to get access to climate funds, including project preparation and submission of projects, in order to help overcome the financial barrier. Table 3 indicates some of the projects and/or programs that the Bank can support. It is understood that new Bank investments should go through the new Integrated Safeguard System to screen the proposed investments to assess their vulnerability to climate change and variability (step 1), and proposes adaptation measures to mitigate the risks identified (step 2).

**Table 3**
**Proposed Programs/Projects for the Bank's Intervention within the context of the CSP identified interventions.**

| Sector | Activities | Contribution to economic growth | Contribution to low-carbon climate resilient development | Contribution to poverty reduction and sustainable development |
|---|---|---|---|---|
| **Energy** | - Support for the Cabo Verde Energy plan<br>- Renewable Energy Project<br>- Support for Energy distribution network.<br>- Support for two thermal power plants. | 3<br>3<br>3<br>2 | 3<br>3<br>1<br>1 | 3<br>3<br>2<br>2 |
| **Transport** | - Contribution to the rehabilitation and upgrade of port facilities in three islands, and related infrastructures. | 3 | 2 | 2 |
| **Private Sector Development** | - Support the creation of start-ups in the tech sector, renewable energies and green activities.<br>- Contribution to the strengthening of eco-tourism sector | 3<br>3 | 3<br>3 | 2<br>3 |
| **Institutional Capacity Development** | - Support to the collection of economic and environmental statistics and climate data;<br>- Technical assistance to CV institutions to facilitate access to global climate financing. | 2<br>2 | 1<br>2 | 2<br>2 |
| | 0 : no contribution | 1: small contribution | 2: moderate contribution | 3: significant contribution |