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**PROGRAMME : PUBLIC FINANCE MANAGEMENT
AND PRIVATE SECTOR RECOVERY
SUPPORT PROGRAMME (PAGFP-RSP)**

COUNTRY : CAPE VERDE

APPRAISAL REPORT

Date: 09/09/2011

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Currency Equivalents*As at 30 August 2011*

UA 1	=	ECV 123.648
EUR 1	=	ECV 110.1265
USD 1	=	ECV 76.831

Fiscal Year

1 January - 31 December

Abbreviations and Acronyms

ADB	African Development Bank
ADEI	Agency for Enterprise Development and Innovation
ADF	African Development Fund
ARAP	Public Procurement Regulatory Agency
BCV	Central Bank of Cape Verde (<i>Banco de Cabo Verde</i>)
BD	Board of Directors
CM	Council of Ministers
CoA	Court of Auditors
ECOWAS	Economic Community of West African States
ECS	Economic Transformation Strategy
EU	European Union
FDI	Foreign Direct Investments
GPRSP	Growth and Poverty Reduction Strategy Paper
GCAB	Budget Support Group
GDP	Gross Domestic Product
GoCV	Government of Cape Verde
GPRS	Growth and Poverty Reduction Strategy
HDI	Human Development Index
IGF	General Inspectorate of Finance
IMF	International Monetary Fund
INE	National Institute of Statistics (<i>Instituto Nacional de Estatística</i>)
MDG	Millennium Development Goal
MTEF	Medium-Term Fiscal Framework
MTEF	Medium-Term Expenditure Framework
NOSI	Operational Nucleus Information System
NPV	Net Present Value
ODA	Official Development Assistance
PEMFAR	Public Expenditure Management and Financial Accountability Review
PFM	Public Finance Management
PIP	Public Investment Programme
PSI	Policy Support Instrument
RBCSP	Results-Based Country Strategy Paper
SME	Small- and Medium-sized Enterprise
SIGOF	Integrated Budgetary and Financial Management System
TACV	Cape Verde Air Transport
TFP	Technical and Financial Partners
UCRE	State Reform Coordination Unit
UGA	Procurement Management Unit
UGAC	Central Procurement Management Unit
UNDP	United Nations Development Programme
VAT	Value Added Tax
WTO	World Trade Organization

Loan Information

Client Information

BORROWER	:	Republic of Cape Verde
EXECUTING AGENCY	:	Ministry of Finance and Planning

Financing Plan

Source	Amount (EUR)	Instrument
ADB	25 million	Loan (general budget support)
TOTAL COST	25 million	

ADB Key Financing Information

Type of Loan	Variable spread loan
Loan Currency	Euro
Loan Amount	EUR 25 million
Borrowing Rate	(a+b+c)
	a. Floating base rate with a free option of fixing the base rate (based on the 6-month EURIBOR)
	b. Margin on cost of borrowing: half-yearly weighted average of the difference between: (i) the Bank's refinancing rate operated on loans pegged to the 6-month EURIBOR applied to all loans in Euros with a floating rate; and (ii) the EURIBOR for each half-year ending on 30 June and 31 December. This spread applies to the rate of the 6-month EURIBOR fixed for 1 February and 1 August, and calculated on a half-yearly basis (1 January and 1 July)
	c. Lending margin: 60 basis points (0.60%)
Progressive commitment charge:	Ranging from 25 to 75 basis points, applicable to amounts non-disbursed within the timeframe negotiated in the loan disbursement calendar
Grace Period	Up to 5 years
Number of tranches	Two tranches: EUR 150 million disbursable in 2011 and EUR 10 million in 2012, subject to fulfilment of the conditions specified in the Loan Agreement.

Timeframe – Main Milestones (Expected)

Concept Note Approval	10 August 2011
End of the Appraisal Mission	9 September 2011
Programme Approval	7 December 2011
Effectiveness	(17 December 2011)
Completion	(31 December 2012)
Last Disbursement Deadline	(31 December 2012)

Programme Executive Summary

Programme Overview	<p>Programme Title: Public Finance Management and Private Sector Recovery Support Programme (PAGFP-RSP).</p> <p>Geographic Scope: Nationwide.</p> <p>Expected Outputs: Improved public debt management, increased transparency in public procurement and strengthening of expenditure control, creating an enabling environment for private sector development, especially small and medium-sized enterprises.</p> <p>Overall Timeframe: 14 months</p> <p>Programme Cost: EUR 25 million (ADB Loan)</p>
Programme Outcomes and Beneficiaries	<p>The RSP-PAGFP's main objective is to help consolidate economic growth and lower unemployment by: (i) improving public finance management (PFM) and macroeconomic stability; and (ii) creating an enabling environment for private sector development. The main expected outcomes are: (i) reducing the State's financial risks through improved public debt management and increased monitoring of the State's contingent commitments and liabilities; (ii) strengthening internal and external control of public finance systems, leading to shorter timeframes for submission of State accounts to the National Assembly and extension of controls to the entire public sector; (iii) consolidating competition in the award of public contracts by strengthening public control and reducing the number of single source contracts awarded; and (iv) improving the situation of small- and medium-sized enterprises (SMEs) in terms of access to credit and various forms of incentives, in order to absorb much of the idle workforce. The programme directly benefits the Government by helping to cover the financing gap of the general budget. It also benefits the private sector through support to improve the business environment. It will ultimately benefit Cape Verde's population through its domino effect on growth and unemployment.</p>
Needs Assessment	<p>The needs stem from the recovery policy which the Government is implementing in a context of declining foreign direct investment. To ensure effective implementation of its investment programme, the Government has sought assistance from technical and financial partners (PTFs). The Bank will help to cover certain needs with a loan of EUR 25 million from the ADB window. The loan will be disbursed in two tranches, of which EUR 15 million for fiscal year 2011.</p>
Bank's value added	<p>Over the past five years, the Bank has supported several reforms dealing with improvement of public finance management (PFM) and the private sector environment. The value added of the new programme lies in the fact that it targets SMEs and complements the support provided by other technical and financial partners (PTFs), including the World Bank. The programme has adopted a holistic approach to remove the constraints faced by SMEs, especially the difficulties in gaining access to financing, by a combination of PAGFP-RSP-backed reforms and institutional support aimed at strengthening the capacity of small and medium-sized enterprises (SMEs).</p>
Institutional Development and Knowledge Building	<p>The programme is based on several studies, including two carried out by the Bank, namely "Private Sector Profile in Cape Verde" and "Cape Verde: A Success Story." These studies were conducted in 2010 to identify, in particular, the potential and constraints of the private sector in Cape Verde, to serve as guidelines for future Bank and Government operations. The programme's implementation will also include a review of public expenditure management and financial accountability (PEMFAR), scheduled for 2011, with Bank assistance.</p>

Results-Based Logical Framework

RESULTS CHAIN		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/ MITIGATIVE MEASURES
		Indicator (including ISC)	Baseline Situation	Target		
IMPACT	Consolidate economic growth and reduce the unemployment rate	Real GDP growth rate	5.4% in 2010	>6% in 2013	Report on the implementation of the GPRSP	
		Unemployment rate	13.3% in 2009	< 12% in 2012		
IMPACT	Impact 1.a Improved budget and public debt management	Stock of State arrears	Reduction from 16% in 2009 to 0% in 2010	0% in 2011 and 2012	Report on the State's contingent commitments and liabilities	<p>Risks: External shocks on FDI, oil and foreign aid; poor performance of State corporations, delays in the adoption of texts by Members of Parliament</p> <p>Mitigative Measures: (i) investment in renewable energy to reduce reliance on the outside world; (ii) sound monetary policy in order to continue to attract remittances from the Diaspora; (iii) discussion with MPs to speed up the adoption of the bills.</p>
		Stock of energy sector arrears (Electra) owed to service providers (in %)	100% in 2010	< 90% in 2012		
	Impact 1.b Improved expenditure control systems	Timeframes for submission to the National Assembly of the General State Account (CGE) and the Notice of Compliance (NoC) from the Court of Auditors (CoA)	12 months on average for the CGE before 2010	6 months maximum en 2012	Report on the implementation of the public finance management (PFM) reform plan	
		Number of services covered by the inspections performed by the General Inspectorate of Finance (IGF)	24 months on average before 2010 for the CGE and NoC from the CoA	12 months on average in 2012		
		32 in 2010	>40 in 2012			
	Impact 1.c Public procurement is more transparent and more competitive	Number single source procurement contracts signed (in %)	10% in 210	<10% in 2012	ARAP annual report	
Average procurement time		8 months in 2010	<4 months in 2012			
Cases of dispute handled by the Public Procurement Regulatory Agency (ARAP) according to the new legislation in force		50% in 2010	100% in 2012			
Impact 2.a Improved private sector environment	Improvement in Cape Verde's ranking on the "Doing Business" index, especially as concerns the closing of business	183 rd /183 in 2010 compared with 131 st in 2009 and 178 th in 2008	At least 178 th in 2012	"Doing Business" annual report		
Impact 2.b Improved formalization and access of SMEs to credit	Number of SMEs registered in the Citizen's House network	913 in 2010	1,000 in 2012	Citizen's House		

RESULTS CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/ MITIGATIVE MEASURES
	Indicator (including ISC)	Baseline Situation	Target		
	Improved ranking of Cape Verde on the "Doing Business" index in respect of access to credit	152 nd /183 in 2010, compared with 131 st in 2009 and 68 th in 2008	At least 131 st in 2012	Report of IMF review	
OUTPUT	Component 1: Improvement in the management of public finances and in macroeconomic stability				
	Output 1.1 Adoption of a 2012-2015 medium-term strategy for the management of State debt	Availability of the strategy	The current strategy is no longer suited to the country's context	The State strategy is adopted before 31 December 2011	Copy of the strategy
	Output 1.2 Production of reports in 2009 and 2010 on the State's contingent commitments and liabilities	Availability of the two reports	The 2009 and 2010 reports have not yet been produced	The reports are produced by the Treasury before 31 December 2011	Copies of the two reports
	Output 1.3 Adoption of the public finance management system reform programme that emanated from PEMFAR recommendations	Availability of the new programme	The current programme is no longer suited to the country's context	The programme is updated on the basis of the PEMFAR recommendations	Copy of the new programme
	Output 1.4 Adoption by the Council of Ministers of the bill amending the functioning of the Court of Auditors (CoA)	Availability of the bill	The range of activities that the current law assigns to the CoA too broad	The bill was adopted in 2012	Copy of the bill
	Output 1.5 Appointment of the remaining members of the Board of the Public Procurement Regulatory Agency (ARAP) and members of the Dispute Settlement Committee	Effectiveness of appointment of members	The Boards of the PFRA/ARAP and Conflict Settlement Committee are not yet fully operational	The remaining members are appointed before 31 December 2011	Copy of the appointment decree or order
	Output 1.6 Audit by ARAP of public procurement contracts concluded in 2010	Availability of the audit report	No public procurement audit was conducted before 2010	The audit report is available before 30 June 2012	Copy of the audit report
	Component 2: Creation of an enabling environment for the revival of the private sector				
	Output 2.1 Adoption of the new Investment Code by the Council of Ministers	Availability of the new Investment Code	The Code in force is no longer suited to the country's context	New Code adopted before June 2012	Copy of the Code
	Output 2.2 Adoption by the Council of Ministers and the new Tax Incentives Code	Availability of the new Tax Incentives Code	Multiplicity of texts and non-compliance with certain WTO rules	New Code is adopted before June 2012	Copy of the Code

RESULTS CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/ MITIGATIVE MEASURES
	Indicator (including ISC)	Baseline Situation	Target		
Output 2.3 Signing of partners' contracts relating to the creation of the CV-Guarantee for the management of the mutual guarantee fund	Signing of contracts	Contracts not yet signed	Signing of partners' contracts before 31 December 2011	ADEI report	
Output 2.4 Introduction of new Citizen's House windows	Number of new windows opened	39 windows in 2010	56 windows in 2012	UCRE report	
Product 2.5 Start-up of two new business incubators	Number of incubators in operation	An incubator at PRAIA	Three incubators in operation	ADEI report	
See Annex 2 – Matrix of operational policies				ADB Loan Amount: EUR 25 million First tranche in 2011: 15 million Second tranche in 2012: 10 million	
KEY ACTIVITIES X					

MANAGEMENT'S REPORT AND RECOMMENDATION TO THE ADB BOARD OF DIRECTORS CONCERNING A PROPOSAL TO GRANT A LOAN TO THE REPUBLIC OF CAPE VERDE FOR FINANCING THE PUBLIC FINANCE MANAGEMENT AND PRIVATE SECTOR RECOVERY SUPPORT PROGRAMME (PAGFP-RSP)

I. THE PROPOSAL

1.1 Management hereby submits this proposal to grant a loan of EUR 25 million to the Republic of Cape Verde for use in financing the Public Finance Management and Private Sector Recovery Support Programme (PAGFP-RSP). This is the third general budget support programme granted to the country. It will be implemented over a 14-month period, from November 2011 to December 2012. It is in response to a request by the Government of Cape Verde (GoCV), dated 9 September 2011, and is in line with the Growth and Poverty Reduction Strategy Paper (GPRSP II) 2009-2011 as well as the Results-Based Country Strategy Paper (RBCSP) 2009-2012 approved in October 2009 by the Boards. The GPRSP II was adopted by GoCV in May 2008 and endorsed by donors in July 2008. The programme design was based on GoCV Development Policy Letter (see Annex 1) and took into account the good practice principles for the application of conditionality and the provisions of the Bank Group's non-concessional debt accumulation policy.

1.2 Over the past five years, Cape Verde has achieved good macroeconomic and social performance, capitalizing on the significant progress in democratic and financial governance. In 2008, the country moved up to the rank of middle-income country (MIC), joined the World Trade Organization (WTO) and strengthened its partnership with the European Union and the Economic Community of West African States (ECOWAS). At the Bank, the country was ranked in 2009 among blend borrowers, allowing it to gain access, up to 2015, to both the ADF concessional window and the ADB window. This MIC status presents a new challenge for the country: Cape Verde must further strengthen its economic and financial governance and revitalize the private sector to take advantage of this opening on global trade and international capital, maintain a high growth rate and reduce the unemployment that affects a large segment of the population.

1.3 This is the context within which falls the PAGFP-RSP, whose main goal is to help to strengthen economic growth and reduce unemployment by: (i) improving public finance management and macroeconomic stability; and (ii) creating an enabling environment for private sector development. Its main expected outcomes are: (a) reduction in the State's financial risks through better management of public debt and increased monitoring of the State's contingent commitments and liabilities; (b) strengthening of public finance internal and external control systems resulting in shorter timeframes for submission of State accounts to the National Assembly and for obtaining notice of compliance from the Court of Auditors, while widening the scope of controls to encompass the entire public sector; (c) consolidation of competition in the award of public contracts by strengthening public control and reducing the number of single source contracts awarded; and (d) improvement of the situation of small and medium-sized enterprises (SMEs) so as to absorb much of the idle workforce. This will swell the number of SMEs formally declared, as a result of the improvement of the business environment, easier access to finance and enhanced streamlining of the various forms of State incentives.

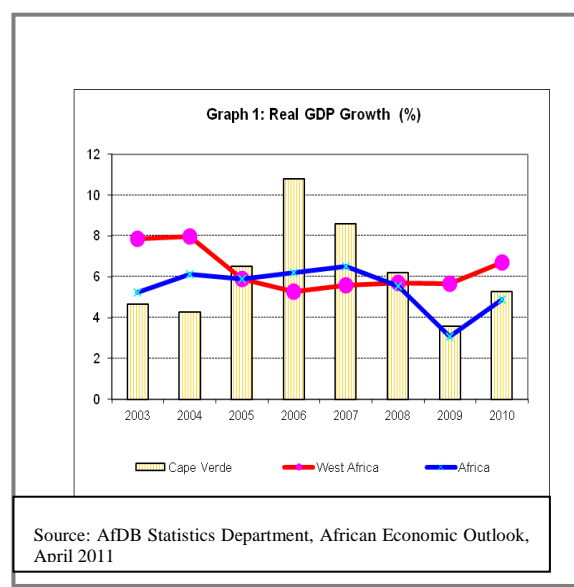
II. COUNTRY PROGRAMME AND CONTEXT

2.1 Recent Socioeconomic Developments, Prospects, Constraints and Challenges

2.1.1 Cape Verde is a small archipelago with about 500,000 inhabitants. The country has enjoyed socio-political stability over the past twenty years. It appears to be the best performing in West African in terms of governance policy, according to the Mo Ibrahim Index of African Governance (IIAG). In 2010, the IIAG ranked the country 4th out of 53 African countries, with the highest score for “Human Rights” and the 3rd place for “Safety and Rule of Law”. The parliamentary elections of February 2011 were swept by the African Party for the Independence of Cape Verde (PAICV) that has been in power since 2001, while in the presidential, held in August 2011, the main opposition party, Movement for Democracy (MPD), carried the vote. As regards corruption, Cape Verde ranks 45th out of 178 countries in the Transparency International Index for 2010. This is a high ranking, given that only two African countries (Botswana and Mauritius) had a better score.

2.1.2 During the period 2004-2008, Cape Verde’s economy recorded one of the best economic performances in Africa, before experiencing a slowdown in 2009 as a result of the global financial crisis. The tourism sector was the main driver of this growth, fuelled by significant foreign direct investment (FDI) which, in 2008 alone, reached about EUR 143 million. Real growth has remained stable at 7% per year on average and inflation has been relatively low (3%), except in 2008 when it peaked at 6.8% due to the international financial crisis. This crisis has revealed the high vulnerability of Cape Verde’s economy to external shocks. Indeed, it nearly halved the FDI in 2009 (EUR 86 million) as well as the revenue from the tourism sector. Consequently, economic growth in 2009 fell by half (3.6%).

2.1.3 Fortunately, the economic recovery policy undertaken by the Government of Cape Verde (GoCV) from 2009 has been successful. With technical support from the International Monetary Fund (IMF) through its Policy Support Instrument (PSI) and several technical and financial partners (TFPs), particularly the Bank¹, GoCV has implemented major reforms and accelerated the execution of its Public Investment Programme (PIP). Taking advantage of its accession to MIC status and thus to higher levels of funding, GoCV has embarked on major projects in transport, energy and water infrastructure. Lack of infrastructure in these areas is one of the key bottlenecks hindering private sector development. Thus, public investment reached 18.9% of GDP in 2010, compared with 14% on average in 2008 and 2009.



Growth rose to 5.4% in 2010 and, according to IMF projections, is expected to remain around 5.6% in 2011, with the continued implementation of the PIP. The economic and financial reform programme supported by the IMF through the PSI was completed in June 2010 and a new programme of the same kind adopted for the November 2010 to December 2011 period. The first review of this programme was conducted in May 2011 and was deemed satisfactory by the IMF.

2.1.4 However, the economic revival policy pursued by GoCV has accelerated the country’s debt levels. The budget deficit (excluding grants) amounted to 17% of GDP in 2010, compared with 11.8% in 2009 and 6.9% in 2008. Public debt at end-2010 was estimated

¹ In 2009, the Bank granted additional support of EUR 40 million to the Growth and Poverty Reduction Strategy Support Programme (GPRSSP II) approved in 2008.

at 66.4% of GDP in nominal terms and 44.3% of GDP in net present value (NPV). For countries with strong institutions such as Cape Verde, the IMF-World Bank Debt Sustainability Framework indicates that one of the debt threshold requirements for remaining in the low-risk category is having a debt-to-GDP NPV ratio of 50%. With the current trend, the NPV of the country's public debt could reach 49.6% of GDP by end-2013. However, it should be noted that Cape Verde's public debt remains sustainable. The country is actually well below the other thresholds, including the debt servicing-to-exports ratio, which was estimated in 2010 at 4.6%, compared with a 25% threshold. The new loans contracted by the State were granted on concessional terms for the most part. Debt servicing in 2010 accounted for only 4.6% of the country's goods and services exports.

2.1.5 Budgetary and financial management has improved significantly, although efforts are still needed to mitigate financial risks and strengthen public finance control.

The 2007 PEFA report noted that progress had been made in public finance management (PFM), especially in budget credibility and comprehensiveness (see Technical Annex 7). However, it noted the persistence of certain weaknesses in financial management, including internal and external control, monitoring and reporting on fiscal risk, the use of national management procedures for projects funded by external donors and multi-year budgeting through the medium-term expenditure framework (MTEF). Based on PEFA findings and lessons from the 2004-2007 PFM reform action plan, GoCV adopted a new action plan for 2009-2012. The plan mainly covers the following areas: (i) continued improvement of the GFP through public procurement reform, the clearance of domestic arrears owed by the State and the use of integrated management systems in the central administration and the municipalities; (ii) strengthening internal and external control systems; (iii) improving the dissemination and communication of GFP-related information; and (iv) improving the management and monitoring of public enterprises.

2.1.6 Key achievements include: (i) the deployment in all ministries of an Integrated Management Information System (IMIS) for State financial operations; (ii) the regular use of MTEF for the preparation of sector budgets and the general budget; (iii) the gradual establishment of new bodies in charge of procurement management and control; (iv) the restructuring of public enterprises in financial difficulty; and (v) comprehensive tax reform.

2.1.7 In the area of budgetary and financial management, these reforms resulted in the clearance of all domestic arrears of the State in 2010 and improved State cash flow management, as part of the Treasury Banking Project. This project has led to the opening of hundreds of bank accounts with the Treasury by various institutions that previously had their accounts with commercial banks. To reduce the financial risks related to businesses in difficulty, new laws were approved in 2009 and 2010 to strengthen the State's control and supervision powers over such businesses, especially with the obligation requiring the public Treasury to produce regular reports on the State's contingent commitments and liabilities. In the area of procurement, procurement management units (UGA) were established to coordinate the award of public contracts. Organs of the Public Procurement Regulatory Agency (ARAP) are also being set up. As regards tax reform, it resulted in the reduction in 2009 of personal income and corporate profit tax rates respectively from 45% to 35% maximum and 25% to 15%. With the country's official accession to the World Trade Organization (WTO) in July 2008, the texts will be revised for better alignment with the rules of the Organization. The new texts will also seek to streamline tax incentives, ensure greater liberalization of foreign trade and improve tax collection.

2.1.8 Despite progress in these areas, weaknesses persist in public expenditure control and public procurement where public enterprises are not subject to the law on public procurement.

Public debt management is undermined by the absence of a debt management strategy in line with the country's debt situation. Moreover, the persistence of the financial difficulties faced by the public energy and transport enterprises poses a financial risk for the State. It is also worth noting that, at the municipal level, the arrears on street lighting charges could entail additional expenditure for the State as it strives to pay off this debt.

2.1.9 Given the magnitude of the measures and reforms undertaken since PEFA 2007 findings, GoCV, with the support of TFPs, began a new evaluation of the public expenditure management and financial accountability (PEMFA) system in June 2011, in an effort to better refocus future reforms. In this initiative, the Bank is providing support for the public expenditure management and public procurement appraisal component. The findings of this appraisal should be available before end-2011, which will allow the updating of the action plan for improving PFM 2009-2012.

2.1.10 The monetary policy of the Central Bank of Cape Verde (BCV) has remained prudent. The BCV has maintained an acceptable level of foreign reserves to consolidate the pegging of the domestic currency (Escudo) to the Euro². Thus, the level of foreign reserves was increased from 4.1 months of imports in 2007 to 4.4 months in 2010. With the lessening of tension observed in 2009 and 2010 on international markets and the decline in inflation to 2.1% in 2010 (compared with 6.8 % in 2008), the BCV slightly eased its monetary policy by lowering its key rate by a percentage point to 4.25% in January 2010. The risks of misalignment of the Escudo and the Euro are slim because of the country's limited exposure to capital movements. However, the BCV will have to remain quite cautious in view of the financial crisis looming in the Euro zone and its impact on FDI. Indeed, the first half of 2011 witnessed a 50% decline in FDI flows to Cape Verde. Moreover, inflation has increased slightly, reflecting the impact of global energy price hikes on domestic prices. Since the beginning of 2011, the price of fuel (diesel) has gone up by 18%, and the prices of electricity and water have increased respectively by 27% and 15%. An inflation level of about 5.2% is expected by end-2011.

2.1.11 The business environment has improved notably thanks to the substantial reforms undertaken by GoCV, although sustained efforts are still necessary to remove the constraints that continue to impede the revival of the private sector. GoCV has adopted a comprehensive strategy for strengthening the country's competitiveness and ensuring the promotion of small- and medium-sized enterprises (SMEs). This strategy has four components, namely: (i) financial sector reform; (ii) facilitation of international trade; (iii) revision of the tax system; and (iv) improvement of the business environment (see Technical Annex 2). The implementation of this strategy has already led to major investments in economic infrastructure (energy, transport and water). As regards the regulatory framework, the State introduced, in April 2011, a new law on the bankruptcy of enterprises by adopting Legislative Decree No. 22/2011 and has started revising the Investment Code and the Tax Incentives Code. Concerning the institutional framework, GoCV has set up a number of agencies to support the private sector, including: (i) the Citizen's House: a one-stop shop for business creation, tax payments and other services; (ii) the Agency for Enterprise Development and Innovation (ADEI) to provide SMEs with support and guidance; and (iii) the Cape Verde Investment Promotion Agency (*Cabo Verde Investments*) for the promotion of investment and tourism. These reforms, channelled through the Government Reform Coordinating Unit (UCRE), have resulted in a marked improvement in the country's ranking

² Pegging to the Euro is managed by an exchange committee and covered by an EUR 150 million Portuguese Credit Facility. The Facility may be increased up to EUR 250 million, if necessary.

in the Doing Business 2011 Report. The country has improved by 10 places, in one year, from the 142nd to 132nd position out of 183 countries, on the basis of which it was named as one of the world's four most dynamic reformers in 2011.

2.1.12 However, it should be underscored that SMEs, which employ about 40% of the country's active population, continue to face major constraints. One of such constraints is unfair competition from some businesses, particularly those operating in the informal sector, due to the weakness of the monitoring agencies or sometimes the lack of regulation (Technical Annex 4 provides details on the informal sector and employment in Cape Verde). Another major constraint cited by SMEs is the difficulty of gaining access to funding. Besides these two major constraints, delays in court decisions should also be mentioned, stemming from the absence of specialized courts. Some SMEs prefer to operate in the informal sector mainly due to lack of information, the desire to evade taxes and the inadequacy of incentives. It is also worth noting that in some parts of the country, access to the Citizen's House is not always easy. As for the constraints SMEs face in accessing financing, they are mainly due to the absence of guarantees and the low management capacity of these enterprises. GoCV has reviewed the regulatory framework relating to the processing of bankruptcy cases, particularly to facilitate debt collection, but the implementation of the provisions is not yet effective in agencies of the Citizen's House. Although the cost of property registration in the commune land registry has dropped³, the unreliability of the land registry does not encourage banks to grant loans. Moreover, the low capacity of SMEs is a critical barrier affecting the quality of their applications for funding.

2.1.13 On the social front, the past decade has witnessed a significant improvement in the living conditions of the population, but unemployment remains a major concern for GoCV. The country has already achieved four of the eight Millennium Development Goals (MDGs) and has made remarkable progress towards achieving the remaining goals by 2015. The incidence of poverty has, in fact, declined by almost half, from 49% in 1989 to 24% in 2010. About 90% of the population has access to safe drinking water and the country has one of the highest schooling levels in the continent, with a gross primary school enrolment ratio estimated in 2009 at 105% for boys and 98% for girls. Cape Verde's human development index (HDI) in 2010 was 0.534, ranking the country 118th out of 169 countries. Life expectancy at birth in 2010 was estimated at 68.9 and 76.1 years for men and women, respectively. As regards gender, women represent 51.6% of the total population and 46% of the workforce. The Constitution and various codes (criminal, electoral, labour and family) provide for gender equality. Substantial progress has been achieved over the past 15 years in the area of gender, as shown by the Gender-related Development Index, estimated at 0.723 in 2010. However, unemployment remains relatively high despite GoCV's considerable efforts that have helped to bring it down from 26% in 1998 to 13.3% in 2008. Unemployment is unequally distributed among the various islands, and particularly affects young graduates, women and rural areas. This reflects a degree of mismatch between training and employment, as well as the difficulties of migration between the islands.

2.1.14 Prospects, key constraints and major medium-term challenges. Cape Verde's economic progress is limited by three types of constraints: harsh natural conditions, dependence on foreign countries and the business environment. Nature has imposed on the country a narrow production base characterized by the lack of natural resources and the aridity of its soil, leaving little arable land. The limited number of economic activities (tourism and fishing) makes Cape Verde vulnerable exogenous shocks both internally and

³ Following the adoption of Decree-Law No. 70/2009 of 2009, the cost of registering property ownership transfers was reduced to a fixed rate as opposed to the previous ad-valorem rates.

externally. Moreover, the country's insularity and lack of transport, electricity and irrigation infrastructure has an adverse impact on the production costs of businesses, thus limiting the competitiveness of local products. Economic dependence on the outside world is strong because the economy is based mainly on tourism revenue, FDI and remittances. Official development assistance (ODA) finances virtually Cape Verde's entire public investment programme (PIP), or 97.4% in 2010 and 77.6% in 2011. According to the medium-term budgetary framework (2012-2014), ODA would represent 87.3% of the PIP on average. In this context, the financial difficulties of Western countries could affect growth in Cape Verde.

Table 1
Cape Verde, Macroeconomic Framework 2011-2013
(In percentage of GDP, except as otherwise indicated)

	2009	2010	2011	2012	2013
	Est.	Est.	Prog	Proj	Proj
Real GDP	3.6	5.4	5.6	6.4	6.2
Inflation – Consumer Price Index (average)	1.0	2.1	5.2	4.8	2.8
Budget Revenue	23.6	21.9	23.4	23.0	22.9
External Grants	5.4	6.3	5.7	4.6	4.1
Total Expenditure	35.3	38.9	39.4	36.7	33.5
Overall Balance (including grants)	-	-	-	-	-
	11.8	17.0	16.0	13.7	10.6
Nominal Debt	63.0	66.4	67.2	72.4	74.9
NPV of public debt/GDP (moderate risk threshold: 50%)		44.3	46.7	48.9	49.6
Current Account Balance (including official transfers)	-	-	-	-	-
	15.3	11.3	13.0	12.2	11.0
Foreign Direct Investment (EUR million)	86	84	90	92	101
Overall Balance of Payments	-1.0	1.2	1.9	2.6	2.1

Source: IMF Country Report No. 11/254, August 2011

2.1.15 In the coming years, Cape Verde's challenges will include: (i) broadening its productive base by diversifying the economy and improving its competitiveness; (ii) generating sufficient domestic funds to finance the completion of its PIP; and (iii) developing domestic entrepreneurship to create as much wealth as possible. According to the macroeconomic framework agreed upon by the authorities and the IMF, growth should reach 5.6% in 2011, virtually the same level as 2010. In 2012, growth is expected to bounce back to 6.4% with the spikes in FDI and the improved performance of tourism.

2.2 GoCV Development Strategy and Medium-term Reform Priorities

2.2.1 GoCV has developed a long-term vision set out in the Economic Transformation Strategy (ETS) adopted in 2003. Under this strategy, Cape Verde would become an emerging country by developing high-end tourism, fisheries products, international transport and information technology. Achieving this goal would also improve the competitiveness of the economy brought about by gains in good governance, human capital qualification, deepening of State reforms and creation of an enabling environment for private sector development. These ETS guidelines and those set out in the Government Programme for the Seventh Legislature (2006-2011) are outlined in the 2008-2011 PRSP II, whose objective is to generate double-digit growth and reduce unemployment to less than 12%. It is centred on five pillars: (i) State reform; (ii) human resource development; (iii) promotion of competitiveness; (iv) strengthening of the economic infrastructure; and (v) strengthening of social cohesion. This strategy will end by late 2012. Pending the preparation of a new strategy by end-2011, GoCV has submitted a Policy Statement to Parliament setting out the main challenges that the country will face over the next five years: (a) promoting private sector growth, investment and

productivity; (b) promoting good governance; (c) upgrading and developing infrastructure; and (d) promoting social development. The PTFs have given assurances that they would continue to provide the country with concessional resources until 2015 to finance GoCV's programme.

2.2.2 GoCV's strategy for achieving higher growth and lowering unemployment hinges on developing the private sector and attracting foreign direct investment. It relies primarily on the consolidation of democratic and economic governance. Although the country already has high quality public institutions and a good score for democratic and financial governance, its newly acquired MIC status implies that it has to strive harder to meet international standards. In addition to the reforms directly related to the promotion of the private sector, including amendment of the Investment Code, the Tax Incentives Code and facilitating access to credit, GoCV must continue with PFM reforms. These reforms will aim at ensuring the sustainability of the macroeconomic framework in the medium and long term, with a view to maintaining the confidence of economic operators. Focus will be placed on measures aimed at increasing transparency and competition, particularly in public procurement. Thus, GoCV will, in 2011, continue the reforms initiated in 2009 and 2010, but which could not be carried through because of the pre-election climate that prevailed in 2010. Further reforms should be expected after PEMFAR findings.

2.3 *Status of Bank Group Portfolio*

2.3.1 As at 31 July 2011, the Bank Group's portfolio in Cape Verde consisted of two operations: (i) the Project to Strengthen Electricity Production, Transport and Distribution Capacity on Santiago Island, approved in November 2007, financed with ADF funding (UA 4.8 million); and (ii) the Cabéolica Wind Energy Project, approved in May 2010, financed from the ADB private sector window (co-financed with the EIB) for UA 12.9 million. The first project is co-financed with the Japan International Cooperation Agency (JICA) and the ECOWAS Bank for Investment and Development (EBID). It aims to improve the quality of electricity supply on Santiago Island. The second project involves the construction and operation of onshore wind power plants on four islands (Santiago, São Vicente, Sal and Boavista). The project will provide an electricity generation capacity of over 28 MW and help the archipelago to achieve its ambitious target of producing 25% of its electricity locally from renewable energy sources by 2012. As of end July 2011, the disbursement rates were 63.9% and 64.5%, respectively.

2.3.2 The overall performance of the portfolio is deemed satisfactory, with a score of 2.3 (on a scale of 0 to 3). This is a slight improvement compared with the 2009 situation where the score was 2.2. The progress is mainly due to improved performance within the Government as a result of close project implementation monitoring. The Bank's operations in Cape Verde are coordinated by the Ministry of Finance and Planning through the Department of National Planning (DNP). The implementation, carried out by the technical ministries through the project units, was characterized overall by high levels of programme ownership and good governance. To further consolidate this performance, the Government and the Bank should improve the design of operations and reduce delays in the procurement process.

III. RATIONALE, MAIN ELEMENTS OF PROGRAMME DESIGN AND SUSTAINABILITY

3.1 *Linkages with CSP, Underlying Analytical Elements and Assessment of Country Preparedness*

3.1.1 The Bank's intervention strategy for 2009-2012 was approved in October 2009, confirming the country's transition from category A to B (blend borrower). From the standpoint of the Bank's credit policy, the country now has access to both ADB non-concessional resources and ADF concessional resources until 2015. Thereafter, the country will have access only to ADB resources. Therefore, the preparation of the Results-Based Country Strategy Paper (RBCSP) 2009-2012 marks a new partnership with the country, geared towards supporting its goal of economic transformation.

3.1.2 The Bank's strategy is based on two pillars: (i) supporting the gains of sound economic and financial governance; and (ii) contributing to infrastructure development. These two pillars are in line with three strategic axes of the PRSP II: (a) State reform; (b) promotion of competitiveness; and (c) strengthening of economic infrastructure. Under the first pillar, the Bank had undertaken to support the country in 2009 and 2010, through increased resources backed by the second Growth and Poverty Reduction Strategy Support Programme (GPRSSP II) approved in 2008. A third budget support programme for an estimated UA 10 million was planned for 2011, for the continuation of reforms initiated since 2008.

3.1.3 The PAGFP-RSP is the third programme envisaged under the Bank's strategy. In view of the progress already made and the new challenges facing the country in terms of financial governance and competitiveness, it was agreed with GoCV that the RSP-PAGFP would run for the remaining two years of the Bank strategy (2011 and 2012). The measures proposed by the programme are in line with the priorities set out in GoCV Policy Statement, namely: (i) promoting private sector growth, investment and productivity; and (ii) promoting good governance.

3.1.4 The prerequisites for budget support to Cape Verde have been fulfilled.

Table 2
General Budget Support Prerequisites

Conditions precedent	Target	Observations
General conditions	Political stability	The country has been politically stable for the past twenty years. The parliamentary and presidential elections, held respectively in February and August 2011, went smoothly.
	Economic stability and GoCV commitment	The country has recorded one of the best economic performances in Africa in recent years, which led to its being raised to the status of middle-income country in 2008. The new GoCV emanating from the February 2011 parliamentary election renewed its commitment to pursue economic and financial reforms in a Policy Statement before the National Assembly.
Technical conditions	Existence of a PRSP and its implementation mechanisms	The 2008-2011 GPRSP II is in force. The implementation mechanism works relatively well. Pending the release of a new strategy for the period 2012-2017, GoCV has presented a Policy Statement defining the country's priorities for the next five years.
	Sustainable medium-term macroeconomic and financial framework	Over the past three years, the country has satisfactorily implemented a financial programme supported by the IMF Policy Support Instrument (PSI). The macroeconomic framework is sustainable, but the debt policy should be strengthened to maintain public debt sustainability.
	Effective partnership between Cape Verde and donors	Budget support to Cape Verde is provided under "specific budget support arrangements" and "sector-specific arrangements". These arrangements define the framework for cooperation between GoCV and TFPs on budget support. Coordination works relatively well. A common matrix of indicators and triggers approved by all the TFPs and GoCV is effective for the period 2009-2011.
	Satisfactory fiduciary review of the PFM system (use of the country's system)	The 2007 PEFA considered that the country's fiduciary environment is robust despite a number of weaknesses in the internal and external control system. Budget credibility has improved with regular use of the MTEF in preparing the State budget. GoCV began updating the PEMFAR in 2011, and the latter's findings will help fine-tune the PFM improvement plan. The Bank takes part in updating the PEMFAR sections relating to public expenditure review and the public procurement system. Detailed fiduciary risk analysis deemed the risks moderate overall (see Technical Annex 1).

3.1.5 Studies carried out to underpin the programme. The programme drew on several analytical works by GoCV and the PTFs, including: (i) the 2007 PEFA appraisal; (ii) the 2009 public expenditure effectiveness review; and (iii) financial system stability assessment (IMF, 2009). The programme has also drawn on a study by UNIDO on improving the business climate in Cape Verde (2011) and on the 2010 GPRSP II implementation monitoring report.

3.2 Donor Collaboration and Coordination

3.2.1 Budget support interventions of development partners in Cape Verde are carried out within the framework of "specific budget support arrangements" and "sector-specific arrangements". In this regard, the seven donors (Austria, the World Bank, the ADB, the EU, the Netherlands, Spain and Portugal), meeting within the consultative Budget Support Group (BSG), put in place a common matrix of measures for coordinating their support, besides conducting regular joint supervision missions. The strengthening of its Regional Office in Senegal (SNFO) has enabled the Bank to participate regularly in BSG supervisory activities and intensified contacts with the authorities and partners.

3.2.2 Within the PAGFP-RSP framework, the Bank has intensified its cooperation with the BSG. In 2011, French Cooperation, the UNDP and the World Bank pledged to finance the building of the Court of Auditors in an effort to improve the external control system. Spanish Cooperation intends to finance training for those involved in public procurement. The World Bank is supporting the strengthening of Cape Verde's competitiveness through an institutional support project. The PAGFP-RSP complements these activities with specific measures aimed at promoting the development of SMEs, including by facilitating access to credit.

3.3 *Results and Lessons from Similar Operations*

3.3.1 During the 2006-2010 period, the Bank financed two budget support programmes whose results were deemed satisfactory, overall. With respect to PFM, these two programmes mainly supported the following measures: (i) improving budget planning and allocation through generalization of the MTEF; (ii) improving debt management by settling cross debts between the central Government and the energy sector; (iii) reforming the public procurement system; and (iv) ensuring the effectiveness of budget implementation monitoring and evaluation. With regard to improving the business climate, the Bank supported the easing of tax pressure on businesses, the improvement of energy production and lowering the cost of establishing a business. Technical Annex 6 provides details on the achievements of the Second Poverty Reduction Strategy Support Programme (PRSSP II). The Bank published the programme's completion report in June 2011.

3.3.2 The first lesson learned by the Bank from these two programmes is the need to maintain support for PFM reforms in order to consolidate the gains and improve the country's situation in areas where there are still weaknesses, including debt control and management systems. The second lesson relates to the private sector, namely the need for the Bank to become more involved in developing local entrepreneurship, particularly women's entrepreneurship. With this in mind, creating an environment that is more conducive to private sector development and in particular SMEs will be a major PAGFP-RSP component. To enhance the Bank's effective contribution to supporting SMEs, the programme will be accompanied by a project aimed at building the capacity of SMEs to have access to credit, (the project will be financed from resources of the Technical Assistance Fund for Middle-Income Countries).

3.4 *Linkages with other Bank Operations*

The programme follows in the footsteps of the past two budgetary support initiatives. In addition, it draws from two studies funded by the Bank, namely: "Private Sector Profile" and "Cape Verde: A Success Story." These studies were conducted in 2010 to identify, in particular, private sector potential and constraints in Cape Verde with a view to providing guidance for future Bank and GoCV operations. The programme also complements previous Bank initiatives by financing investment projects in transport and energy infrastructure, which are seen as major obstacles to business development in Cape Verde.

3.5 *Bank's Comparative Advantages*

Over the past five years, the Bank has supported several reforms focused on improving the PFM and on the private sector environment. The new programme's value added lies in the fact that it is targeted at SMEs, and its operations are complementary to those of other PTFs. Indeed, besides pushing for measures that will positively impact the business environment, the programme will support actions directly related to SMEs, including facilitating their

formalization and improving their access to finance. This will be complemented by other measures, such as assistance through the business incubator creation project and capacity building.

3.6. *Good Practice Principles for the Application of Conditionality*

In accordance with good practice principles for the application of conditionality, the preparation phase of this programme entailed continuous dialogue with the authorities on the first disbursement triggers to ensure their effective completion prior to the programme approval. This helped to strengthen the predictability of the programme resource disbursement timeframe. There is also on-going dialogue on measures relating to the second tranche of the loan to ensure that they are effectively implemented on schedule and that the resources are disbursed as per the agreed calendar.

3.7 *Application of Bank Group Policy on Non-concessional Lending*

Given that Cape Verde attained category B or "blend borrower" status since 2009, the funding programme took account of the loan ceiling authorized by the Bank, in consultation with the IMF, in order not to compromise the country's debt sustainability. In 2009, this ceiling was estimated at UA 98 million for the 2009-2013 period. It was revised in 2011 to UA 251 million for the 2011-2014 period, with UA 77 million being available in 2011.

IV. PROPOSED PROGRAMME AND EXPECTED OUTCOMES

4.1 *Programme Goal and Objective*

4.1.1 The ultimate goal of the programme is to help consolidate economic growth and reduce the unemployment rate. The main challenge facing GoCV for the next five years is achieving a growth rate of at least 6% and reducing the unemployment rate to less than 12% by 2012. Programme resources will help GoCV to continue its economic recovery programme and buttress the sustainability of the macroeconomic framework. The programme is divided into five operational objectives, namely: (i) improving fiscal and public debt management (see *Impact 1a* of the Logical Framework); (ii) improving expenditure control systems (see *Impact 1b* of the Logical Framework); (iii) improving transparency and competition in public procurement (see *Impact 1c* of the Logical Framework); improving the private sector environment (see *Impact 2a* of the Logical Framework); and (iv) improving the formalisation of businesses and access to loans for SMEs (see *Impact 2b* of the Logical Framework).

4.1.2 The Bank's intervention in 2011 is justified by the country's technical and financial assistance needs, two years after joining the ranks of middle-income countries. With the gradual decline of the country's access to concessional resources, the authorities should be prepared to resort increasingly to non-concessional borrowing to finance their development programme. This shift towards non-concessional borrowing entails a number of challenges for Cape Verde. One of the primary challenges involves the strengthening of budget management, especially the public debt, in order to contain budget deficit and financial risks. Just as importantly, other challenges focus on enhancing private sector competitiveness and promoting SMEs in order to strengthen growth and reduce vulnerability to external shocks.

4.2 *Programme Pillars, Objectives and Financing Arrangements*

4.2.1 The PAGFP-RSP comprises two components: (i) improving public finance management (PFM) and macroeconomic stability; and (ii) creating an enabling environment

for private sector development. The reforms supported in both components are complementary and contribute to creating the enabling environment for private sector development and growth that are less vulnerable to external shocks. Improving PFM will help to maintain a sustainable macroeconomic environment and stimulate competition. As for the other measures, they will improve the business climate and conditions for operating SMEs.

Component I – Improving PFM and Macroeconomic Stability

4.2.2 Through this component, the Programme will support reforms in the following areas: (i) budget and financial management; (ii) expenditure control systems; and (iii) transparency in public procurement.

4.2.3 **Budget and financial management.** Over the past three years, GoCV has made significant progress in budget management that needs to be consolidated based on the recommendations of the PEMFAR appraisal, which is expected by end-2011. As part of debt management, past reforms dwelled on: (i) building the capacity of the debt management unit; (ii) integration of all funds from autonomous institutions into the State's cash flow management system; (iii) non-accumulation of payment arrears; and (iv) clearing of cross-debts between the Government and public enterprises. Each year, the Finance Law places a statutory limit on the domestic debt level but allows great flexibility in respect of external debt. GoCV managed to keep the domestic/public debt ratio below 20% of GDP (in net terms) over the 2008-2010 period. However, the recovery policy conducted in 2009 and 2010 led to a rise in the country's external debt. Moreover, although there are no more cross-debts between the Government and public enterprises, the debt situation of some public enterprises continues to be a financial risk for the State.

4.2.4 **Recent GoCV actions.** As regards budget management, GoCV has conducted a review of budget nomenclature to be more in line with international standards. In addition, it prepared a draft law on the budgetary framework which should require an annual update of the MTEF. With respect to financial and debt management, priority has focused on strengthening the monitoring of Government's contingent commitments and liabilities, and fostering Treasury banking. Hence, the law and regulations on the status of public finance administrator and the governance principles for public corporations were approved in 2009 and 2010. The initial reports on the State's contingent commitments and liabilities were produced in 2008. Within the context of implementing the project to promote Treasury banking, a State company called "Operational Nucleus Information System (NOSI)", specializing in information technology, has developed a computer platform for managing public securities auction mechanisms. This platform should be operational by end-2011.

4.2.5 **Remaining challenges.** GoCV should update the plan to improve PFM for 2009-2012, based on the findings and recommendations of PEMFAR 2011. Pending the adoption of the new action plan, some key reforms and measures already initiated by GoCV should be continued. They are: (i) submission to the National Assembly of bills on the budget framework and nomenclature; (ii) development of a medium-term public debt management strategy and adoption of an action plan for improving the public debt management system; (iii) assessment of the debt owed by municipalities to Electra and adoption of a settlement plan; (iv) operationalization of the IT platform for managing public securities auction mechanisms; (v) regular production of audited accounts of public enterprises and reporting on the State's contingent commitments and liabilities, in particular the 2009 and 2010 reports; and (vi) the continued restructuring of public enterprises in difficulty.

4.2.6 **Programme measures:** Given its limited duration (14 months only), the programme envisages implementing the following measures: (i) adoption by GoCV of a medium-term public debt management strategy and an action plan for improving the public debt management system; (ii) production of audited accounts of TACV and Electra; (iii) production of reports on contingent commitments and liabilities for 2009 and 2010; (iv) continued restructuring of public enterprises in financial difficulty; and (v) updating the PFM reforms programme, while taking PEMFAR recommendations into account.

4.2.7 **Expected outcomes.** (i) Outstanding State arrears are maintained at zero; and (ii) contingent commitments, especially Electra's arrears, are reduced by 10% at end-2012.

4.2.8 **Internal and external expenditure control system.** At the internal level, the ex-post expenditure control system hinges on the General Inspectorate of Finance (IGF) and, externally, on the Court of Auditors (CoA). These two institutions, set up respectively by Decree-Law No. 130/92 of 23 November 1992 and Law No. 84/IV/93 of 12 July 1993, are facing capacity constraints that affect the quality of controls. With regard to the IGF, it has had only 17 inspectors for about 10 years, compared with the 89 provided for by the organic Decree-Law, as amended in 2005. They conduct inspections with outdated procedures manuals. These capacity constraints affect the: (i) quality and coverage of inspections; (ii) frequency of inspection reports; and (iii) monitoring of the implementation of recommendations. As for the CoA, which currently has 26 auditors and four judges, its capacity to rule on public accounts matters within the timeframe stipulated by law and to undertake audits are weakened by lack of training for auditors, the lack of procedures manuals and especially the legal obligation to conduct ex-ante controls on contracts and commitments made by public entities. These ex-ante checks absorb much of the CoA resources and restrict its ability to perform its other missions. In addition, the scope of the CoA's jurisdiction is limited by law. To date, CoA controls do not extend to public enterprises and foreign-financed projects, which leaves a significant portion of public spending without external control.

4.2.9. **Recent actions undertaken by GoCV.** Considering that the country will receive increasingly less concessional financing, IGF has stepped up its checks on government agencies that collect taxes and other revenue, to increase their efficiency. Hence, in 2010, the IGF conducted a performance audit of the Directorate General of Contributions and Taxation (DGCI), the Directorate General of Customs (DGC) and six institutions in the education sector. To improve the quality of its inspections, the IGF has begun building the operational capacity of its officers, with the technical and financial support of the EU. For 2011, inspectors are expected to have access to SIGOF to better guide their inspections towards higher-risk areas. In addition, the IGF also intends to resume the audit of municipalities that had been suspended in 2010 due to the elections. Of the five municipalities it had intended to audit in 2011, two have been audited. With regard to the CoA, it had begun the revision of the Organic Law of 1993 to strengthen its mission and the content of its controls since 2004. The key changes included in this bill are: (i) flexibility in the ex-ante control and greater attention paid to ex-post controls; (ii) adoption of new control criteria (economic productivity); (iii) gradual broadening of the scope of the control to cover the entire public sector; and (iv) reduced timeframe for the submission of the General State Account and the CoA's Notice of Compliance to the National Assembly (NA). Pending the entry into force of this new law, the Government and CoA are already making efforts to reduce deadlines. The accounts for 2007 and 2008 have already been tabled before the NA, together with the CoA's Notice of Compliance. The 2009 accounts have been submitted to the NA and the CoA's Notice of Compliance is expected before end-2011.

4.2.10 Remaining challenges. As underscored in 4.2.8, the main constraints facing the IGF and CoA lie in their weak capacity. With regard to the IGF, the main challenge of GoCV will be to increase the number of inspectors and provide them with adequate training. Furthermore, the IGF will prepare procedures manuals, including a quality control manual and an audit manual. In addition, it should: (i) develop a database of information on audited financial statements; (ii) establish an evaluation system for its own inspection operations; and (iii) extend the scope of its inspections to other sectors, including health, employment, education and social projects. The interconnection of IGF to SIGOF would facilitate the orientation of inspections to areas where the risks are most concentrated. The same holds true for the CoA, which has requested it to also facilitate and speed up its controls. The CoA, which has already received technical assistance from several TFPs (the World Bank, the EU, the UNDP, France and Portugal), should: (i) resubmit a new organic law to GoCV; and (ii) formulate a medium-term strategy for the improvement of external control and an operational plan for its implementation. Furthermore, it should have a procedures manual.

4.2.11 Programme measures. With respect to internal control, the programme will support the following: (i) adoption, by the IGF, of a strategic plan for 2012-2014 and preparation of a procedures manual; (ii) introduction of an evaluation system for IGF operations; and (iii) increase in the number of inspectors in 2011 and 2012, and inspection of at least five municipalities per year, starting 2011. At the level of external control, the programme will support: (a) the submission to the National Assembly of the General State Account and the CoA's Notice of Compliance within 12 months; (b) CoA's access to SIGOF; (c) the adoption, by the Council of Ministers, of the draft organic law to revise the functioning of the CoA; and (d) the adoption, by the CoA, of a strategic plan to improve external control.

4.2.12 Expected outcomes. (i) Reduced timeframe for submission to the National Assembly of the General State Account and the Notice of Compliance issued by the CoA, from 24 months on average before 2009, to 12 months, from the 2011 fiscal year; and (ii) increase in the number of services covered by IGF inspections from 32 in 2010 to over 40 in 2011 and 2012, and basing these inspections on risk analysis.

4.2.13 Public Procurement. GoCV began revising the public procurement (PP) system, leading to the adoption of a new law on PP in July 2007 and its implementation in January 2008. The implementation of this law led to the setting up of ARAP and UGAs in five key ministries (Health, Infrastructure, Education, Interior and Administration) and within the central services of the Ministry of Finance and Planning (UGAC). Progress registered in procurement resulted in a reduction of contracts on a single source basis. However, the operationalization of the structures provided for by law should continue, including the appointment of all ARAP Board members, the appointment of Dispute Resolution Committee members and the operationalization of the Directorate of Procurement Services (DSCPE) responsible for overseeing the activities of UGAs and UGAC. In addition, the law on PP should be revised to further specify the duties of various structures, especially the ex-ante control of public procurement which is carried out concurrently by the CoA. Furthermore, it is worth noting that public enterprises are not subject to public procurement rules.

4.2.14 Recent actions undertaken by GoCV. GoCV has sought to consolidate ARAP through the internal validation of its audit, training, PP policy formulation and conflict resolution activities. A training plan has been drawn up for 300 persons and an awareness programme put in place to sensitize municipalities to PP instruments. Procedures manuals are being prepared for UGAs, audit and supervision activities. In collaboration with NOSI, the Directorate of Heritage and Procurement has initiated the installation of a computerized

procurement system comprising an interface with the ARAP website. In the same context, it is also developing a portal to provide procurement-related information and allow businesses to bid online. An audit of PPs awarded in 2010 is planned for 2011 by the ARAP. It will be the first audit of its kind conducted ever since the 2008 reforms and will allow ARAP to prepare a medium-term strategy for improving the public procurement system.

4.2.15 Remaining challenges. (i) Appoint all the Dispute Resolution Committee and ARAP Board members; (ii) undertake an audit of procurement contracts awarded in 2010 by UGAC and UGAs; (iii) adopt a strategy and action plan for 2012-2014 aimed at improving the procurement system, while taking into account the findings of the audit and PEMFAR 2011; (iv) draft the UGA procurement process audit manual; (v) conduct the study on ARAP's financial empowerment strategy; and (vi) prepare a draft law to amend the law on public procurement.

4.2.16 Programme measures. The programme will ensure the implementation of the following measures: (i) Appoint all the Dispute Resolution Committee and ARAP Board members; (ii) undertake an audit of procurement contracts awarded in 2010 by UGAC and UGAs and adopt a plan for implementing audit recommendations; and (iii) adopt a strategy and action plan for 2012-2014 aimed at improving the procurement system, while taking into account the findings of the audit and PEMFAR 2011; and (iv) prepare a draft law to amend the law on public procurement.

4.2.17 Expected Outcomes. Reduce the average procurement timeframe from eight months in 2010 to four months in 2012; maintain the proportion (by value) of contracts awarded on a single source basis below the 10% ceiling; and process all dispute cases by ARAP starting 2012, against 50% of cases processed in 2010

Component II - Creating an Environment Conducive to Private Sector Recovery

4.2.18 Ninety percent (90%) of the Cape Verdean private sector is still dominated by micro-, small- and medium-sized enterprises (SMEs), about 84% of which are sole proprietorships. Most of them still face a number of constraints, namely: (i) a very small domestic market, compounded by the lack of infrastructure to foster the opening-up of various parts of the country; (ii) high cost of production factors such as energy, transportation and a relatively rigid labour market; (iii) delays in court decisions; (iv) taxes and other charges are deemed excessively high by micro- and small-sized businesses; and (v) difficult access to bank loans for SMEs, given their inability to provide collateral securities acceptable to banks.

4.2.19 Recent actions undertaken by GoCV. GoCV adopted a strategy that has four components, namely: (i) financial sector reform; (ii) facilitating international trade; (iii) revising the tax system; and (iv) improving the business climate. (See Technical Annex 3 for details on the Government's strategy). Regarding the business environment, the measures taken by the Government focused on the introduction of legal arrangements for the closure of companies and debt collection, through the adoption of Decree-Law No. 22/2011 on company bankruptcy in April 2011. In addition, GoCV engaged dialogue with stakeholders, which led to the revision of the Labour Code in 2010. However, its effects are not yet apparent, given that the labour market is still very rigid (see Technical Annex 2, 20). With respect to the acceleration of court decisions, an Arbitration Division was established in the Barlavento Chamber of Commerce and the specialization of the courts as well as the computerization of court registries is being considered. At the taxation level, significant efforts have been made to simplify and reduce taxes. Taking into account the country's accession to the WTO in July

2008, the Government intends to revise the Tax Incentives Code and the Investment Code in 2011 and 2012, in order to adapt them to the country's new context. In the financial sector, GoCV has begun a review of the legal and regulatory framework, following the recommendations of the Financial Sector Assessment Programme (FSAP) conducted in 2008 by the IMF. It is envisaged that a review of the legal framework governing the operations of individual offshore banks will be conducted to align it with the general framework. At the institutional level, the State has created several organizations to support the private sector as outlined in paragraph 2.1.11. Regarding access to loans, which is a major constraint for SMEs, a bank called Banco Novo was created to target small- and micro-sized enterprises. In addition, ADEI has begun the establishment of a mutual guarantee fund. It has also initiated a project on business incubators, which aims to support young entrepreneurs to set up business by providing them with equipped premises and close supervision at low cost. For their part, the Chambers of Commerce are considering the incorporation of a private credit bureau.

4.2.20 Remaining challenges. For the business environment, the new Investment Code and the Tax Incentives Code should be adopted. GoCV should conduct in-depth discussions aimed at making the labour market more flexible. With respect to the financial sector, GoCV will pursue reforms geared towards harmonizing the legal and regulatory framework, and strengthening oversight of the sector by the BCV. The adoption of the Decree-Law on company bankruptcy is a significant step towards facilitating business loans. However, GoCV will take necessary measures for the effective implementation of this Decree through the existing structures, particularly the Citizen's House. In addition, an improvement in the land registry of municipalities would facilitate the registration of real estate property, and its use as collateral for loans with the banking system. With regard especially to SMEs, which face significant capacity constraints and limited access to loans, the business incubators project, driven by ADEI, is an appropriate response to encourage them to become formalized and build their capacity. ADEI intends to increase the number of incubators over the next two years to provide support to about 100 enterprises. The operationalization of the mutual guarantee fund and the incorporation of a private credit bureau should also improve SMEs' access to financing. The implementation of the mutual guarantee fund is facilitated by the signing of partnership contracts related to the incorporation of a company (CV Garante) that will oversee its management. Regarding the private credit bureau, its incorporation is tied to a review of the regulatory framework by the Central Bank (BCV) and the establishment of a parliamentary commission to control the use of private data.

4.2.21 Programme measures. The programme will support reforms and measures aimed at improving the business climate. However, it will be based mainly on measures related to specific constraints besetting SMEs. As regards the business environment, the programme will support the adoption of the new Investment Code and Tax Incentives Code by GoCV. With respect to the formalization of SMEs and facilitating access to loans, the programme will support the: (i) increase in the number of branches of Citizen's House; (ii) commissioning of two new business incubators; (iii) establishment of the institutional mechanism for the incorporation of the private credit bureau (BCV review by the regulatory framework and installation of the Parliamentary Committee responsible for monitoring private data); and (iv) signing of partnership contracts for the incorporation of the company named CV-Garante, in charge of managing the mutual guarantee fund. These measures relating to SMEs will be complemented by a capacity building project funded by the Middle Income Countries Trust Fund.

4.2.22 Expected Outcomes. Improvement in the country's ranking in the Ease of Doing Business report on company bankruptcy procedures (from the 183rd position in 2010 to at

least 178th in 2012); increase in the number of companies registered with the branches of Citizen's House from 913 in 2010 to 1,000 in 2012, thereby improving Cape Verde's access-to-loan ranking in the Doing Business Index (from the 152nd position in 2010 to at least 131st in 2012).

4.3 *Financing Requirements and Arrangements*

3.1 **The cumulative financing need for the 2011-2012 period stands at EUR 277 million.** This need stems from the pursuit of the public investment programme (PIP) in 2011 and 2012. As for the past two years, funding for the PIP is based almost entirely on external resources (86%). Regarding 2011, the external financing needs are all the greater, given that the country is facing a drop in foreign exchange due to the contraction of FDI. Indeed, as underscored in paragraph 2.1.2, FDI has declined by half since the beginning of 2011. Moreover, a mixed performance in the collection of VAT and import duties was observed during the first half of 2011, due, among other things, to lower-than-expected import volumes. Some companies have not yet paid the VAT, citing financial constraints. The budget deficit in 2011 is expected to reach 13% of GDP, before declining to 12.2% in 2012 with the gradual completion of public investment projects in 2011. GoCV has undertaken not to introduce new projects in the PIP until a thorough analysis of expected benefits and financial implications has been conducted. The priority for GoCV is the completion of projects already underway.

Table 3: Cape Verde- Financing Requirements for 2011-2012
(In EUR million)

	2009	2010	2011	2012
	Est	Prel.	Prog.	CBMT
Revenue and grants	331.4	351.2	396.9	414.5
Fiscal revenue	269.3	272.6	319.1	345.1
External grants	62.1	78.6	77.8	69.4
Total expenditure	403.5	484.0	537.4	550.9
Recurrent expenditure	223.1	246.3	285.5	311.5
Capital expenditure	161.6	235.1	250.3	239.4
Including external resources	112.0	229.0	194.4	214.6
Budget deficit (including grants)	-72.1	-132.8	-140.6	-136.4
in %of GDP	-15.3	-11.3	-13.0	-12.2
Financing	72.1	132.8	140.6	136.4
External (net)	57.1	132.5	135.2	126.2
Including budget support (ABD)	...	67.5	37.9	26.0
ADB Loan	20.0	12.0	15.0	10.0
ADF Loan	0.0	8.0	0.0	0.0
Internal (net)	8.8	-8.5	5.4	10.2
Errors and omissions	6.2	8.8	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0

Source: Source: IMF Country Report No. 11/254, August 2011

4.3.2 **The support of TFPs is essential to allow GoCV to continue implementing the PIP to its completion.** With regard to budget support assistance, TFPs announced funding of approximately EUR 64 million for the 2011-2012 period. The Bank's overall contribution, amounting to EUR 25 million, accounts for 39% of the overall budget loan amount, which makes the Bank the greatest contributor, followed by the World Bank (EUR 14 million). Given that financing needs in 2011 were higher than the estimates for 2012, the budget support projected by TFPs stands at EUR 38 million 2011 and EUR 26 million in 2012 (see Table on budget support in Annex 5). In this context, the Bank's support will amount to EUR 15 million in 2011 and EUR 10 million in 2012.

4.4 *Programme Beneficiaries*

The programme is directly beneficial to GoCV, by contributing to financing the general budget. In addition, it is beneficial to the private sector through measures aimed at improving the business environment and promoting SMEs. Ultimately, the Cape Verdean population will benefit from its impacts on growth and reduced unemployment. The decline in unemployment

will ensue from the impact on businesses and the attendant improvement of the business environment. Thereafter, through the establishment of business incubators, the mutual guarantee fund and credit bureaux, SMEs may enhance their performance and hire more workers (See Technical Annex 3, ¶ 30-31).

4.5 *Impact on Gender*

Cape Verdean women experience a favourable situation in education and legislation with the implementation of the National Plan for Equality and Gender Equity (PNEEG). Following the improvement of the situation relating to women's education, the PNEEG henceforth lays emphasis on capacity building, particularly in the areas of poverty reduction and employment. By supporting the creation of an enabling environment for the private sector, the programme will have a positive impact on women. In addition, the attendant institutional support will give preference to women's entrepreneurship.

4.6 *Impact on the Environment*

The Programme has been classified under Category 3. Hence, there will be no direct impact on the environment.

V. IMPLEMENTATION, MONITORING AND EVALUATION

5.1 *Implementation Arrangements*

5.1.1 ***Institution responsible.*** The Ministry of Finance will be responsible for the overall implementation of the PAGF-RSP. The National Directorate of Planning, hosted within this Ministry, will be responsible for monitoring the programme. To this end, it will rely on the national monitoring/evaluation system of GPRSP II and centralize the production of documents so as to report on the status of the programme.

5.1.2 ***Disbursements.*** The EUR 25 million loan will be disbursed in two tranches, subject to the fulfilment by the Borrower of the relevant general and specific conditions as mentioned in ¶ 6.2 below. The respective amounts of the tranches are as follows: EUR 15 million for the first tranche in 2011 and 10 million for the second tranche in 2012 as stated in ¶ 4.3.2. At the Borrower's request, the Bank will disburse the said funds into the general account of the Treasury opened with the BCV. The Borrower will transmit, within seven working days following each disbursement, a written statement by the Ministry in charge of Finance, confirming receipt in the General Treasury Account of the exact amount of disbursed funds, which will be exclusively intended for budget expenditures of the Republic of Cape Verde.

5.1.3 ***Procurement of goods and services.*** Given that this is a budget support programme, its implementation does not raise direct questions relevant to the procurement of goods and services. National procedures will be used. Hence, the programme contributes to the implementation of the Paris Declaration and Accra Agenda for greater ownership of development programmes by countries.

5.1.4 ***Financial management and audit.*** The programme will be audited using the country's systems and structures, including the CoA, to ensure that the loan resources are used for their intended purpose and in accordance the rules in force. The reports on the annual financial statements for fiscal years 2011 and 2012 and the CoA Notice of Compliance will be available in 2012 and 2013, respectively, within the timeframes established by the regulations in force in the Republic of Cape Verde.

5.2 *Monitoring/Evaluation Arrangements*

5.2.1 Programme monitoring and evaluation will be conducted under the Specific Budget Support Arrangement, which provides for two annual joint missions pertaining respectively to: (i) monitoring the implementation of measures enshrined in the joint matrix of disbursements of the current year; and (ii) updating the matrix for the following year. The Bank's Regional Office in Senegal (SNFO), which covers Cape Verde, will play a leading role in the joint supervision missions of this programme.

VI. LEGAL INSTRUMENTS AND AUTHORITY

6.1 *Legal Instruments*

The legal instrument to be used for the Programme is the Loan Agreement between the Republic of Cape Verde and the African Development Bank.

6.2 *Conditions Precedent to Bank Intervention*

A. **Conditions Precedent to Submission of the Report to the Board**

Conditions Precedent to Submission of the Report to the Board	
(a)	Adoption by the Ministry of Finance of: (i) a medium-term public debt management strategy for 2012-2015; and (ii) an action plan for improving the public debt management system. <i>[Proof required: copies of the strategy and action plan accompanied by a letter of transmittal from the Minister of Finance and Planning; see ¶4.2.6]</i>
(b)	Preparation, by the Public Treasury, of the 2009 and 2010 reports on the State's contingent commitments and liabilities... <i>[Proof required: copies of two reports accompanied by a letter of transmittal from the Minister of Finance and Planning]; see ¶4.2.6</i>
(c)	Appointment: (i) of the third Board member of the Public Procurement Regulatory Authority (ARAP); and (ii) appointment of all Disputes Resolution Committee members in order to make ARAP fully operational. <i>[Proof required: copies of appointment orders or decrees accompanied by a letter of transmittal from the Minister of Finance]; see ¶4.2.16</i>

B. **Conditions Precedent to Entry into Force of the Loan Agreement**

6.2.1 Entry into force of each loan agreement is subject to the Borrower fulfilling the conditions stipulated in Section 12.01 General Conditions Applicable to Loan Agreements and Guarantee Agreements of the African Development Fund.

C. **Conditions Precedent to Disbursement of the ADB Loan**

6.2.2 Prior to any disbursement of the loan, the Borrower shall furnish to the Bank the references of a special Euro bank account to which PAGFP-RSP funds will be transferred. The disbursement is subject to entry into force of the Loan Agreement and fulfilment by the Borrower of the following conditions:

Table 4
Conditions Precedent to the ADB Loan Disbursement

Disbursement of the first tranche of EUR 15 million
(a) Transmission to the Bank of the references of the special bank account in Euro opened at the Central Bank of Cape Verde (BCV), in which the loan resources will be transferred. <i>[Proof required: an original copy of the references of the account opened at the BCV]</i>
Disbursement of the second tranche of EUR 10 million in June 2012
(a) Satisfactory review of the programme supported by the IMF's PSI, based on the output criteria, by end-2011 <i>[Proof required: IMF Press Release transmitted by the Minister of Finance];</i>
(b) Conduct by ARAP of an audit of public contracts awarded in 2010, including a plan of action on audit recommendations. <i>[Proof required: A copy of the audit report, including the recommendations action plan accompanied by a letter of transmittal from the Minister of Finance] to be confirmed; see ¶ 4.2.16</i>
(c) Adoption by the Council of Ministers and transmission to the National Assembly of the new Tax Incentives Code. <i>[Proof required: Copy of the Tax Incentives Code provided by the Council of Ministers, along with the letter of transmittal from the Minister of Finance]; see ¶ 4.2.21</i>
Adoption by the Ministry of Finance of a public finance management reform programme emanating from the PEMFAR conclusions. <i>[Proof required: Copy of the reform programme accompanied by a letter of transmittal from the Minister of Finance]; see ¶ 4.2.6.</i>

6.2 Compliance with Bank Policies

This programme is consistent with the Bank's guidelines on development budget support loans (ADB/BD/WP/2003/145/Rev.2; ADF/BD/WP/2003/182/Rev.2) and is also in line with the Bank's strategic guidelines on governance for 2008-2012 (2008). It ties in with the Bank's new approach to governance, which focuses on transparency and accountability in public resources management. Furthermore, heightened attention is paid to private sector development. No exception with respect to the above-mentioned guidelines is sought in this proposal.

VII. RISK MANAGEMENT

7.1. The programme implementation could be affected by several factors, including: (i) the impact of external shocks on macroeconomic stability; (ii) delays in reporting; and (iii) delayed adoption of bills by Parliament.

Table 5
Risks and Mitigative Measures

Risks	Mitigative Measures Underway	Measures to be Implemented
External shocks: As noted in ¶ 2.1.2 and 2.1.14, the country, which is heavily dependent on external funding, is facing a decline in FDI. The non-disbursement of aid by TFPs could also compromise the implementation of the PIP. Furthermore, a rise in oil prices could affect the overall level of domestic prices and lead to an appreciation of the real exchange rate of the currency.	The decline in FDI is currently offset by remittances from the Diaspora and the buoyant tourism revenue. With respect to inflation and the exchange rate, the BCV's prudent monetary policy reduces the risk of misalignment of the currency to the Euro. If necessary, the BCV will review interest rates to keep the currency strongly pegged to the Euro.	To reduce the country's dependence on oil, GoCV will continue its PIP in renewable energy in order to move towards the goal of producing 50% of electricity from renewable sources by 2020. Dialogue between TFP and GoCV will be strengthened, so that aid provided for by the PTFs is disbursed within the agreed timeframe
Risks associated with the legislative calendar: Due to legislative elections in 2011, Parliament was not able to consider all the bills tabled by GoCV in 2010, in which case some bills could be adopted with significant delays.	GoCV maintains dialogue with Parliament to expedite the consideration of bills. PTFs also plan to sensitize Members of Parliament on the importance of reforms.	Dialogue must be maintained between GoCV and Parliament so that reforms may be aligned with the calendar of Members of Parliament

VIII. RECOMMENDATIONS

It is recommended that the Board of Directors approve, from ADF resources, a loan amounting to EUR 25 million, in the form of general budget support to the Republic of Cape Verde, for financing the Public Finance Management Support Programme and for the recovery of the private sector.

Development Policy Letter

REPUBLIC OF CAPE VERDE
MINISTRY OF FINANCE
Minister's Cabinet
Ref. No.368/GMF/2011

Dr. Donald Kaberuka,
President
African Development Bank
B.P. 323 TUNIS
Tunisia

Date....

Subject: Development Policy Letter relating to the Public Finance Management and Private Sector Recovery Support Programme (PAGFP – RSP)

Goal

1. I have the honour, on behalf of the Government of Cape Verde (GoCV), to request the sum of EUR 25 million for financing the Public Finance Management and Private Sector Recovery Support Programme (PAGFP-RSP).

2. This Development Policy Letter is a summary of the Government's priorities for the next five years, as laid out in the Second Growth and Poverty Reduction Strategy Paper (GPRSP-II) and Government's Policy Statement. It also reinforces the commitment of GoCV to the development objectives, policies and measures set forth therein, particularly the measures aimed at strengthening public finance management, as well as those relating to private sector development.

3. Over the past five years, Cape Verde has made significant and visible progress that enabled the country to transition, in 2008, to the rank of middle-income country. However, the remaining challenges are daunting. The Government's vision is to build a more inclusive, just and prosperous society, with opportunities for all. The achievement of this fundamental objective hinges on accelerating the transformation and modernization of the economy to achieve double-digit growth rates and on reducing the unemployment rate to below 10%. All efforts will be directed towards this goal to build a better future for both citizens in the country and those in the Diaspora. To this end, promoting the private sector will be at the core of all Government actions over the coming years. Consolidating the gains of democratic, economic and financial governance will also receive special Government attention in an effort to create an enabling environment for domestic entrepreneurship.

4. The abovementioned loan is fully in line with the country's transformation strategy and Government's priorities for the next five years: (i) promoting private sector growth, investment and productivity; (ii) promoting good governance; (iii) modernizing and developing infrastructure; and (iv) promoting social development. In this connection, the continuation of public investment programmes is crucial to addressing one of the major constraints facing private sector development. The same is true for the macroeconomic framework, which should be strengthened to enable the country to continue enjoying the trust of both national and international economic operators.

Recent Developments

5. Despite its insularity and vulnerability, Cape Verde has made economic and social progress that earned the country a place in the ranks of middle-income countries (MICs) in 2008. This remarkable performance was largely due to good macroeconomic governance and stringent public finance management. The country also benefited from implementing reform programmes supported by several development partners, including the African Development Bank. The Economic Transformation Strategy (STE) helped to shape the country's vision for economic and social development.

6. In 2009, the country was hit by shockwaves from the global economic crisis that began in 2008. Cape Verde recorded one of its poorest economic performances in 10 years (3.6% of the GDP growth rate). The tourism sector, the driver of Cape Verde's economy, witnessed a 16% decline in earnings, while tax revenue dropped by 9.4%. International reserves, however, remained stable at about 4 months of imports, but the value of goods and services imports plunged by 6.3% in 2009, compared with a 10.5% increase in 2008.

7. The Government was able to bring the situation under control in 2010. Thus, the growth rate rose to 5.4%, while the inflation level stabilized at 2.1%. This performance was achieved by adopting a countercyclical public investment programme which helped to offset the decline in private investment and keep infrastructure development on track. Government investment thus reached CVE 25.9 billion (i.e., EUR 235 million) in 2010, compared with CVE 17.8 billion (EUR 162 million) in 2009. Over the same period, foreign exchange earnings from the tourism sector increased by 6.7%, a sign that the impact of the global crisis on Cape Verde was easing.

8. In 2011, the Government plans to maintain its countercyclical fiscal policy, primarily with an investment budget of CVE 27.6 billion (EUR 251 million) and increased current expenditure, including wages (12.7%). The impact of the increased expenditure will be largely offset by higher tax revenue, enabling the budget-to-GDP deficit ratio to remain at 10.3% (compared with 10.7% in 2010). Increased public demand, however, could push up inflationary pressures, and the inflation rate could reach 5.2%. Strict implementation of this policy would enable growth to stay on course in 2011 - a prediction that seems to be bolstered by the quantitative and qualitative economic indicators published by the National Institute of Statistics (INE) and the last IMF mission (fielded in May 2011) which forecasts an average annual growth of around 6% for the 2011-2014 period. Countercyclical policy, however, has led to an upward spiral in external and domestic public debt, which is expected to reach 67.2% of GDP in 2011, whereas it accounted for only 63.0% of GDP in 2009.

9. The financial crisis looming in the Euro zone could still upset the forecasts. The first quarter of 2011, shows disturbing trends: FDI flows dropped by 50%, reflecting the crisis in the construction sector. At the same time, migrant remittances increased by 20% (in March 2011-May 2011, remittances were up 33.7%), an increase that may reflect the plight of Cape Verde's migrants in Europe. The latter, anticipating a worsening crisis in Europe, have accelerated the pace of their transfers to their home country, with return in view. The IMF also forecasts a deterioration of the balance of payments current account deficit in 2011, although the level of reserves (in months of imports for the current year) remains unchanged (4.0 months).

10. Against this backdrop, the monetary policy of the Central Bank of Cape Verde (BCV) has remained prudent. BCV maintains an acceptable foreign reserves level in order to consolidate the pegging of the national currency (Escudo) to the Euro. The BCV key interest rate was reduced to 4.25% in January 2010 and has been maintained at that level. The BCV and the Ministry of Finance and Planning are currently finalizing a monetary and fiscal coordination agreement to strengthen the conduct of monetary and fiscal policies. To this end, an IT platform is being implemented to ensure the auctioning of Treasury bond issues.

11. With respect to globalization and international trade, after the country became a WTO member in 2008, it completed, in 2010, the adjustments required by this membership, namely: (i) tariff consolidation; (ii) reduction of customs duties on certain products, particularly those relating to the aviation and new technology industry; and (iii) conformation of import procedures. The changes in tariffs were published in the Official Gazette. In the same vein, Cape Verde established a Quality Institute in March 2009, with technical assistance from the European Development Fund (EDF), adopted an intellectual property law in 2010 and launched an external trade single window system.

12. Regarding regional integration, Cape Verde remains committed to the negotiations with ECOWAS for the creation of a Customs Union that should lead to an Economic Partnership Agreement (EPA) with the European Union (EU). These negotiations have suffered considerable delays because of the divergent views of the members of the institutions. In parallel with this process, Cape Verde has already started negotiations with the EU for the signing of a Special Partnership Agreement (SPA) that would allow the country to maintain its privileged access to European markets and benefit from other arrangements, including worker mobility programmes.

13. Cape Verde has experienced rapid growth in recent years, but many challenges remain. The key issue continues to be the transformation of our economy and modernization of society. The Government programme, based on broad consultations with stakeholders, is centred on several strategic thrusts:

- i. Creating an innovative and competitive momentum, characterized by prosperity for all;
- ii. Promoting private sector growth, investment and productivity;
- iii. Strengthening human resource training with a view to achieving more qualified and specialized human capital;
- iv. Promoting social development;
- v. Promoting good governance;
- vi. Modernizing and developing infrastructure; and
- vii. Enhancing the country's profile and developing partnerships with the rest of the world.

14. Modernizing the administration is central to this programme because of the crosscutting issues involved. In 2008, the Government initiated a comprehensive reform of the

administration to strengthen public finance management and improve private sector competitiveness under GPRSP II. Public finance management reforms were carried out through the 2009-2012 Action Plan. This plan will be updated in 2012 based on the findings of a PEMFAR appraisal started in June 2011. Pending the outcome of the appraisal, the Government will continue with the tariff consolidation measures initiated in 2009. As part of the effort to improve private sector competitiveness, the Government adopted a strategy whose implementation has begun to produce results. The implementation of this strategy will continue over the coming years.

Promotion of Economic and Financial Governance

15. The Government has undertaken significant reforms in recent years to modernize the entire administration. The reforms were carried out by different structures, coordinated by the State Reform Coordination Unit (UCRE). The Government has demonstrated its commitment to strengthen financial governance. The development of the State's Integrated Budgetary and Financial Management System (IBFMS) has helped to improve budget planning and implementation.

16. Among the key achievements, the following may be cited: (i) deployment in all Ministries of the Integrated Budgetary and Financial Management System (IBFMS); (ii) regular use of the Medium-Term Expenditure Framework (MTEF) for preparing sectoral budgets and the general budget; (ii) gradual establishment of new procurement management and control bodies; (iv) restructuring of public enterprises in financial difficulty; and (v) comprehensive tax reform.

17. There are persistent challenges, especially with respect to internal and external control of public finances, that the Government intends to meet. The public procurement reform will continue, so as to make public procurement procedures more transparent and competitive. Debt and cashflow management will also be strengthened to ensure greater visibility of the macroeconomic framework.

18. **Budget and financial management:** GoCV should update the plan to improve PFM for 2009-2012, based on the findings and recommendations of PEMFAR 2011. Pending the adoption of the new action plan, some key reforms and measures already initiated by GoCV should be continued. They are: (i) submission to the National Assembly of draft laws on budget framework and nomenclature; (ii) development of a medium-term public debt management strategy and adoption of an action plan for improving the public debt management system; (iii) assessment of the debt owed by municipalities to Electra and the adoption of a settlement plan; (iv) operationalization of the IT platform for the auctioning of Treasury bond issues; (v) regular production of audited accounts of public enterprises and reporting on the State's contingent commitments and liabilities, in particular the 2009 and 2010 reports; and (vi) the continued restructuring of public enterprises in difficulty.

19. **Internal and external expenditure control system:** With respect to internal control, the Government will continue to beef up the number and training of inspectors. The IGF will develop a procedures manual, including a manual of quality control and an audit manual. It will also implement a database of information on audited financial statements and establish an evaluation system of its own inspection operations. The scope of IGF's inspections will be extended to several other sectors including health, employment, education and social projects. IGF inspectors will have access to SIGOF to facilitate the orientation of the inspections to areas where the risks are most concentrated.

20. At the level of external control, the staff of the Court of Auditors will be increased and auditors trained. In addition, the CoA will have effective access to SIGOF. The Government also intends to submit to Parliament a new organic law on the CoA to better define its missions. Lastly, the CoA will formulate a medium-term strategy for the improvement of external control and an operational plan for its implementation. Furthermore, it should have a procedures manual.

21. **Public procurement:** The Government will appoint all Disputes Resolution Committee and ARAP Board members. It will ensure the regular conduct of procurement audits by ARAP, particularly the audit of procurements awarded by UGAs and UGAC in 2010. In addition, the Government intends to update the law on public procurement, while taking into account PEMFAR findings. Accordingly, ARAP will adopt a medium-term strategy and action plan to improve the public procurement system.

Promotion of Private Sector Competitiveness

22. Cape Verde stands out positively by the quality of its institutions, health, primary education and technology. However, the country is constrained by inadequate transport infrastructure (air and sea), low quality of higher education and specialized training, the small size of the domestic market and the limited trade relations with ECOWAS, as well as the low professionalization of domestic entrepreneurs. Aware of the role of the private sector in the economy, the Government has undertaken to create conditions most conducive to its development. Hence, in 2009, it formulated an action plan to improve the business environment and has implemented significant measures that have resulted in a remarkable improvement in the country's ranking in Doing Business 2010. Indeed, between 2009 and 2010, the country has moved up 10 places to rank 132nd out of 183 countries. However, the Government acknowledges that efforts must be pursued to dismantle constraints that continue to undermine the private sector, particularly with respect to supporting SMEs. In fact, compared to other countries with similar characteristics (population, income and insularity), the country is lagging behind. Within ECOWAS, it ranks second, but is not as well positioned among middle-income countries (33rd/54), low population countries (47th/61) and small islands/archipelagos (27th/33). The country's greatest shortcomings in Doing Business are: (i) the closing of businesses (183rd); (ii) staff recruitment (167th); and (iii) access to loans (152nd). The Global Competitiveness Report 2010 ranked the country 117th out of 139 countries.

23. The strategy to improve private sector competitiveness hinges on four strategic thrusts, namely: (i) financial sector reform; (ii) facilitating international trade; (iii) revising the tax system; and (iv) improving the business environment.

24. **Financial sector:** Since 2002, the Government has initiated a financial sector reform that resulted in greater independence for the Central Bank (BCV) and consolidation of monetary policy autonomy. To further strengthen the quality of the financial sector, a new banking regulation on capital ratios, provisioning, loan classification, credit risk assessment, and credit concentration was adopted in November 2007. BCV gave the banks a five-year transition period to comply with the new provisions on non-performing loans. In 2009, a Financial Sector Assessment (Financial Sector Assessment Programme - FSAP) was carried out by the IMF and the World Bank. Based on the recommendations of this assessment, the Government intends to revise the special regulations on offshore bank operations and strengthen the oversight capabilities of the BCV.

25. **Facilitating international trade:** On 1 January 2004, Cape Verde introduced a major tariff reform and value added tax (VAT) in order to remove significant distortions from the incentive structure of the Cape Verdean economy. The implementation of this reform has reduced tariffs by approximately 20%. To strengthen the market economy, import taxes have been simplified and optimized. In July 2008, Cape Verde officially became the 152nd member of the World Trade Organization (WTO). The Government has initiated the review of several instruments on taxation, tariffs and trade in order to comply with international regulations. For industrial products, Cape Verde has decided to levy customs duties ranging from zero to 55%. Tariffs will be reduced gradually through 2018 to less than 15% of customs duties on average. As regards agricultural products, Cape Verde has decided to reduce customs duties by about 19%. The current account is completely liberalized with no foreign exchange restrictions. Discussions are underway with ECOWAS and ACP countries for a new Economic Partnership Agreement that takes into account the country's island status.

26. **Revising the tax system:** The Government has initiated the amendment of several instruments on domestic taxation and customs duties. A new system of fiscal and financial incentives and benefits for the internationalization of businesses has been approved through Decree-Law 2/2011, which regulates the granting of temporary financial incentives for investment projects pending the adoption of a new law on tax incentives and a comprehensive overhaul of all the relevant instruments. Three codes are involved in the forthcoming amendment, namely the: (i) General Tax Code (*Código Tributário Geral*); (ii) Judicial Procedure Tax Code (*Código do processo judicial Tributário*); and (iii) Tax Enforcement Code (*Código de Execução Tributária*). Their adoption will further simplify the payment of taxes and reduce costs for businesses, thereby contributing to boosting competitiveness and employment.

27. **Improving the business environment:** The Government has undertaken several actions to facilitate the start-up of businesses. The implementation of an IT platform has greatly simplified the licensing of businesses. The timeframe for obtaining a business license has been reduced from 3 months to 10 days only, through the adoption of Decree-Law 30/2009 of 17 August 2009. The process is based on a one-stop shop called "Citizen's House." Access to the services of Citizen's House by individuals and businesses is by several means, namely: Internet (www.portondinosilha.cv), telephone, on-site and abroad through the network of embassies and consulates (Portugal, USA, the Netherlands, Sao Tomé and Príncipe, Senegal, Cote d'Ivoire, Guinea Bissau). Regarding the closure of companies, one of the main shortcomings identified by the Doing Business report of the World Bank, the Government introduced a new bankruptcy law by Decree-Law No. 22/2011 in April 2011. The main features of the reform are: (i) a 12-month timeframe has been set up for the liquidation of a company. However, as appropriate, this deadline may be extended by the judge for an additional period of 180 days; (ii) stringent qualifications and clear responsibilities are required for directors; and (iii) a director may be replaced by the judge, at the request of the company management, shareholders or creditors.

28. The Government will continue to improve the business climate and promote the private sector and, to that end, submit to Parliament in 2012, a new Investment Code and a Tax Incentives Code. Following the adoption of the Decree-Law on Company Bankruptcy, Government will lay down conditions to facilitate its effective implementation. As concerns access to loans, ADEI is steering a project to incorporate a mutual guarantee company. Furthermore, ADEI has initiated a project to set up business incubators to help a number of SMEs start their activities. It is worth noting also that the Chamber of Commerce has begun a

process of incorporating a private credit bureau. The Government supports these actions. To ensure the operationalization of the private credit bureau, Government will engage dialogue with Parliament for the establishment of the Parliamentary Committee responsible for monitoring the use of private data. Lastly, to assist micro-enterprises and SMEs, Government will provide support to ADEI to strengthen its programme to incorporate incubators.

Programme Monitoring/Evaluation

29. The Government has established a monitoring/evaluation system for GPRSP II to guide the actions of various stakeholders involved in the strategy of promoting growth and reducing poverty. In addition to government ministries, the system includes civil society organizations and development partners.

30. The monitoring/evaluation system is based on the National Council for Poverty Reduction, the Ministry of Finance and Planning, and other sector-based ministries, civil society and private sector organizations, and lastly technical structures, particularly the INE responsible for statistical data, and NOSI responsible for developing the ICT-based information system. Government intends to ensure and enhance the following functions under the monitoring/evaluation system: (i) monitoring and analysis of growth, poverty, vulnerability and inequality trends; (ii) monitoring the implementation of programmes and projects that contribute to improving growth and reducing poverty; and (iii) assessing the impact of policies and programmes relating to growth and poverty reduction.

31. The Ministry of Finance and Planning shall have the overall responsibility of implementing the PAGF-RSP. The National Planning Directorate, hosted within this Ministry, will be responsible for monitoring the programme. To this end, it will centralize the production of documents and report on the progress of the Programme.

32. The loan amounting to EUR 25 million will be audited using the country's systems and structures, including the Court of Auditors. The Government will submit annual budget execution reports to the Bank.

33. Conclusion

On behalf of the Government, I would like to commend the excellent cooperation between Cape Verde and the African Development Bank and to reassert Government's commitment to consolidate and strengthen the outcomes obtained during the past decade with respect to economic growth and reduction of unemployment.

Yours sincerely,

(Signed) Cristina DUARTE
Minister of Finance and Planning

Matrix of Operational Policies

Medium-Term Strategic Objectives	Strategic Measures (*)		Outputs		Outcomes	Source of Data	
	2011	2012	Target Indicators References – Timeframes		Target Indicators References – Timeframes		
			2011	2012			
A. Public finance management and macroeconomic stability are strengthened							
1. Improved fiscal and public debt management	1.1 Production by the Treasury of 2009 and 2010 reports on the State's contingent commitments and liabilities	1.5 Update of the PFM reforms programme resulting from the recommendations of PEMFAR	1.1 Reports are produced in 2011 and sent to the Board for discussion in 2012	The PFM reforms programme is updated before June 2012	Contingent commitments and liabilities, especially Electra's arrears, are reduced by 10%		
	1.2 Adoption of a medium-term State debt management strategy for 2012-2015 and an action plan for improving the State debt management system		The strategy is adopted before 31 December 2011		The action plan is adopted before 30 March 2012		No accumulation of arrears by the State
	1.3 Production of TACV and Electra's audited accounts for 2009 and 2010		TACV's audited accounts for 2009 and 2010		TACV and Electra's audited accounts for 2011		
	1.6 Restructuring of public enterprises in difficulty		Electra's audited accounts for 2010				
	1.7 Restructuring of public enterprises in difficulty						

Medium-Term Strategic Objectives	Strategic Measures (*)		Outputs		Outcomes	Source of Data
	2011	2012	Target Indicators References – Timeframes		Target Indicators References – Timeframes	
			2011	2012		
2. Improved expenditure control and procurement systems	2.1 Transmission of the General State Account (GSA) and Notice of Compliance from the Court of Auditors to the National Assembly within 12 months.	2.5 Adoption by the Council of Ministers of a bill to amend the operation of the CoA with a view to strengthening its external control missions	The GSA for 2010 is transmitted to the National Assembly before 31 December 2011	The GSA for 2010 is transmitted to the National Assembly latest 30 June 2012	Timeframe for transmission of the accounts bill to the National Assembly reduced from 24 months to 12 months	
	2.2 Provide the CoA with SIGOF to help speed up external control of public resources and expenditure		2.6 Adoption by the CoA of a strategic plan to improve external control	The CoA's Notice of Compliance for the 2009 accounts is transmitted to the National Assembly before 31 December 2011		
	2.3 Inspection of 5 municipalities by the IGF	2.7 Adoption by the IGF of a strategic plan for 2012-2014 and preparation of a procedures manual	SIGOF is provided to the CoA before 31 December 2011	The bill to amend the organic law of the CoA is transmitted to Parliament before 31 December 2012		
	2.4 Make ARAP operational by appointing the remaining Board Members and Disputes Resolution Committee Members	2.8 Establishment of a system for assessing the operations of the IGF	At least five municipalities are inspected in 2011 and 2012, against 0 inspection in 2010	The strategic plan for 2012-2014 and the procedures manuals are adopted by the IGF before 31 December 2012	IGF control coverage rate increased from 32 services covered in 2010 to more than 40 services in 2012	
			The third ARAP Board Member and all Disputes Resolution Committee members are appointed before 31 December 2011	The system for assessing the operations of the IGF is available before 30 June 2012		

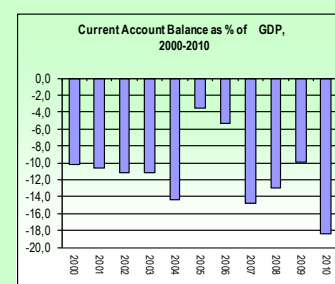
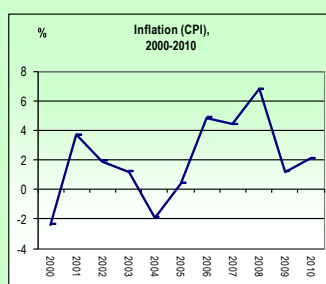
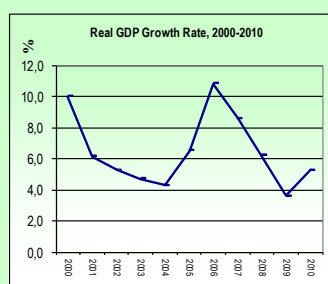
Medium-Term Strategic Objectives	Strategic Measures (*)		Outputs		Outcomes	Source of Data
	2011	2012	Target Indicators References – Timeframes		Target Indicators References – Timeframes	
			2011	2012		
		<p>2.9 Conduct audits of public procurements awarded in 2010 by Procurement Management Units (UGA)</p> <p>2.10 Adopt a 2012-2014 strategy and action plan for improving the procurement system, taking into account PEMFAR conclusions</p>		<p>The audit report for public procurements contracts awarded in 2010 by UGAs and UGAC is available until 30 June 2012</p> <p>The 2012-2014 strategy and action plan for improving the procurement system is available before 31 December 2012</p>	<p>Average public procurement timeframe reduced from 8 to 4 months</p> <p>Maintain below 10% the proportion of contracts awarded on a single source basis</p>	
B. Private sector environment more conducive to the revival of activities						
<p>3. Improved business climate</p> <p>4. Facilitate the formalization of SMEs and improve their access to loans</p>	<p>4.1 Finalize the signing of partnership agreements for the creation of the company responsible for managing the mutual guarantee fund</p>	<p>3.1 Adoption of the new investment Code by the Board and its transmission to the National Assembly</p> <p>3.2 Adoption of the new Tax Incentives Code by the Board and its transmission to the National Assembly</p> <p>4.2 Making three new business incubators operational</p>		<p>The investment Code is adopted by the Board before 30 June 2012</p> <p>The new Tax Incentives Code is adopted by the Board before 30 June 2012</p> <p>Three new incubators are operational before 31 December 2012, two of which are before 30 June 2012</p>	<p>Improved ranking of Cape Verde in the Doing Business report on company bankruptcy from 183rd out of 183 in 2010 to at least 178th in 2012</p> <p>Improved ranking of Cape Verde in the Doing Business indicators on access to credit from 152nd out of 183 in 2010 to at least 131st in 2012</p>	<p>Doing Business reports of the World Bank</p>

Medium-Term Strategic Objectives	Strategic Measures (*)		Outputs		Outcomes	Source of Data
	2011	2012	Target Indicators References – Timeframes		Target Indicators References – Timeframes	
			2011	2012		
	4.2 Increase in the number of windows of the Citizen's House	4.3 Establishment of the institutional mechanism for the creation of the private credit bureau (review of the regulatory framework by the BCV and installation of the Parliamentary Committee responsible for monitoring private data).	The number of windows increases from 39 in 2010 to 51 in 2011	Review of the regulatory framework by the BCV and installation of the Parliamentary Committee responsible for monitoring private data before 31 December 2012 The number of windows increased to 56 by end-2012	Number of new SMEs registered in the network of the Citizen's House rises from 913 in 2010 to 1000 in 2012	

(*) Strategic measures under conditionalities are in bold

Cape Verde
Selected Macroeconomic Indicators

Indicators	Unit	2000	2005	2006	2007	2008	2009	2010 (e)
National Accounts								
GNI at Current Prices	Million US \$	520	966	1 063	1 305	1 484	1 499	...
GNI per Capita	US\$	1 310	2 100	2 310	2 560	2 830	3 010	...
GDP at Current Prices	Million US \$	571,1	971,3	1 107,4	1 332,4	1 539,5	1 574,7	1 869,6
GDP at 2000 Constant prices	Million US \$	571,1	742,0	822,2	892,9	948,3	982,4	1 034,2
Real GDP Growth Rate	%	10,0	6,5	10,8	8,6	6,2	3,6	5,3
Real per Capita GDP Growth Rate	%	8,0	4,9	9,2	7,1	4,7	2,2	3,8
Gross Domestic Investment	% GDP	34,6	36,0	38,0	47,0	52,0	44,7	50,1
Public Investment	% GDP	5,8	-0,3	-2,0	-5,2	6,1	-0,2	5,6
Private Investment	% GDP	28,8	36,3	40,0	52,2	45,9	44,9	44,5
Gross National Savings	% GDP	19,9	32,5	32,6	32,3	39,1	34,9	31,0
Prices and Money								
Inflation (CPI)	%	-2,4	0,4	4,8	4,4	6,8	1,2	2,1
Exchange Rate (Annual Average)	local currency/US\$	119,7	88,7	87,9	80,6	75,3	79,4	83,3
Monetary Growth (M2)	%	11,5	16,1	17,6	11,5	8,0	-0,1	...
Money and Quasi Money as % of GDP	%	60,0	81,5	84,7	85,7	85,7	79,4	...
Government Finance								
Total Revenue and Grants	% GDP	25,1	30,9	31,6	32,3	33,8	29,3	30,5
Total Expenditure and Net Lending	% GDP	32,5	35,0	36,7	33,5	35,2	35,7	44,2
Overall Deficit (-) / Surplus (+)	% GDP	-7,4	-4,1	-5,2	-1,3	-1,4	-6,3	-13,7
External Sector								
Exports Volume Growth (Goods)	%	25,2	31,2	-0,7	34,7	-25,8	-1,6	3,3
Imports Volume Growth (Goods)	%	-5,8	0,9	19,9	23,6	0,6	-4,9	15,7
Terms of Trade Growth	%	17,7	18,8	2,0	-41,5	71,5	-12,7	-0,1
Current Account Balance	Million US \$	-58,6	-34,0	-59,8	-196,4	-199,1	-156,1	-343,8
Current Account Balance	% GDP	-10,3	-3,5	-5,4	-14,7	-12,9	-9,9	-18,4
External Reserves	months of imports	0,8	2,3	2,5	2,7	2,4	2,7	2,5
Debt and Financial Flows								
Debt Service	% exports	27,8	28,1	19,7	16,7	15,5	18,8	21,7
External Debt	% GDP	60,3	76,9	71,5	67,3	61,1	65,3	65,0
Net Total Financial Flows	Million US \$	118,8	260,4	192,5	110,8	270,3	239,4	...
Net Official Development Assistance	Million US \$	93,7	162,2	138,5	165,2	221,8	195,9	...
Net Foreign Direct Investment	Million US \$	43,4	81,6	130,6	190,0	211,7	119,6	...



Source : ADB Statistics Department; IMF: World Economic Outlook, October 2010 and International Financial Statistics, April 2011;
ADB Statistics Department: Development Data Platform Database, April 2011. United Nations: OECD, Reporting System Division.

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

Last Update: May 2011

Cape Verde's Relations with the IMF

**IMF Executive Board Completes First Review
Under Policy Support Instrument for Cape Verde**

Press Release No. 11/291

22 July 2011

The Executive Board of the International Monetary Fund (IMF) has completed the first review under a 15-month Policy Support Instrument (PSI) for Cape Verde. The Executive Board's decision was taken on a lapse-of-time basis

The review focused on policies to guide the country's continued recovery from the global economic crisis and rebuild fiscal and reserve buffers. Economic recovery in Cape Verde continues unabated, driven by the tourism sector and a rapid implementation of the public investment programme. Authorities remain committed to macroeconomic stability.

Cape Verde's PSI was approved on 22 November 2010 (see Press Release No. 10/457). The programme's main objective is to enhance growth and development sustainability by maintaining a stable macroeconomic environment and implementing structural reforms. The IMF's framework for PSIs is designed for low-income countries (and small island states) that may not need IMF financial assistance, but still seek close cooperation with the IMF in preparation and endorsement of their policy frameworks.

Donor-Scheduled Budget for 2011-2012
(in EUR million)

Donors	2011		2012	
	Jan-June	July-Dec	Jan-June	July-Dec
African Development Bank		15		10
African Development Fund	-	-	-	-
Australia	-	-	-	-
European Union	4.6	3.1	5	
The Netherlands	1.7		-	-
Portugal	2			
Spain	4.5		4	
World Bank		7		7
Total per half year	12.8	25.1	9	17
Annual Total	37.9		26	

Source: Aide-mémoire of the Joint Budget Review, May 2011