AFRICAN DEVELOPMENT BANK

CABO VERDE

PUBLIC CORPORATE GOVERNANCE AND INVESTMENT PROMOTION SUPPORT PROGRAMME - SECOND YEAR (PAGEPPI-II)

APPRaisal REPORT

OSGE DEPARTMENT

September 2014
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CURRENCY EQUIVALENTS

May 2014

Currency Unit     CVE
UA 1             USD 1.55
UA 1             EUR 1.12
UA 1             CVE 123.61

FISCAL YEAR

1 January - 31 December
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAC</td>
<td>Agencia de Aviacao Civil - Civil Aviation Agency</td>
</tr>
<tr>
<td>ADEI</td>
<td>Agency for Development of Enterprises and Innovation</td>
</tr>
<tr>
<td>ANAC</td>
<td>Agencia Nacional das Comunicacoes - National Communications Agency</td>
</tr>
<tr>
<td>ANAS</td>
<td>National Water and Sanitation Agency</td>
</tr>
<tr>
<td>ANSA</td>
<td>Agencia Nacional de Seguranca Alimentar - National Food Safety Agency</td>
</tr>
<tr>
<td>ARAP</td>
<td>Public Procurement Regulation Agency</td>
</tr>
<tr>
<td>ARFA</td>
<td>Agencia de Regulacao e Superviso de Produtos Farmaceuticos e Alimentares - Agency for Regulation and Supervision of Pharmaceuticals and Food Products</td>
</tr>
<tr>
<td>ARE</td>
<td>Agencia de Regulacao Economica - Economic Regulation Agency</td>
</tr>
<tr>
<td>ASA</td>
<td>Aeroportos e Seguranca Aerea - Airports and Air Safety</td>
</tr>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>AWF</td>
<td>African Water Facility</td>
</tr>
<tr>
<td>BCV</td>
<td>Banco de Cabo Verde - Bank of Cabo Verde</td>
</tr>
<tr>
<td>BSG</td>
<td>Budget Support Group</td>
</tr>
<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
</tr>
<tr>
<td>CVE</td>
<td>Cabo Verde Escudo</td>
</tr>
<tr>
<td>CV Invest</td>
<td>Cabo Verde Investimentos - Investment Promotion Agency</td>
</tr>
<tr>
<td>CSP</td>
<td>Country Strategy Paper</td>
</tr>
<tr>
<td>DB</td>
<td>Doing Business</td>
</tr>
<tr>
<td>ELECTRA</td>
<td>Empresa de Electricidade e Agua - Water and Electricity Company</td>
</tr>
<tr>
<td>EMPROFAC</td>
<td>Empresa Nacional de Produtos Farmaceuticos - National Pharmaceutical Company</td>
</tr>
<tr>
<td>ENAPOR</td>
<td>Portos de Cabo Verde - Cabo Verde Ports Authority</td>
</tr>
<tr>
<td>EPSI</td>
<td>Economic Policy Support Instrument</td>
</tr>
<tr>
<td>GCV</td>
<td>Government of Cabo Verde</td>
</tr>
<tr>
<td>GCI</td>
<td>Global Competitiveness Index</td>
</tr>
<tr>
<td>GFCF</td>
<td>Grossed Fixed Capital Formation</td>
</tr>
<tr>
<td>GPRSP</td>
<td>Growth and Poverty Reduction Strategy Paper</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>HDI</td>
<td>Human Development Index</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
</tr>
<tr>
<td>IFH</td>
<td>Imobiliaria, Fundiaria e Habitat - Property, Land and Housing</td>
</tr>
<tr>
<td>INE</td>
<td>Instituto Nacional de Estatistica - National Institute of Statistics</td>
</tr>
<tr>
<td>MPD</td>
<td>Movement for Democracy</td>
</tr>
<tr>
<td>MFP</td>
<td>Ministry of Finance and Planning</td>
</tr>
<tr>
<td>MSMEs</td>
<td>Micro-, Small- and Medium-Sized Enterprises</td>
</tr>
<tr>
<td>NOSI</td>
<td>Nucleus of the Information Society</td>
</tr>
<tr>
<td>MDG</td>
<td>Millennium Development Goals</td>
</tr>
<tr>
<td>NGOs</td>
<td>Non-Governmental Organisations</td>
</tr>
<tr>
<td>NOSI</td>
<td>Nucleus of the Information Society</td>
</tr>
<tr>
<td>PAGEPPI</td>
<td>Public Corporate Governance and Investment Promotion Support Programme</td>
</tr>
<tr>
<td>PAGFP RSP</td>
<td>Public Finance Management and Private Sector Recovery Support Programme</td>
</tr>
<tr>
<td>PAICV</td>
<td>African Party for the Independence of Cabo Verde</td>
</tr>
<tr>
<td>PEMFAR</td>
<td>Public Expenditure Management and Financial Accountability Review</td>
</tr>
<tr>
<td>PPP</td>
<td>Multi-year Public Investment Programme</td>
</tr>
<tr>
<td>PIP</td>
<td>Public-Private Partnership</td>
</tr>
<tr>
<td>TAF/MIC</td>
<td>Technical Assistance Fund for Middle Income Countries</td>
</tr>
<tr>
<td>TFPs</td>
<td>Technical and Financial Partners</td>
</tr>
<tr>
<td>TACV</td>
<td>Transportes Aeros de Cabos Verde – Cabo Verde Air Transport</td>
</tr>
<tr>
<td>TOFE</td>
<td>Government Financial Operations Table</td>
</tr>
<tr>
<td>UCRE</td>
<td>Economic Reform Coordination Unit</td>
</tr>
<tr>
<td>WAEMU</td>
<td>West African Economic and Monetary Union</td>
</tr>
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</table>
LOAN INFORMATION

Client Information
BORROWER : Republic of Cabo Verde
EXECUTING AGENCY : Ministry of Finance and Planning

Financing Plan

<table>
<thead>
<tr>
<th>Sources</th>
<th>Amounts</th>
<th>Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2014</td>
</tr>
<tr>
<td>AfDB Loan (EUR)</td>
<td>15 million</td>
<td>15 millions</td>
</tr>
<tr>
<td>EU Grant (EUR)</td>
<td>9.5 million</td>
<td>8.5 million</td>
</tr>
<tr>
<td>World Bank Loan (USD)</td>
<td>-</td>
<td>15.5 million</td>
</tr>
<tr>
<td>Luxembourg (EUR)</td>
<td>1 million</td>
<td>1.5 million</td>
</tr>
<tr>
<td>Portugal (EUR)</td>
<td>1.2 million</td>
<td>0.5 million</td>
</tr>
</tbody>
</table>

Information on AfDB Financing

<table>
<thead>
<tr>
<th>Loan Currency</th>
<th>EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Interest Rate:</td>
<td>Floating base rate with fixing option</td>
</tr>
<tr>
<td>Base Rate (floating)</td>
<td>6-month – EURIBOR</td>
</tr>
<tr>
<td>Loan Margin</td>
<td>60 basis points (bps)</td>
</tr>
<tr>
<td>Funding Margin:</td>
<td>Half-yearly weighted average of the difference between: (i) the Bank’s refinancing rate operated on loans pegged to the 6-month EURIBOR; and (ii) EURIBOR. The financing margin will be calculated on a half-yearly basis (1 January and 1 July)</td>
</tr>
<tr>
<td>Commitment Fee</td>
<td>In the event of disbursement delay relative to the original disbursement schedule indicated in the loan agreement, a fee of 25 bps/year will be levied on undisbursed amounts. This fee will be raised by 25 bps every six months but may not exceed 75 bps per year</td>
</tr>
<tr>
<td>Other Fees</td>
<td>None</td>
</tr>
<tr>
<td>Tenor</td>
<td>20 years</td>
</tr>
<tr>
<td>Grace Period</td>
<td>5 years</td>
</tr>
</tbody>
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PROGRAMME IMPLEMENTATION SCHEDULE

<table>
<thead>
<tr>
<th>Activities</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal mission</td>
<td>05-18 May 2014</td>
</tr>
<tr>
<td>Negotiation of the loan agreement</td>
<td>July 2014</td>
</tr>
<tr>
<td>Board presentation</td>
<td>September 2014</td>
</tr>
<tr>
<td>Effectiveness date</td>
<td>October 2014</td>
</tr>
<tr>
<td>Disbursement of the single tranche</td>
<td>November 2014</td>
</tr>
<tr>
<td>Completion report</td>
<td>June 2015</td>
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</table>
PROGRAMME SUMMARY

<table>
<thead>
<tr>
<th>Programme Overview</th>
<th>Programme Name: Public Corporate Governance and Investment Promotion Support Programme - Second Year (PAGEPPI - II)</th>
<th>Geographic Coverage: Cabo Verde - Nationwide</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected Programme Outcomes and Beneficiaries</td>
<td>PAGEPPI is a programme-based general budget support operation. It seeks to contribute to the consolidation of the macroeconomic framework and foster growth recovery by improving public corporate governance and promoting private investment. In view of its recent ranking among middle-income countries, Cabo Verde should be prepared to increasingly rely on non-concessional loans. In this regard, it faces a twofold challenge: (i) streamlining public expenditure to maintain debt sustainability and restore budgetary flexibility; and (ii) mobilizing the private sector to boost growth. In response to these challenges: (a) improving the governance of public enterprises should help to optimize their financial and operational performance, thereby reducing their losses which weigh heavily on the State budget; (b) clarifying the roles of the State as shareholder, and those of regulators and economic operators, and promoting international and local investment, should foster private sector development. This programme is expected to benefit the population of Cabo Verde as a whole and, in particular, public enterprises, the domestic private sector, foreign investors as well as users of public services (electricity, water and transport).</td>
<td></td>
</tr>
<tr>
<td>Needs Assessment and Relevance</td>
<td>PAGEPPI addresses the financing needs of the Government's overall development strategy and medium-term reform priorities. Cabo Verde's overall development strategy rests on economic diversification based on competitive clusters. In particular, this programme seeks to support reforms under Pillar III (good governance) and Pillar IV (private sector development) of GPRSP 2012-2016. The Government's short- and medium-term reform priorities focus on three areas: (i) improvement of public corporate governance and transport sector reform; (ii) promotion of investment and private sector support; and (iii) human development. These priorities are reflected in PAGEPPI-II, which is centred on two components: (i) Component 1: Improvement of Public Corporate Governance; and (ii) Component 2: Investment Promotion.</td>
<td></td>
</tr>
<tr>
<td>Bank Value Added</td>
<td>PAGEPPI, which is centred on public corporate governance and investment promotion, takes into account selectivity and complementarity with the interventions of other PTFs. It is consistent with, and complements, the Bank's sector-wide operations with the private sector window and technical assistance projects - especially those financed with TAF MIC resources. This creates a multiplier effect that enables stakeholders to implement the recommended reforms. The integrated approach adopted by the Bank has a comparative advantage over stand-alone approaches.</td>
<td></td>
</tr>
<tr>
<td>Institutional Development and Knowledge Building</td>
<td>The programme will have a sustained impact in terms of institutional development and knowledge building since: (i) it supports human and institutional capacity-building reforms; and (ii) its adopted approach is based on studies and relevant analytical work. PAGEPPI's unique character lies in its approach to tackling the challenge of fiscal deficits - a source of public indebtedness. This approach: (a) lays special emphasis on improving the management of State equity participation in public enterprises and streamlining the public investment portfolio; and (b) gives prominence to the private sector, as the driver of growth, through innovative investor-friendly and PPP-based mechanisms targeting foreign investors internationally and local MSME project promoters.</td>
<td></td>
</tr>
</tbody>
</table>
### RESULTS-BASED LOGICAL FRAMEWORK

**Programme Name:** Cabo Verde: Public Corporate Governance and Investment Promotion Support Programme - Second Year (PAGEPPI-II)  
**Programme Goal:** Improve the governance of public enterprises and promote private investment to streamline public expenditure and promote private sector contribution to growth.

<table>
<thead>
<tr>
<th>RESULTS CHAIN</th>
<th>PERFORMANCE INDICATORS</th>
<th>MEANS OF VERIFICATION</th>
<th>RISKS/MITIGATION MEASURES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IMPACT</strong></td>
<td><strong>Corporate governance in public enterprises and the investment climate contribute to inclusive growth</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indicator (including CSI)</td>
<td>Baseline Situation</td>
<td>Target</td>
<td>Source</td>
</tr>
<tr>
<td>GDP growth in real terms</td>
<td>1.2% of GDP in 2012</td>
<td>3% of GDP in 2014; 3.5% in 2015</td>
<td>BCV reports; MFP reports; IMF reports; AfDB indicators</td>
</tr>
<tr>
<td>Gender Gap Index - Economic Participation and Opportunity</td>
<td>2012 Score: 0.623 (out of an average of 0.599 and a scoring scale from 0.00 to 1.00 = equality)</td>
<td>Score &gt; 0.623 in 2014; Score: 0.633 in 2015</td>
<td>The Global Gender Gap Report</td>
</tr>
<tr>
<td><strong>OUTCOMES</strong></td>
<td><strong>Outcome 1: Good corporate governance helps to lower public deficits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Losses and profits by the six biggest public enterprises</td>
<td>Losses equivalent to 1.5% of GDP in 201</td>
<td>MFP reports; IMF reports</td>
</tr>
<tr>
<td><strong>Outcome 2: The improved investment climate fosters private sector development</strong></td>
<td>Share of private investment in gross domestic investment</td>
<td>Gross domestic investment: 48.6% of GDP in 2012; Private investment: 25.9% of GDP in 2012</td>
<td>BCV reports; MFP reports; IMF reports; AfDB indicators</td>
</tr>
<tr>
<td><strong>Component 1. Improvement of Public Corporate Governance</strong></td>
<td><strong>1.1 Strengthening of the regulatory framework of economic activity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operationalization of the law on public enterprises</td>
<td>Adoption of law on public enterprises in 2009 (Law No. 47/VII/2009)</td>
<td>Official Gazette; MFP reports; UCRE reports</td>
</tr>
<tr>
<td></td>
<td>Operationalization of the law on independent regulatory authorities</td>
<td>Adoption in 2012 of the law on independent regulatory authorities (Law No. 14/VIII/2012) involving a case-by-case review of the status of existing regulatory authorities</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>1.2 Redefinition of relations between the State and public enterprises</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operationalization of the reform of the entity in charge of managing the State's equity participation in public enterprises</td>
<td>The legislative decree modifying the structure, organization and operation of the Ministry of Finance and Planning, and reforming the State’s equity participation is published in the Official Gazette</td>
<td>Progress reports of the Ministry of Finance and Planning</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Operationalization, in 2015, of the Department of Public Enterprises by providing capacity building and setting up the IT platform for monitoring State-owned enterprises.</td>
<td>Review the report of PTFs that helped to finance capacity building for the Department of Public</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mitigation measures: The Government, at the highest level (Presidency, Prime Minister's Office, Ministry of Finance and Planning, sectorial ministries), has initiated a structural reform process that is regularly monitored by PTFs, especially within BSG which conducts joint bi-annual review missions.</td>
</tr>
</tbody>
</table>

**AfDB indicator:** The African Development Bank (AfDB) indicator is used to monitor the progress of the programme.  
**IMF reports:** International Monetary Fund reports are used to assess the financial health of the public enterprises.  
**BCV reports:** Bank of Central African States (BCV) reports are used to evaluate the impact of the programme on the economy.  
**MFP reports:** Ministry of Finance and Planning reports are used to assess the progress of the programme in terms of fiscal management and public sector reform.  

**MEASURES TO mitigate risks:** The programme aims to mitigate various risks, including:

1. **Macroeconomic risks:** An unfavourable macroeconomic context and external shocks. **Mitigation measures:** These risks are managed by ensuring that the programme's support operations and whose last review mission was fielded from 13 to 24 May 2016.

2. **Human capacity-related risks:** The limited number of resource persons having the required skills in key ministries could slow down or even hamper the implementation of the recommended measures. **Mitigation measures:** To encourage ownership of the reforms, this programme will be accompanied by a number of technical assistance and capacity building projects, particularly in such areas as public investment management, public-private partnership and the business climate.

3. **Political risks:** Weakening of the authorities' commitment to pursue reforms. **Mitigation measures:** The Government, at the highest level (Presidency, Prime Minister's Office, Ministry of Finance and Planning), has initiated a structural reform process that is regularly monitored by PTFs, especially within BSG which conducts joint bi-annual review missions.
<table>
<thead>
<tr>
<th><strong>Component 2. Investment Promotion</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Component</strong></td>
</tr>
<tr>
<td><strong>2.1 Creation of a more attractive investment climate</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>2.2 Improvement of public investment management to foster public-private partnerships</strong></td>
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<td></td>
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</tr>
</tbody>
</table>

**COMPONENTS**

**Component 1. Improvement of Public Corporate Governance**

**Component 2. Investment Promotion**

**RESOURCES (general budget support 2014)**
- AfDB: EUR 15 million
- EU: EUR 8.5 million
- WB: USD 15.5 million
- Luxembourg: EUR 1.5 million
- Portugal: EUR 0.5 million.
REPORT AND RECOMMENDATIONS OF MANAGEMENT TO THE BOARD OF DIRECTORS REGARDING A PROPOSAL TO GRANT A LOAN TO THE REPUBLIC OF CABO VERDE TO FINANCE THE PUBLIC CORPORATE GOVERNANCE AND INVESTMENT PROMOTION SUPPORT PROGRAMME (PAGEPPI)

I. PROPOSAL

1.1 This proposal submitted to the Board for approval concerns the granting of an EUR 15 million loan to the Republic of Cabo Verde to finance the second year of implementation of the Public Corporate Governance and Investment Promotion Support Programme (PAGEPPI). PAGEPPI is a multi-year general budget support operation, which is part of the reforms undertaken by the Government and supported by the Bank in the medium term through a programme-based approach.

1.2 The main objective of the programme is to contribute to the consolidation of the macroeconomic framework and foster renewed growth through improved governance of public enterprises and promotion of private investment. In this context, PAGEPPI has the following operational objectives: (i) improve public corporate governance to streamline public expenditure; and (ii) promote private investment to enhance its contribution to economic growth and foster job creation.

1.3 Due to its recent ranking as a middle-income country (MIC), Cabo Verde is compelled to rely increasingly on non-concessional borrowing to finance its ambitious development programme. In this respect, it is faced with a two-fold challenge: (i) streamlining public expenditure to maintain debt sustainability and restore budgetary flexibility; and (ii) mobilizing the private sector to boost growth and create jobs. In this context and as part of its short- and medium-term reform programme (see Section 2.2 below), the Government, with the support of its development partners, initiated a major programme to restructure the country’s public enterprises to improve their performance. The first essential element of the programme consists in improving the governance of these enterprises, and the second in fostering private investment.

1.4 The design of this programme after its first year of implementation, which covered the 2013 financial year, benefitted from extensive consultations that allowed positive dialogue with stakeholders, particularly political authorities and administrations responsible for managing State equity participation and private sector development, professional groups (Chambers of Commerce, business women and associations of young entrepreneurs), civil society representatives (NGO Platform, Institute for Gender Equality and Equity) as well as TFPs (World Bank, European Union, IMF, etc.). These consultations allowed for assessing the progress achieved in reform implementation and sharing the remaining challenges with beneficiaries, with a view to improving public enterprise governance and promoting private investment in Cabo Verde.

1.5 Faced with these challenges, reforms that will be considered during the second year of PAGEPPI’s implementation should help to consolidate the gains of the first year in respect of: (i) strengthening the economic activity regulatory framework; (ii) clarifying the relationship between the State and public enterprises; (iii) creating an attractive private investment climate in Cabo Verde; (iv) improving public investment management; and (v) fostering public-private partnership.

II. COUNTRY AND PROGRAMME CONTEXT

2.1 Recent Socio-Economic Developments, Prospects, Constraints and Challenges

2.1.1 Political Context: Cabo Verde remains one of the most politically stable countries in Africa. It is distinguished by the quality of its political system and respect for the rule of law\(^1\). Over the past decade, five presidential and parliamentary elections were held in the country and all

\(^1\) Worldwide Governance Indicators (WGI), Cabo Verde, 1996-2011, Aggregate Indicator: Rule of Law.
were marked by a peaceful transfer of power between the two main political parties, namely the Party for the Independence of Cabo Verde (PAICV) and the Movement for Democracy (MPD). The February 2011 legislative elections extended the rule of PAICV for a five-year term, narrowly giving it an absolute majority of seats in the National Assembly, while the August 2011 presidential elections gave the victory to the opposition, represented by MPD\(^2\). This gave rise to a peaceful cohabitation between the Head of State, from the MPD, and the Head of Government, from the PAICV. Since no national poll is expected before 2016, the Government can focus on the implementation of structural reforms that was delayed by the 2011-2012 presidential, legislative and municipal elections. According to the Mo Ibrahim Index of African Governance (IIAG), the country in 2012 had the highest score in Africa, in terms of participation and human rights, with 81.7 points out of 100. This placed it ahead of Mauritius (76.7) and South Africa (73.1). In terms of political parity, Cabo Verde, with a score of 65.7/100, is above the African average of 53.6/100\(^3\).

2.1.2 Economic Context: Despite the performance achieved by Cabo Verde in recent years, economic growth has been erratic since the 2009 recession. Faced with the international financial crisis of 2008 and the debt crisis in the Euro zone, the country proved to be less resilient than was previously thought. To mitigate the impact of both crises, Cabo Verde adopted counter-cyclical fiscal measures in 2010, which mainly took the form of an increase in capital expenditure, allowing restoration of real GDP growth from -1.3% in 2009 to 4% in 2011. However, since 2012, the economy is once more suffering from the difficult international situation. Tourism, the engine of growth, has proven resilient in the face of the crisis but remittances from expatriate workers and foreign direct investment (FDI) have declined. Imports of consumer goods and equipment have also fallen. Ultimately, GDP growth slowed to about 1.2% in 2012 and 0.5% in 2013. Inflation dropped from 4.5% in 2011 to 1.5% in 2013 as a result of the slowdown in growth, a moderate increase in international commodity prices and a restrictive monetary policy. Inflation remained low (0.6% year-on-year) during the first months of 2014. Regarding public finance, the economic revival programmes undertaken by the Government to mitigate the effects of the recent financial and economic crises experienced internationally resulted in an expansionary fiscal policy that weighed heavily on the balance of State finances. As a result, the budget deficit rose to -10.6% of GDP in 2010 before stabilizing at -7.9% of GDP in 2013. To offset the deteriorating budget deficit, the Government, with the support of its development partners, including AfDB (Tax Administration Strengthening and Revenue Collection Project) took steps to improve tax revenue and to downsize the volume of public investment and subsidies granted to public enterprises in deficit. Concerning external accounts, the country imports about 80% of its food, which accounted for about a quarter of the 2012 import basket, while fuel constituted an additional 14%? This heavy dependence on food and other goods imports explains the country’s structural trade deficit. In recent years, the trade balance has improved significantly because of the fall in imports caused by sluggish growth. The current account balance, excluding external transfers, decreased from -20% of GDP in 2011 to -7.5% in 2013. Foreign exchange reserves recovered to EUR 347.5 million compared to EUR 299.3 million in 2012, representing nearly four months of imports. With regard to public debt, the sustainability analysis conducted by the Bretton Woods Institutions shows that the debt is sustainable and is classified as moderate risk. However, the debt stock in 2013 stood at 98.7% of GDP, which is close to the critical unsustainable threshold, especially since this debt ratio could reach 108% of GDP in 2016. This upward debt trend led the Fitch rating agency to downgrade Cabo Verde from B+ to B in March 2014. The main cause of the downgrade is the country’s sluggish economic growth and the expansionary fiscal policy for massive public investment in the past. However, in June 2014, the Standard & Poor's rating agency confirmed Cabo Verde’s B/B rating, considering the stable outlook due to political stability, continuing donor support as well as the good performance prospects for the tourism sector. In monetary terms, the policy implemented by the Central Bank aimed to preserve the value of the national currency (Escudo) which is pegged to the Euro at a fixed parity. In addition, the Central Bank sought to control the expansion of domestic credit to both the public sector and the private sector in

\(^2\) The municipal elections of July 2012 also witnessed the victory of MPD over PAICV in the majority of communes.

\(^3\) IIAG 2012.
order to control inflation (credit to the economy contracted from 10.8% of money supply in 2011 to 1% in 2013). One consequence of this policy was the slowdown in domestic demand, which, in turn, contributed to the decline in growth, especially in 2013 (0.5% compared with 4% in 2011).

Table 1  
Overview of Key Macroeconomic Indicators

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013 (est.)</th>
<th>2014 (proj.)</th>
<th>2015 (proj.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth in real terms (%)</td>
<td>1.5</td>
<td>4</td>
<td>1.2</td>
<td>0.5</td>
<td>3.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>2.1</td>
<td>4.5</td>
<td>2.5</td>
<td>1.5</td>
<td>1.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Total revenue and grants (% of GDP)</td>
<td>27.9</td>
<td>25.6</td>
<td>22.8</td>
<td>23.4</td>
<td>25.1</td>
<td>24.3</td>
</tr>
<tr>
<td>Total expenditure and net lending (% of GDP)</td>
<td>38.5</td>
<td>33.3</td>
<td>32.6</td>
<td>31.0</td>
<td>34.7</td>
<td>33.0</td>
</tr>
<tr>
<td>Overall budget deficit</td>
<td>-10.6</td>
<td>-7.7</td>
<td>-9.8</td>
<td>-7.9</td>
<td>-7.7</td>
<td>-8.0</td>
</tr>
<tr>
<td>Current account deficit, excluding transfers (% of GDP)</td>
<td>-13.5</td>
<td>-20.0</td>
<td>-14.7</td>
<td>-7.4</td>
<td>-12.0</td>
<td>-11.8</td>
</tr>
<tr>
<td>Foreign exchange reserves (in months of imports)</td>
<td>3.0</td>
<td>3.2</td>
<td>3.9</td>
<td>4.9</td>
<td>4.6</td>
<td>4.6</td>
</tr>
<tr>
<td>Total public debt (% of GDP)</td>
<td>74.9</td>
<td>74.6</td>
<td>90.8</td>
<td>98.7</td>
<td>105.4</td>
<td>107.0</td>
</tr>
</tbody>
</table>

Source: AfDB Statistics Department; MFP and IMF

2.1.3 Social Context: Improvement in the living conditions of the population over the past decade has led to a sharp drop in the poverty rate, from 49% in 1989 to 25% in 2011. Life expectancy at birth is estimated at 68.9 years for men and 76.1 for women, and the maternal mortality rate is very low (79 per 100 000). However, although the unemployment rate fell from 26% to 13.3% between 1998 and 2008, it remains a cause for concern, particularly among young people who represent 50% of the population. The 2010/2011 fiscal recovery plan introduced in 2010 failed to create enough opportunities for entry-level jobs for young people. Cabo Verde’s Human Development Index (HDI) is 0.586, placing the country 132nd out of 187, which is above the 0.475 regional average for sub-Saharan Africa, but below the 0.640 average recorded for middle-income countries. Cabo Verde has already reached four of the eight Millennium Development Goals (MDGs), and hopes to achieve the rest by 2015 (see Annex 10). In terms of gender equality and empowerment of women, it should be noted that the literacy rate for young women aged 15-24 years is over 99%. Regarding the gender situation, women make up 51.6% of the total population, 46% of the workforce and head 46% of households. The National Plan for Gender Equality and Equity implemented since 2005 has helped to improve the situation of women in the country, especially in terms of education and the distribution of seats in Parliament. Thus, the gender-related development index (GDI) in Cabo Verde has increased from 0.705 in 2008 to 0.723 in 2010, reflecting a convergence of basic capabilities between men and women. Moreover, women also increasingly participate in productive activities, particularly in the tourism sector, handicrafts and micro enterprises.

2.1.4 Medium-Term Economic Prospects: The country’s economic prospects remain uncertain and will largely depend not only on economic recovery in the Euro zone, which is both Cabo Verde’s largest trading partner and main source of tourists, but also on the progress that will be made in pursuing Government’s policy to diversify the productive base of the economy. The Government is committed to implementing a transformation programme aimed at raising the country to the status of emerging economy by taking advantage of its geostrategic position and making it an international platform/hub for services with high value added. Therefore, the Government’s strategic guidelines are
focused on promoting the private sector and strengthening regional integration within the Economic Community of West African States (ECOWAS). If the region’s economy recovers and the agriculture and fisheries production momentum is maintained, growth is expected to be around 3% in 2014 and 3.5% in 2015. There are also encouraging signs on the FDI front since new investment commitments totalling EUR 904.25 million for the period 2013-2014 have been made. They principally target the tourism sector, and subsidiarily the industry, agribusiness and fisheries sectors. Inflation will be contained between 1.8% and 2% in 2014 and 2015 through prudent monetary policy and a supply-side policy in the agricultural sector. The overall budget deficit will be maintained at -7.7% and -8% of GDP in 2014 and 2015, respectively, due to substantial increases in revenue and better control of public expenditure, especially capital expenditure. Lastly, the current account balance of payments will remain in deficit at -12% of GDP, with the foreign exchange reserves maintained at 4.4 months of imports.

2.1.5 **Governance:** In terms of governance, according to the Mo Ibrahim IIAG, Cabo Verde in 2013 featured among the top three in West Africa with 76.7 points, behind Botswana (77.6) and Mauritius (82.9) and against an average of 52.5 for all West African countries. Accountability mechanisms in place (transparency, prevention of corruption and abuse of power, liability of public officials) credit the country with a score of 81.7 points out of 100, above the average for island African countries. According to the Transparency International Corruption Perception Index (CPI), Cabo Verde in 2013 ranked highest among West African countries with a score of 58, which puts it in the 41st position globally.

2.1.6 **Constraints and Challenges:** In addition to structural constraints such as the small market size, the fragmentation of the country into several islands that poses the problem of the integration of the internal market and lack of natural resources over which the authorities have little or no control, the main constraints to the resumption of economic growth include: (i) weak governance in some public enterprises, resulting in poor business and financial management, one of the consequences being the continued practice of financial support from the State as shareholder; (ii) the public infrastructure management method; (iii) the need for the sustainability of public debt, which imposes a constraint on public spending as well as public investment financing, the upward trend of which must be reversed for the benefit of domestic and foreign private investment; and (iv) the quality of the business environment that remains vital for the promotion of a private sector which, all things considered, is modest, consisting essentially of micro-, small- and medium-sized enterprises. The environment may be improved by removing constraints such as labour costs, labour market rigidity and the high cost of factors of production (including transport and electricity).

2.1.7 **Governance in Public Enterprises:** In the years of the "Welfare State" that prevailed from 1975, the year of independence, to 1989, Cabo Verde set up a plethora of enterprises (27) in whose capital State equity participation ranged between 2.13% and 100%. The analysis of the management status of the six major enterprises among the 27 led, in 2014, to the following conclusions: (i) loans transferred by the State to public enterprises for investment projects amounting to CVE 5 392 million in 2012, were reduced to CVE 4 941 million in 2013, that is, a decrease of 8%; (ii) State subsidies to public enterprises declined by 63% due to the improved financial performance of some of these public enterprises and the decision by the Government to raise to 15% (normal rate) against 6% previously, the VAT charged on bills paid by electricity consumers; (iii) the conversion of State transfers made to TACV as part of the company’s restructuring into equity participation in the capital of the company; (iv) concerning ELECTRA, in particular, the losses recorded by the company over the past many years are due mostly to theft from its distribution network. Conscious of this situation, the Government plans to take legal action against fraudsters to discourage such practices. In this regard, the TFPs, including the World Bank and AfDB, are considering strengthening dialogue on this issue with the Government to find a lasting solution to the problem. In total, as shown in Table 2 below, the financial performance of public enterprises improved significantly in 2013. Actually, only two of the six companies monitored closely since 2010 posted a deficit in 2013. These are IFH (CVE -196.26 million compared to CVE +2 266 million in 2012) and TACV (CVE -1 298 million compared
to CVE -3 211.5 million in 2012). Losses incurred by IFH are exceptional because, apart from 2010, the company has always been largely profitable. However, TACV’s management deficit which declined in 2013, is structural and results from the requirement for the company to maintain even unprofitable lines in its portfolio.

### Table 2
Overview of the Financial Position of the Six Major Public Enterprises

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Sector</th>
<th>Share Capital (in CVE thousand)</th>
<th>Shareholder</th>
<th>Share of Capital Held</th>
<th>Loss and Profit (in CVE thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASA</td>
<td>Airport</td>
<td>5 201 184</td>
<td>State</td>
<td>100%</td>
<td>844 087 357 754 112 108</td>
</tr>
<tr>
<td>ENAPOR</td>
<td>Port</td>
<td>1 200 000</td>
<td>State</td>
<td>100%</td>
<td>-140 635 172 544 17 976</td>
</tr>
<tr>
<td>ELECTRA</td>
<td>Energy, water</td>
<td>600 000</td>
<td>State</td>
<td>85%</td>
<td>-1 058 941 -823 446 ND</td>
</tr>
<tr>
<td>IFH</td>
<td>Real estate</td>
<td>750 000</td>
<td>State</td>
<td>100%</td>
<td>15 664 2 266 238 -196 266</td>
</tr>
<tr>
<td>EMPROFAC</td>
<td>Pharmaceuticals</td>
<td>200 000</td>
<td>State</td>
<td>100%</td>
<td>107 951 92 171 109 481</td>
</tr>
<tr>
<td>TACV</td>
<td>Air transport</td>
<td>1 000 000</td>
<td>State</td>
<td>100%</td>
<td>-1 991 869 -3 211 497 -1 351 375</td>
</tr>
<tr>
<td>Total (in CVE thousand)</td>
<td>8 951 184</td>
<td>N/A</td>
<td>-2 223 743</td>
<td>-1 491 324</td>
<td>-1 308 076</td>
</tr>
<tr>
<td>Total (as % of GDP)</td>
<td>5.9%</td>
<td>N/A</td>
<td>-1.5</td>
<td>-0.99</td>
<td>-0.84</td>
</tr>
</tbody>
</table>

**Source:** Annual Report on the liability of public enterprises for 2011 prepared by the MFP and updated during the May 2014 mission.

### 2.1.8 Therefore, to continue implementing the policy adopted by the authorities, which aims to further reduce the risk of unprofitable management of public enterprises and thus prevent an adverse impact on the balance of public finances, it is necessary to continue improving governance in operational and financial management. This is reflected in the measures already taken to reform the economic activity regulatory framework and the signing of three performance contracts between the State and three public enterprises (ELECTRA, IFH and EMPROPHAC).

### 2.1.9 Investment Environment and Economic Competitiveness:
In recent years, the Government has taken several initiatives to improve the business environment, ranging from simplifying administrative procedures for entrepreneurs to the introduction of tax incentives for investors (adoption of the General Investment Code in 2012, effectiveness of the Tax Incentives Code in January 2013, etc.). However, net foreign direct investment, which rose steadily from 2000 (USD 43 million) to 2008 (USD 209 million), experienced successive falls from 2009 to 2011, with only USD 93 million recorded in 2011 as a result of the international crisis of 2008 and the Euro zone crisis (EU citizens make up the largest contingent of tourists visiting Cabo Verde). From 2012, the continued reforms of the business environment and the socio-political stability prevailing in the country have succeeded in reversing the trend. For the 2013-2014 period, the foreign direct investment agreements signed reached EUR 904.25 million with 5 713 jobs created primarily in the hotel sector and subsidiarily in agribusiness, industry and fisheries. In the 2014 Doing Business Report, Cabo Verde rose 7 spots from 128th to 121st and, by eliminating minimum capital requirements, from 129th to the 66th position on “starting a business”. Furthermore, as part of the strategy to transform the country’s economy by 2030, the Government is relying on diversifying its partners and regional integration. **Regarding competitiveness,** the Government has taken a series of measures in recent years, for instance: (i) streamlining administrative channels and procedures by eliminating redundant steps, reducing time and costs of the processes through increasingly advanced computerization of government services; (ii) reorganizing services based on logical, functional and economic rationality, with emphasis on transparency and online operation; (iii) ensuring the qualification of institutional and human resources aimed at improving services delivered; and (iv) upgrading infrastructure for
development. Despite these reform efforts, labour market inflexibility continues to impose high business costs, especially on small- and medium-sized enterprises. In 2013, Cabo Verde recorded a score of 3.5 on a scale of values from 1 to 7, according to the Global Competitiveness Index which has 12 indicators, ranging from institutions and infrastructure to the macroeconomic environment, as well as the efficiency of the goods and services markets.

2.1.10 Public investment: Analysis of public investment programmes implemented by the Government as part of its expansionary fiscal policy to counter the effects of the global economic crisis shows that the investments have focused on major infrastructure projects such as roads, airports, modernization of ports, electricity transmission and distribution networks, construction of renewable energy facilities, water and sanitation, etc. Cabo Verde now has four international airports (Sal, Praia, Boa Vista and Sao Vicente) and the ports of the nine inhabited islands of the archipelago are currently being upgraded. Faced with the impact of the heavy public investments (15% of GDP on average) on the country’s indebtedness and debt sustainability level, the Government is determined to look to the private sector by adopting an innovative funding formula such as Public-Private Partnerships. Such partnerships are intended to take over the role so far played by the State alone in the area of major public works as part of the implementation of the strategy to transform the economy by 2030.

2.1.11 Therefore, Cabo Verde now faces a two-fold challenge: (i) restoring economic growth to rise to the level of the upper bracket of MICs and provide more opportunities for its population, especially young people and women; and (ii) maintaining debt sustainability so that the external resources indispensable for funding its development are not exhausted. To meet this dual challenge, the Government must not only carry out a thorough reform of the public sector to make it more competitive and more profitable in view of the withdrawal of the State from direct management for the benefit of the private sector under conditions to be defined, but also to rein in public expenditure, particularly capital expenses, by reversing the upward trend in favour of private investment whose expansion should be consolidated by improving the quality of the business climate and establishing the appropriate financing instruments (Public-Private Partnerships).

2.2 Overall Government Development Strategy and Medium-Term Priorities

2.2.1 The Government’s third generation Growth and Poverty Reduction Strategy Paper (GPRSP III), approved in May 2013, covering the period 2012-2016, is the benchmark for Cabo Verde’s development policy. GPRSP III focuses on good governance (Pillar 3) and strengthening the private sector (Pillar 4). The country’s overall development strategy lays emphasis on economic diversification based on competitiveness clusters in the following areas: (i) tourism; (ii) maritime economy; (iii) air transport; (iv) financial services; (v) information and communication technology (ICT); (vi) agribusiness; and (vii) cultural and creative industries. To implement this strategy, the Government has developed a short- and medium-term reform programme that was communicated to the partners of the Budget Support Group (BSG) in 2013. It focuses on three areas: (a) improving public enterprise governance and transport sector reform; (b) investment promotion and private sector support; and (c) human development. These priorities are reflected in PAGEPPI. The PAGEPPI matrix of measures is derived from that of the Government reform programme.

2.3 Status of Bank Group Portfolio

2.3.1 As at 30 June 2014, the Bank’s portfolio in Cabo Verde consisted of ten (10) operations including four investment projects, one budget support, the water mobilization study and four technical assistance operations under the MIC Fund. These operations represented net commitments totalling UA 83.8 million and a cumulative disbursement rate of 24%. The performance of the national public portfolio is considered satisfactory with an average score of 2.3 (on a scale of 0-3), reflecting a positive trend compared with the 2009 review (2.2). The Bank’s portfolio in Cabo Verde does not currently contain any operation deemed problematic.
2.3.2 In the private sector, the Bank financed the Cabeólica Project, the first Public Private Partnership (PPP) in the renewable energy infrastructure sector. The Cabeólica Wind Power Project has been operational since 2012 and covers about 25% of the country’s annual energy demand. It received the best renewable energy project in Africa prize, awarded by Africa Energy Awards.

III. RATIONALE, KEY DESIGN ELEMENTS AND SUSTAINABILITY

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

3.1.1 Linkages with CSP: PAGEPPI is part of the 2014-2018 CSP, itself centred on two pillars: Pillow 1: strengthening and diversifying infrastructure to support sustainable development; and Pillow 2: strengthening economic governance in both the public sector and the private sector. Details of linkages between PAGEPPI, the CSP and GPRSP are described below.

Table 3
Linkages between PAGEPPI, the CSP and the Government’s GPRSP

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Objective:</strong></td>
<td><strong>Strategic Objective:</strong></td>
<td><strong>Overall Objective and Operational Objectives:</strong></td>
</tr>
<tr>
<td>The GPRSP III focuses on: infrastructure (Pillar 1), good governance (Pillar 3) and private sector support (Pillar 4), Cabo Verde’s overall development strategy lays emphasis on economic diversification based on competitiveness clusters in the following areas: tourism, the maritime economy, air transport, financial services, information and communication technology (ICT), agribusiness and cultural industries.</td>
<td>Support the Government in its efforts to lay the foundations for more inclusive and greener growth.</td>
<td>- Overall objective: Contribute to consolidating the macroeconomic framework and boosting growth through improved governance of public enterprises and investment promotion.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reform Priorities</th>
<th>Pillars/Priorities</th>
<th>Programme Components:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Improve public enterprise governance and transport sector reform; (ii) Investment promotion and private sector support; and (iii) Human development.</td>
<td><strong>Pillar 1</strong>: Strengthen infrastructure diversification to foster sustainable development; <strong>Pillar 2</strong>: Enhance governance in both the public and private sectors. (Priorities 1 and 2 of the CSP are aligned with Pillars 1 and 3 of GPRSP 2012-2016)</td>
<td>A. Strengthen public enterprise governance; B. Investment promotion</td>
</tr>
</tbody>
</table>

3.1.2 Moreover, the programme addresses two action priorities identified by the Bank in its strategy for the period 2013-2022, namely governance and accountability, as well as private sector development. Furthermore, PAGEPPI is aligned with the three pillars of the Governance Action Plan 2014-2018 (GAP II) relating to public governance, sector-based governance and improvement of the business climate. Lastly, it draws on the Bank’s Private Sector Development Policy 2013-2017, particularly the first pillar on improving the business and investment climate.

3.1.4 **Underlying analytical work:** PAGEPPI takes on board the Bank’s flagship publications on Cabo Verde "Cabo Verde: a Success Story", "Cabo Verde: The Road Ahead", and the Private Sector Study. These publications analyse developments in the country in light of its recent ranking as a middle-income country, and chart the way forward. The programme also incorporates the analytical work carried out by the Government and diagnostic studies conducted in collaboration with other TFPs such as the 2012 PEMFAR on public finance management in Cabo Verde, which brought together the World Bank, the European Union, the United Nations, Spanish Cooperation and AfDB, among others. In addition to *Doing Business 2014*, more targeted World Bank work, particularly in the area of major public enterprises and public investment management, was also taken into account. The underlying analytical work carried out will certainly have an impact in terms of institutional development and knowledge building.

3.2 **Donor Collaboration and Coordination**

3.2.1 The Budget Support Group (BSG), whose members include the World Bank, the European Union, the Bank and bilateral partners such as Portugal, Spain and Luxembourg, meets twice yearly in Cabo Verde. Financial support from BSG partners for the programme period (2013, 2014 and 2015) is outlined in the Financing Plan on page vii of the report. The measures aimed at promoting PAGEPPI were discussed beforehand with the BSG TFPs and selected depending on the comparative advantages and value added of each party, particularly the two TFPs (World Bank and the European Union) involved in general budget support, in a quest for harmonization, in accordance with the Paris Declaration (see also Technical Annex 10). Moreover, the last BSG review mission that took place in May 2014, expressed concern about the trend of the national debt and the unsustainable level it may reach in the medium term as well as the need to continue reforms both in public finance (public investment programme) and in public enterprises, to improve governance and enhance the quality of services they provide to the public. In addition, it should be noted that as with the Bank, the areas of intervention of other partners also include real sectors such as agriculture, fisheries, livestock, water and sanitation as well as energy production and transmission infrastructure. All these areas are sources of growth and wealth creation in the country.

3.3 **Outcomes of Similar Completed or On-going Operations and Lessons Learned**

3.3.1 The main lessons learned from previous similar operations, including the PAGFP RSP for the 2011-2012 period, are: (i) the importance of maintaining close and constant dialogue with the authorities for effective implementation of recommended reform measures; (ii) the need to maintain and deepen the TFP consultative framework, particularly through the BSG; (iii) better selection of indicators, measures and disbursement conditionalities in line with the duration of the programme; and (iv) the need to accompany budget support operations with project support or other technical assistance operations in order to foster ownership of such operations by stakeholders (see Annex 9). These lessons were reflected in the programme design and formulation, especially in terms of: (a) selectiveness of measures; (b) alignment with the programme-based approach adopted; and (c) synergy with technical assistance operations. The gains achieved in the first year of the programme are presented in Section 4.3.

3.4 **Linkages with Other Bank Operations**

3.4.1 The programme is consistent with AfDB sector-based and/or "private window" operations and technical assistance projects, particularly those financed from TAF MIC resources, to which it is complementary. This produced a leverage effect by giving stakeholders the means to implement the recommended reforms. Sector operations, especially in the transport, ICT and energy areas, will particularly benefit from reforms promoted by PAGEPPI, whether in public enterprise governance, the review of the economic activity regulatory framework or promotion of public-private partnerships.
3.5. **Bank’s Comparative Advantages and Value Added**

3.5.1 The Bank’s holistic and integrated approach, combining general budget support, project support and technical assistance, offers a comparative advantage over more stand-alone approaches. The Bank plays an active role in supporting economic and financial reforms through capacity-building projects financed by MIC grants covering public finance management, promotion of MSMEs as well as of good governance. PAGEPPI, which focuses on public corporate governance and investment promotion, is based on a process of selectiveness and complementarity with institutional capacity-building projects in progress as well as with the operations of other partners (see Technical Annex 10). As an example, the implementation of technical assistance projects financed or soon to be financed by the Bank should contribute to the successful implementation of the reforms selected under PAGEPPI-II, especially under its "investment promotion" component. Such projects include: (i) Capacity Building for the Development of SMEs through Business Incubators; (ii) Strengthening Tax Administration and Enhancing Revenue to Improve Business Cycle Services; and (iii) Support for the Establishment and Operationalization of the Privatization and PPP Unit.

3.6 **Application of Best Practices on Conditionality**

3.6.1 The five good practice principles on conditionality were observed: (i) ownership results from the fact that the programme was designed with the active collaboration of the authorities (political leaders, officials of government services and public enterprises, private sector representatives (Chamber of Commerce, ADEL, CV Invest, etc.), civil society (NGO Platform, Institute for Gender Equality and Equity, etc.) and is based on GPRSP-III; (ii) existence of a coordination momentum between TFPs with the establishment of the Budget Support Group (BSG), which includes all TFPs involved in budget support programmes in Cabo Verde; (iii) alignment of Bank support modalities with national priorities (GPRSP-III); (iv) fewer disbursement conditions that were agreed upon with the authorities during the appraisal mission; and (v) alignment of Bank support with the country’s budget cycle.

IV. **PROPOSED PROGRAMME AND EXPECTED OUTCOMES**

4.1. **Programme Goal and Objectives**

4.1.1 **Goals**: PAGEPPI is a programme-based general budget support operation. The programme’s overall objective is to contribute to consolidation of the macroeconomic framework and stimulate growth through better public corporate governance and private investment promotion. In this context, PAGEPPI has two components. **Component 1: improvement of public corporate governance** is based on two sub-components: (i) strengthening the regulatory framework of economic activities; and (ii) redefining relations between the State and public enterprises. **Component 2: investment promotion** also has two sub-components: (i) creating a more attractive investment climate; and (ii) improving public investment management to foster public-private partnerships (PPPs). The operational objectives of the programme are to: (a) improve public corporate governance in order to streamline public expenditure; and (b) promote private investment to increase its contribution to economic growth and job creation. **These two components are complementary because for the State to tackle the challenge of streamlining public investment and preserving debt sustainability, private investment should be promoted to meet the country's overall investment requirements - hence the need to establish an investment-friendly framework.**

4.1.2 **The Proposal's Rationale**: Continued Bank support for reform in Cabo Verde is necessary to consolidate the gains of PAGEPPI-I and deepen reforms aimed at strengthening good governance in public enterprises. These initiatives would reduce the burden of public enterprises on the State budget and the risks they pose to public finances, besides making them more attractive in view of the State's withdrawal from the direct management of such enterprises. In addition, due to its recent ranking among middle-income countries, Cabo Verde must prepare to rely increasingly on non-concessional borrowing. This means grappling with a two-fold challenge: (i) streamlining public expenditure to...
maintain debt sustainability and restore budgetary flexibility; and (ii) mobilizing the private sector to boost growth and create jobs. The implementation of measures initiated during PAGEPPI-I to promote investment, internationally and locally (the legislative decree operationalizing the Investment Code, adoption of an incentives regime for micro and small enterprises), should be strengthened in 2014 to create a framework more conducive to economic activity and private investment, and promote private sector development.

4.2 Programme Components, Operational Objectives and Expected Outcomes

4.2.1 Given that PAGEPPI-II is designed as a programme-based operation within a multi-year framework, the areas of intervention are the same as those of PAGEPPI-I. The components and operational objectives therefore remain valid for 2014 (see § 4.1.1 above).

4.2.2 PAGEPPI’s unique feature resides in: (i) the approach chosen to address the challenge of fiscal deficits – a source of public indebtedness - which lays special emphasis on improving the management of State equity participation in public enterprises and on streamlining the public investment portfolio; and (ii) the place given to the private sector as engine of growth through innovative, investment-friendly PPP-based arrangements, targeting international foreign investors and local MSME-project sponsors.

4.3 Status of implementation of PAGEPPI-I

4.3.1 Fulfilment of measures and conditions precedent to PAGEPPI in 2013 and achievement of targets/fulfilment of measures and conditions precedent to PAGEPPI-I: following an evaluation, the performance was deemed satisfactory in terms of implementation of policy reforms adopted in PAGEPPI for 2013. The six measures adopted for 2013 were implemented, four of them prior to the presentation of the programme to the Board of Directors. Table 5 below summarizes the progress made in implementing the six measures, with the items in bold corresponding to conditions precedent to Board approval of the programme.

<table>
<thead>
<tr>
<th>2013 Measures</th>
<th>Implementation of Measures</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component 1: Improvement of Public Corporate Governance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Enactment and publication in the Official Gazette in 2013 of the legislative decree modifying the structure, organization and operation of the Ministry of Finance and Planning with a view to operationalizing the reform of the State equity participation department.</td>
<td>(i) A new Decree on the organization and functioning of the Ministry of Finance and Planning was issued in 2013. The decree, which was already forwarded to the Bank, makes provision for a Department in charge of State Enterprises run by four executives, including the Head of the Control Department.</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>(ii) Preparation and submission, in 2013, by the MFP of the 2012 Annual Report on the liability of public enterprises</td>
<td>(ii) The 2012 Annual Report on the liability of public enterprises was produced and forwarded to the Bank prior to presentation of the programme to the Board</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>(iii) Signing of two additional performance contracts in 2013 between the State and two other major public enterprises (EMPROFAC, IFH)</td>
<td>(iii) Two contract were signed in 2013 with EMPROFAC and IFH. However, the performance contract with TACV will be signed before end-2014</td>
<td>Fairly satisfactory because TACV’s case is more disturbing since the company has been accumulating losses for over five years.</td>
</tr>
<tr>
<td>Component 2: Investment Promotion</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### 2013 Measures

<table>
<thead>
<tr>
<th>2013 Measures</th>
<th>Implementation of Measures</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Adoption, in 2013, by the Council of Ministers of a legislative decree operationalizing the law on the General Investment Code, especially with a view to establishing a one-stop shop for investor services</td>
<td>(i) The legislative decree was adopted in 2013 and a copy sent to the Bank prior to presentation of the programme to the Board. The one-stop shop was established in December 2013 and will only be fully operational by June 2014</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>(ii) Adoption by the Council of Ministers, in 2013, of the incentives regime for micro and small enterprises</td>
<td>(ii) The incentives regime for micro and small enterprises was adopted in 2013 by the Council of Ministers and submitted, in the form of law, to the National Assembly where it was adopted. However, the Constitutional Court had reservations on a number of provisions, including the one relating to labour flexibility. The new law will once again be adopted by the Council of Ministers and resubmitted to the National Assembly for approval.</td>
<td>Fairly satisfactory because the first adoption by the Council of Ministers was invalidated by the constitutional process that followed the review of the law by the country's higher decision-making bodies.</td>
</tr>
<tr>
<td>(iii) Update, in 2013, of the public investment management system diagnosis</td>
<td>(iii) The update was done with World Bank support</td>
<td>Satisfactory</td>
</tr>
</tbody>
</table>

### 4.4 Outputs/Measures and Outcomes Expected in 2014

4.4.1 Governance of public enterprises and the investment climate: the governance of public enterprises and the investment climate remain the two pillars of PAGEPPI in 2014 insofar as they contribute to the revival of economic growth, the objective being to achieve a growth rate above or equal to 3% of GDP in 2014. The programme will have the desired effect since: (i) good governance of public enterprises will help to improve their operational and financial performance; and (ii) the investment climate will promote inclusive private sector development. For these reasons, the two components above have been maintained for the second phase of PAGEPPI in 2014

**Component 1: Improvement of public corporate governance**

4.4.2 **Strengthening of the regulatory framework of economic activities:** In the first appraisal conducted by the Bank in 2013, it was found that despite the existence of various regulatory agencies (ARE for the energy and water sectors, and partly for the transport sector; ANAC for the telecommunications sector; ARFA for the food industry and pharmaceuticals sector; AAC for civil aviation, etc.), the separation between the regulators, operators and managers of infrastructure is not clearly established. This creates a situation that could deter the arrival of new investors in the market and adversely impacts utility rates. In 2009, 2010 and 2012, the Government adopted a range of measures, including Law No. 14/VIII/2012 defining the legal framework of independent economic and financial sector regulatory authorities involving a case-by-case review of the status of existing regulatory authorities. However, the statutory instruments enabling the implementation of this law have so far not been issued. Therefore, the following measures were adopted under PAGEPPI-II:

(i) Adoption of the statutory instruments operationalizing the 2009 law on public enterprises provided for under Section 52(1) of that law; and

(ii) Independent evaluation of the performance of regulatory authorities; development and adoption, by the Government, of an action plan for revising the status of these regulatory authorities for the purpose of reforming them, as stipulated in Law No. 14/VIII/2012.

**Expected outcomes:** Strengthening the regulatory framework of economic activities will help to clarify the roles of the State as shareholder, and of regulators and economic operators, which will, in turn, improve the operation of competitive markets and reduce the cost of public services for users,
with the ultimate purpose of achieving sustainable and inclusive growth.

4.4.3 **Redefinition of the relationship between the State and public enterprises**: The organization of the Ministry of Finance and Planning was recently reformed and a copy of the decree forwarded to the Bank showing the establishment of a Department for the Management of the State's equity participation in public enterprises under the supervision of the Directorate General of the Treasury. The human and material resources of this Department are deemed inadequate, given the magnitude of its task of implementing a genuine State shareholding policy. In a tight economic context, public enterprises must meet their assigned objectives, particularly in terms of improving access to and the quality of public services. They must justify the use of resources placed at their disposal based on performance contracts outlining specific objectives to be met.

4.4.4 **Performance Contract**: Aware of this situation, the Government in 2012 signed a performance contract with ELECTRA (one of the six major enterprises), which is expected to improve its performance in the area of financial, commercial and operational management in order to generate profit and reduce the risks that its losses may bring to bear on the balance of public finances. In the same vein, the Government in 2013 also concluded performance contracts with two other enterprises, namely: IFH (real estate) and EMPROFAC (pharmaceutical and food products). Pending the signing of performance contracts with the other three of the six enterprises identified, the Government has taken steps to strengthen its control of the management of all public enterprises by: (i) appointing its representatives on a Supervisory Board and on the Boards of Directors; (ii) instituting the submission of management reports by public enterprises to the Government through the Ministry of Finance and Planning, on a quarterly rather than annual basis; and (iii) setting up an IT platform enabling access to the accounting data of public enterprises, and thus facilitating real time tracking of management progress. Under PAGEPPI-II, the measures adopted are:

(i) Preparation and submission in 2014 by the MFP, of the 2013 annual report on the liability of public enterprises, with a view to assessing the impact of the measures implemented to improve the financial and commercial management of these enterprises; and

(ii) Signing of three additional performance contracts in 2014 between the State and other major public enterprises (ASA, ENAPOR and TACV).

**Expected Outcomes**: The redefinition of relations between the State and public enterprises, based on performance contracts and technical and operational capacity building for the Department responsible for monitoring public enterprises, will help to establish a culture of efficiency and accountability. In turn, this should reduce the losses incurred by major public enterprises and improve the quality of services to users, thus preparing these enterprises for partial or complete privatization.

**Component 2**: Private Investment Promotion

4.4.5 **Creation of a more attractive investment climate**: More than ever before, Cabo Verde needs private sector investments, be they local or foreign. In this regard, there is need to create conducive conditions for investment. The Government took appropriate initiatives in 2012 with the adoption of Law No. 13/VIII/2012 on the General Investment Code which came into force on 1 January 2013, the establishment of the Investment Promotion Agency (CV Invest), which focuses especially on foreign investment, and the adoption, still in 2013, of a special scheme for micro and small enterprises, eliminating the requirement to pay a minimum capital to set up this type of business; streamlining of registration and/or licensing procedures; introducing a special tax system based on the single tax principle incorporating corporate tax, VAT, and social security contributions; and adapting the labour law to the small size of this type of businesses. As far as foreign investors are concerned, these measures have borne fruit considering that, after declining for a time, the volume of foreign direct investment reached EUR 600 million in 2013, to which should be added the commitments made by
investors for the first half of 2014 amounting to EUR 304 million, bringing the total to EUR 904 million, compared to USD 93 million in 2011 (EUR 70 million). PAGEPPI-I adopted two specific measures in 2013, both of which were implemented. These are: (i) adoption by the Council of Ministers of the legislative decree operationalizing the law on the Investment Code, particularly with the establishment of a one-stop shop for investor services; (ii) adoption by the Council of Ministers of the incentives regime for micro and small enterprises. Regarding the latter, the Government transmitted the bill to the National Assembly where it was adopted. However, the Constitutional Court expressed reservations on a number of provisions of the law, including the one that seeks to enhance labour market flexibility to benefit micro and small enterprises. A new law revised on the basis of the observations of the Constitutional Court will soon be considered by the Council of Ministers and resubmitted to the National Assembly for adoption. This law will have a significant impact on the formalization of the local private sector consisting mainly of micro and small enterprises, which account for 93% of Cabo Verde's business fabric and generate 41% of the country’s employment volume. Also, the Government intends to increasingly use public-private partnerships for new public investment in the infrastructure sector, in particular. Furthermore, it plans to carry out the total or partial privatization of some of its existing enterprises under conditions yet to be defined. However, from the institutional standpoint, there are as yet no appropriate structures for conducting these operations. Therefore, the State needs a technically competent structure and the necessary resources to carry out these privatization and public-private partnership operations. The following measures were selected:

(i) Adoption of the decree on the establishment and operationalization of the Privatization and PPP Promotion Unit; and

(ii) Adoption by the Council of Ministers and transmission to the National Assembly of the law on incentives for micro and small enterprises, revised on the basis of the observations of the Constitutional Court.

**Expected outcomes:** Creating a more attractive investment climate goes hand-in-hand with improving the business climate and enables the private sector to contribute more to GDP growth through higher FDI and promotion of local investment. The approach of targeting international (FDI) as well as local investors with MSME projects is consistent with a vision of sustainable and inclusive growth aimed at reducing the informal economy.

4.4.6 **Improved management of public investment through the use of public-private partnerships:** To promote investments that mobilize the private sector and preserve the country’s debt sustainability, PPPs and harmonized ex-ante and ex-post mechanisms must be promoted to allow for the identification, management, monitoring and evaluation of priority investments. Although the 2005 law on PPPs is an important landmark in the PPP framework, it has a number of limitations in such areas as institutional framework, bid review, project preparation, investor protection, status of unsuccessful bids and dispute settlement. At the institutional level, there is as yet no of Public-Private Partnership Management Unit within the MFP or the Ministry of Infrastructure. As for public investment, an initial diagnosis of the management system conducted in 2012 with World Bank support concluded on the need to review the public investment portfolio in order to streamline and refocus on priority investments. Given the State’s narrow budgetary flexibility, the public investment portfolio needs to be reviewed and streamlined to boost the percentage of private investment in gross domestic investment. The following measures have been adopted under the PAGEPPI-II:

(i) Preparation of a report incorporating the criteria for the evaluation of priority investments and projects to be carried out under the PPP arrangement; and

(ii) Establishment of a harmonized system of public investment programme identification, monitoring and evaluation, thanks to which it would be possible to assess the relevance of these programmes in light of the guidelines of the PRSP-III and also their level of economic and/or financial viability.
**Expected Outcomes:** The prioritization, monitoring and evaluation of public investments will help to streamline public expenditure with a view to restoring budgetary flexibility and preserving the debt sustainability as well as promoting an attractive partnership framework for the private sector, as a new driver of growth.

### 4.5 Financing Needs and Arrangements

4.5.1 This budget support operation is an integral part of the external financing sources that will help to close the CVE 13 236 million budget deficit for fiscal 2014. This deficit will be cleared by domestic financing (bank and non-bank financing), which for that same fiscal year stands at CVE 3 277 million, and by external financing of CVE 9 959 million, making a total of CVE 13 236 million in available resources. Of the CVE 9 959 million from external sources, CVE 4 066.5 million is intended for budget support, of which CVE 1 653 million (EUR 15 million) provided by AfDB, which represents 40.6% of budget support and 12.5% of the total financing requirements.

<table>
<thead>
<tr>
<th>Table 5</th>
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<tbody>
<tr>
<td>Financing Needs and Sources (in CVE million)</td>
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<tr>
<td>Financing Needs/ Sources of Financing</td>
</tr>
<tr>
<td>Revenue and grants</td>
</tr>
<tr>
<td>Total expenditure and net loans</td>
</tr>
<tr>
<td>Overall deficit on a commitment basis, net of grants</td>
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<tr>
<td>Total financing needs</td>
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<tr>
<td>Total financing including:</td>
</tr>
<tr>
<td>Domestic financing</td>
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<tr>
<td>External financing, including:</td>
</tr>
<tr>
<td>Budget support, of which:</td>
</tr>
<tr>
<td>AfDB</td>
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<tr>
<td>World Bank</td>
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<tr>
<td>European Union</td>
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<tr>
<td>Luxembourg</td>
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<tr>
<td>Portugal</td>
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<tr>
<td>FINANCING GAP</td>
</tr>
</tbody>
</table>

**Source:** Data from Cabo Verdean authorities and IMF estimates

### 4.6 Programme Beneficiaries

4.6.1 **PAGEPPI should benefit the entire population of Cabo Verde.** From the standpoint of users of public services, better public corporate governance will have a positive impact on the quality of public services, especially water and electricity. For taxpayers, the tax burden will be contained given that PAGEPPI seeks to foster: (i) resource mobilization and the restoration of budgetary flexibility by reducing losses for public enterprises and streamlining public investments; and (ii) higher private sector contribution to GDP growth by improving the business climate and promoting investment.
4.7 Impacts on Macroeconomic Activities and Governance

The implementation of these programme reforms should lead to the financial restructuring of public enterprises through good governance and better control of public spending, thereby maintaining public debt at a sustainable level. **It should also allow the State to refocus its mission on its sovereign role by gradually divesting itself from commercial activities that could be better performed by the private sector, including foreign and domestic investors, who would be attracted by the restructured public enterprises.** These investors will have legal guarantees as well as the tax incentives offered under the PPP arrangement. Furthermore, the introduction of a harmonized assessment and appropriate management mechanism will strengthen the correlation between investment budgets and priorities identified in PRSP III. That will result in better delivery of basic social services whose primary beneficiaries will be the most vulnerable segments of the population (women and children in urban and rural areas).

4.8 Impact on Gender

In preparing PAGEPPI, the gender perspective was mainstreamed, especially during consultations with stakeholders - including business women and representatives of the Institute for Gender Equality and Equity. The programme should have a positive impact on gender through the reforms it supports. The improved public service delivery brought about by reforming public enterprises will have a positive impact on women’s living standards (access to water and energy) and working conditions in such sectors as transport, tourism and real estate. The CSP estimates that the number of SMEs will increase from 360 in 2012 to 1,000 in 2018, of which 40% would be headed by women. The improvement of the investment climate, and especially the introduction of the incentives regime for micro and small enterprises in which Cabo Verdean business women most often operate, and 40% of which are headed by them, will promote women’s entrepreneurship, leading to greater empowerment.

4.9 Environmental Impact

Since the proposed programme is a general budget support operation, it is classified in Category III. Better corporate governance will have a positive impact in terms of corporate social and environmental responsibility.

V. IMPLEMENTATION, MONITORING AND EVALUATION

5.1 Implementation Arrangements

5.1.1 **Institutional Implementation Framework:** Overall responsibility for programme implementation rests with the Ministry of Finance and Planning (MFP). The MFP satisfactorily managed and coordinated previous operations funded by the Bank and other TFPs. It will rely on the National Directorate of Planning (DNP) for day-to-day programme management and monitoring. The MFP could also receive support from the State Reforms Coordination Unit (UCRE) attached to the Prime Minister/Minister for State Reform - a cross-cutting arrangement central to reforms monitoring in Cabo Verde. However, in the interest of participatory implementation, all stakeholders should be involved in the programme implementation.

5.1.2 **Disbursements:** In line with the programme-based approach, the loan will be disbursed in a single tranche of EUR 15 million to finance the 2014 budget implementation. Once the loan becomes effective and conditions precedent to loan disbursement are fulfilled, the single tranche will be disbursed pursuant to the terms of the loan agreement. At the Borrower’s request, the Bank will release the funds into a special account denominated in Euro and opened with the Central Bank of Cabo Verde.
5.1.3 **Procurement:** The loan will be in the form of general budget support. Consequently, its implementation does not raise direct issues of procurement of goods and services. Evaluation of the national procurement system, governed by Law No. 17/VII/2007 of 10 September 2007, conducted by the Bank in November 2011, concluded that Cabo Verde’s procurement regulations are largely compliant with the Bank’s procurement policy standards, except for a few divergences that are being discussed by the Bank and the Cabo Verde authorities.

5.1.4 **Financial Management and Audit:** Since the Programme is a general budget support operation; its allotted resources will be subject to the public expenditure process. Consequently, an external audit of the use of funds will be performed by the Court of Auditors. A copy of the draft appropriations bill will be forwarded to the Bank and, at the same time, tabled before the National Assembly. However, the Bank reserves the right to require an audit of the special account by an independent firm to ensure that the loan resources are used for their intended purpose and in accordance with the rules in force.

5.2 **Monitoring and Evaluation Arrangements**

The results-based logical framework and matrix of measures featuring in the appendix are reference instruments for PAGEPPI monitoring and evaluation. The programme will be the subject of supervision and mid-term review pursuant to Bank rules, including by BSG which provides for joint missions with TFPs twice a year. The Bank’s Regional Office in Dakar (SNFO) will closely monitor the programme. The BSG partners and the IMF will be informed of the status of programme implementation. The completion report, to be shared with these partners, will be prepared in line with Bank Rules.

VI. **LEGAL INSTRUMENTS AND LEGAL AUTHORITY**

6.1. **Legal Documents**

The legal document to be used during the Programme is the loan agreement between the Republic of Cabo Verde (Borrower) and the African Development Bank (the Bank).

6.2. **Conditions Associated with Bank Intervention**

6.2.1 Conditions precedent to Board presentation of the Programme.

Presentation of the programme to the Board shall be subject to fulfilment of the following conditions by the Borrower:

<table>
<thead>
<tr>
<th>Actions Precedent to Board Presentation</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Adoption of the statutory instruments operationalizing the 2009 law on Public Enterprises provided for under Section 52(1) of that law (Law No. 47/VII/2009)</td>
<td>Copies of statutory instruments approved by the Council of Ministers clarifying the role of the State in public enterprises and the roles of regulators and economic operators</td>
</tr>
<tr>
<td>(ii) Appraisal, in 2014, of the performance of regulatory authorities; development and adoption, by the Government, of an action plan for revising the status of such authorities for the purpose of reforming them, as stipulated in Law No. 14/VIII/2012</td>
<td>Appraisal report on the performance of regulatory authorities accompanied by an action plan for implementing the recommendations of the report.</td>
</tr>
<tr>
<td>(iii) Preparation and submission, in 2014 by the MFP, of the 2013 Annual Report on the liability of public enterprises.</td>
<td>Submission by the MFP of the 2013 Annual Report on the liability of public enterprises</td>
</tr>
<tr>
<td>(iv) Signing of three additional performance contracts in 2014 between the State and other major public enterprises (ASA, ENAPOR, TACV)</td>
<td>Submission of the copies of the three performances contracts (ASA, ENAPOR, TACV) duly signed</td>
</tr>
<tr>
<td>Actions Precedent to Board Presentation</td>
<td>Evidence</td>
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<tr>
<td>----------------------------------------</td>
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</tr>
<tr>
<td>(v) Adoption of the decree establishing the Privatization and PP Promotion Unit</td>
<td>Copy of the decree issued on the establishment of the Privatisation and PP Promotion Unit</td>
</tr>
<tr>
<td>(vi) Adoption by the Council of Ministers and transmission to the National Assembly of the revised version of the law on incentives for micro and small enterprises.</td>
<td>Copy of the draft law passed by the Council of Ministers</td>
</tr>
<tr>
<td>(vii) Preparation of a report in 2014 incorporating criteria for assessing investment priorities and projects to be undertaken under public-private partnership (PPP)</td>
<td>Submission of the report signed by the MFP, including the criteria for evaluating priority investments and projects to be carried out under the PPP arrangement</td>
</tr>
<tr>
<td>(viii) Establishment of a harmonized system of monitoring and evaluation of public investment programmes in 2014</td>
<td>Submission of the MFP circular on the implementation of the harmonized system for the monitoring and evaluation of public investment programmes.</td>
</tr>
</tbody>
</table>

6.2.2 **Conditions Precedent to Effectiveness of the Loan Agreement**: Effectiveness of the Loan Agreement shall be subject to fulfilment by the Borrower of the conditions set forth in Section 12.01 of the General Conditions Applicable to Bank Loan Agreements and Guarantee Agreements.

6.2.3 **Conditions Precedent to Loan Disbursement**: Prior to loan disbursement, the Borrower shall communicate to the Bank the references of the special bank account denominated in Euro into which the PAGEPPI funds will be transferred. Disbursement shall be subject to effectiveness of the loan agreement.

6.3 **Compliance with Bank Policies**

This programme is in line with the operational priorities of the Bank’s 2013-2022 Strategy, especially with regard to governance and private sector development, as well as the Private Sector Development Strategy, approved by the Board on 10 July 2013. The programme is also consistent with the Bank Group’s Policy on Programme-Based Operations. No exception is requested under this programme.

VII. **RISK MANAGEMENT**

The various types of risks related to macroeconomic, political and human capacity and the corresponding mitigation measures are detailed in the results-based logical framework as well as in the table below:

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Macroeconomic risks:</strong> An unfavourable macroeconomic context and external shocks are likely to undermine the achievement of the programme’s expected outcomes, especially as a result of the debt crisis in the Euro zone, to which Cabo Verde is closely linked.</td>
<td>This type of risk is the subject of on-going dialogue with the authorities and regular monitoring within the BSG framework which brings together TFPs involved in programme-based operations and whose last review mission was conducted from 5 to 9 May 2014.</td>
</tr>
<tr>
<td><strong>Human capacity-related risks:</strong> Generally, the country’s human and institutional capacity is above the regional average. However, the limited number of resource persons with the required skills in key Ministries could slow down or hamper the implementation of recommended measures.</td>
<td>To foster ownership of the reforms planned, this programme will be accompanied by a number of technical assistance and capacity-building projects, particularly in public investment management, public-private partnerships and business climate.</td>
</tr>
</tbody>
</table>
Political risks: The programme will probably not have the desired outcomes if the authorities’ commitment to pursue reforms happens to weaken.

The Government is committed, at the highest level (Presidency, Prime Minister’s Office, Ministry of Finance and Planning, sector ministries), to structural reforms, monitored regularly by TFPs, especially within BSG which conducts joint bi-annual review missions.

VIII RECOMMENDATION

This programme seeks to improve corporate governance and promote private investment in order to streamline public expenditure and boost the private sector’s contribution to growth in Cabo Verde. The reforms it supports are in line with Government’s guidelines and the priorities of the Bank’s Strategy in Cabo Verde. It is recommended that the Board should approve a loan of EUR 15 million (in the form of a programme-based general budget support) for the Republic of Cabo Verde to finance the Public Corporate Governance and Investment Promotion Support Programme (PAGEPPI).
Letter of Development Policy

Budget Support Group Partners
Representatives from the African Development Bank, the European Union, Luxembourg, Portugal, the Spanish Agency for International Development Cooperation and the World Bank.

N. Ref. 2012GMFP/2013
17th July 2013

Topic: Memorandum of Financial and Economic Policies

Dear all,

During the joint review of the Budget Support Group held in May, the Government of Cape Verde presented the developments and progresses occurred in the various areas of governance with a special focus on macroeconomic and public finance management. The implementation of the new charter for competitiveness and socially inclusive growth - the Growth and Poverty Reduction Strategy Document (GPRSP III) to cover 2012 through 2016 - also merited center attention.

The authorities take good note on the BSG appreciation of the advances in the structural public finance reforms as well as the Group’s recommendations for key competitiveness measures to improve the business climate. The context of the uncertain international economic environment continues to take its toll on the Cape Verdean economy and the budget policy that has been followed in the last three years has sought to compensate the impacts of the economic and financial crisis. The recent historical GDP data disclosed by INE, which reveals a more pronounced impact from the economic crisis on national output than had been previously estimated, has further added to the authorities’ case for counter cyclical stimulus to the economy.

The Government’s support to the economy through the investment program attempted to mitigate the negative impacts of the crisis on national demand and investment. Furthermore, the investments are a necessary condition to increase competitiveness by alleviating chronic infrastructure bottlenecks and reducing the cost of factors in the medium-long term.
Notwithstanding the negative international context, positive results were noted in important economic sectors in 2012 reflecting the impact of the national policies improvements. We highlight the excellent performance of the tourism sector. Infrastructure improvements, repositioning of the country as a high value destination, the promoting new markets and the political stability had contributed to the growth of tourism. In 2012 the number of tourists reached 533,877, an increase of 12.3 percent, overnights increased 17.9 percent, hotels 6.2 percent and bed capacity 6.2 percent. This positive evolution of the sector represented a rise in the tourism revenues of 21 percent and a 4 percent in the jobs creation. In agriculture sector investments focus on the increasing collect, storage and distribution of spring-fed and rain-fed water resources, enabling farmers to irrigate their fields trough new efficient technologies which are contributing to improve agricultural productivity and promoting agri-business. Extension of irrigated land and increasing water supply reliability are facilitating a shift from low-value, rain-fed subsistence agriculture (such as corn and beans) to high-value horticultural and fruit crops. For example, the storage capacity in dikes retention/funding and reservoirs have increased noticeably 99.8 percent in 2012 compared to 2010, irrigated areas with drip irrigation system 91.5 percent and total area of hydroponic production units 400 percent. Fisheries sector is performing well. It represents more than 80% of domestic exports, the capture capacity is estimated between [36,000-44,000] ton/year and the exports over 1,000 container per year. In 2012 the incorporation of national fisheries products in the transformation activity increased 115 percent. In the transport sector, we registered a strong recovery in passengers and containers flows in capeverdean ports. The national airports are receiving more international flights, with a 12 percent growth in 2012 and the number of passengers increased by 3.7 percent, reflecting the investment capacity improvement in the transport sector. Concerning the energy sector, Cape Verde is striving to overcome one of its major development challenges – reduce dependence on fossil fuel for energy generation, nevertheless the country has already attained its goal of 25% energy generation from renewable resources.

Notwithstanding the challenges that remain, this stimulus policy has been compatible with the maintenance of macroeconomic stability as shown by the preservation of international reserves in adequate levels and the highly concessional and sustainable public debt portfolio. Particularly on
the debt issue, the IMF has noted that while the stock is high, the associated debt service ratios are comfortable due to the high portion of concessional loans.

Concerning the investment program specifically, it should be noted that major new projects will not be pursued in the near future considering the priorities of debt consolidation and sustainability. The current focus now is the conclusion of ongoing investments. Certain recently commissioned projects such as the Praia international airport expansion or the technology park remain on the pipeline in the context of the development strategy and were considered in the debt sustainability analysis. In the near future authorities will be engaged in assessing carefully future investments opportunities and major new external financing is not foreseen. With the support of donors, the government is undertaking studies to determine the potential of new dams and will only move forward with new projects in this area once the strategy for the development of associated rural areas and agribusiness clusters is properly conceived and safeguarded.

In the 2014 budget, the Government will continue to favor the maintenance of macroeconomic stability through a cautious fiscal and budget policy. The overall deficit is projected at 7.5% according to the latest Medium Term Fiscal Framework, total revenues are projected to rise at a realistic 2.7% in 2014 taking into account in a conservative fashion both the new sources of revenue and the tax administration reforms now taking place. On the expenditures side, the effort to consolidate the public investment program will continue and capital expenses will reach an expected 7.5% of GDP in 2014 down from the 8.2% of the 2013 reprogrammed budget. Due to the nature of the project cycles, now in a conclusion stage, and in accordance with debt sustainability parameters, the public investment program will reduce in volume during the next fiscal years. On the current expenditure side the budget management has been guided by prudence. The 2013 budget execution decree-law provides examples of important measures of precautionary cuts specifically in: goods and services purchase (30%); fuel expenses (30%); travel and subsistence (40%); variable remuneration (10%); investments by public autonomous funds and services (between 30 and 50 depending on the entity) and freezing acquisitions of non-financial assets.
On the policies front, the 3rd Growth and Poverty Reduction Strategy Paper (GPRSP III) represents the main planning and monitoring and evaluation tool to coordinate the implementation of the Government’s Program. The final version has been presented to partners and the implementation initiated in 2012 with scheduled completion by 2016. The strategy aims to accomplish the goal of creating a competitive and sustainable economy in order to enable an environment for inclusive growth that will reduce poverty. Considering its cross-sector nature, the GPRSP III imposes several simultaneous structural reforms that will aim to empower the development of the private sector around the anchor sectors of competitiveness – agribusiness, tourism and the sea cluster. The agribusiness sector for example will open up opportunities to rural populations by interlinking the production capacity with tourism demand for products and services, hence enabling the reduction of unemployment and poverty in areas traditionally hardest hit by lack of economic opportunities. The BSG members were able to attend in loco the potential of this sector for the development of the economy during the joint review field visit to dam and water mobilization sites. Furthermore, key projects such as the Water Supply System Development Project in Santiago Island financed by the Japan International Cooperation Agency (JICA) will aim to improve the production and distribution of water in Santiago Island and will have indirect cascade impacts in the use of dam water for agriculture purposes and potentially on the attraction of additional private investments in the development of touristic areas in this major island. The associated JICA financing will be considered due to the high quality of mobilized resources with very advantageous financial conditions (interest rate of 0.1% per year and a 40 year maturity including 10 years grace period).

On the sea cluster, an important set of reforms is taking place on the fisheries sector seeking to leverage the good export results in recent years. The strategy will seek to promote a national value chain for competitive endemic species. Specific measures will include enhanced quality control and product certification; investments in modern freezer facilities (a competitive advantage in the sub-region); consolidation of the ongoing investments in modern ports facilities; attracting foreign and domestic companies, amongst others. The tourism sector, a defining anchor of the country’s service economy as it is, will comprehend a broad set of measures seeking to diversify the tourism product into new high potential niches (rural, adventure, sports) and improving
authorities’ capacity to conduct proper monitoring and evaluation of existing projects with a strong focus on safeguarding environmental sustainability.

In effect, the nature and substance of the public investment program effort converges with the vision for competitiveness of the national economy. Furthermore, the investments will continue supporting key projects in enhancing the quality of education and health services and sponsoring cross sector reforms in the area of good governance (e-governance, state reform, and judicial system).

In simultaneous with competitiveness clusters specific reforms, the overall reform agenda will look to tackle and advance cross sector issues. The first great pillar of the agenda is the maintenance and enhancement of good macroeconomic governance. In order to face the new challenges brought on by a more volatile international environment, it is important that several key reforms ongoing in the area of public finance management be continued and complemented in order to increase the country’s macro-fiscal resilience. The Government will continue adopting the necessary measures for fiscal alignment, taking into account recommendations made by partners, and which will include the improvement of the efficiency of tax collection (with advances already seen in the ongoing restructuring of the tax administration and its directorate general) and through the careful oversight of the public investment program. Other important advances on the fiscal legislative front that are expected to increase revenue and achieve a better fiscal balance are the harmonization of the VAT in critical sectors such as tourism as well as the revision of the investment code and associated tax benefits diploma. The implementation of additional revenues sources such as the tourism surcharge and the statistical tax are expected to diversify the base of revenue. Still on the legislative dimension, the overhaul of major fiscal diplomas continues – e.g. Código Geral Tributário; Código de Execuções Tributárias; Código de Processo Tributário – and is now in a stakeholder consultation stage.

Other key reforms in the public finance management area continue to advance and will aim to increase the efficiency of resource planning at the central administration level according to the newly updated PEMFAR based reform action plan. The treasury banking reform has already
made significant advances in improving the Government’s cash flow management and predictability. The overall debt management reform will seek to increase and broaden the marketability of government debt securities to domestic and international savers and hence reduce the costs of indebtedness. The aspect of strengthening the in-house assessment and management of debt risks is also a priority (particularly those related to state owned enterprises). The area of public procurement has seen noted advance in the regulatory and legislative front and is now advancing toward e-procurement solutions that can further increase transparency, reduce the costs of transactions and broaden the scope of potential suppliers to the Government.

The National Planning System (SNP) provides a more ample framework to understand the full scope of public finance management reforms. The creation of a solid mechanism for policy creation, analysis and implementation remains a challenge that will “make or break” a successful implementation of the GPRSP III and the achievement of its vision. The SNP is made up for four subsystems. The first is monitoring and evaluation seeking to link the resource allocation to measures of physical execution and outcomes. The programmatic reform of the State Budget to include all GPRSP III programs, each with a logical framework for indicators and outcomes, is a significant step in that direction. Significant challenges remain considering the complexity of this reform, the associated in-house development of the necessary information technology platform, and the learning curve involved with all sectors. Secondly, the national investment system will seek to promote a comprehensive framework for ex ante cost benefit analysis and ex post impact assessment of capital expenditure. This will be essential in order to look for those projects which will yield the highest return on investment and ensure that scarcer public investment resources are used to the highest possible utility to the population and economic agents. The system will also deal with the careful analysis of recurrent costs associated with some of the major infrastructure projects and will examine new cost sharing mechanisms such as public private partnerships. The third pillar, national statistics system, will aim to enhance the timeliness and quality of output data across a range of socioeconomic domains. This is absolutely critical to ensure that policy makers and other economic agents, including donors and creditors, have access to the right information for decision making purposes – with a special focus on the essential monitoring and evaluation of the GPRSP III. Concrete actions are already being taken
which include the institutional strengthening of INE and the timely provision of the required national accounts data outputs. Last but not least, the geographic information system will seek to leverage information technologies to resolve the issue of territorial planning by creating an information platform easily accessible to public, private and civil society stakeholders for issues of land use, regulations and custody amongst others.

The reforms above mentioned in the area of overall macroeconomic and PFM will continue to require close support of development partners, especially those in the Budget Support Group. The GPRSP III furthers highlights as a part of its reform agenda a critical area for improvement – ownership and control of state owned enterprises (SoEs) – that constitutes a multidimensional challenge spanning not only the management of the contingent fiscal risk but also the service level of these companies as key enablers of the competitiveness of the country. The signature of performance management contracts with key public utilities – Electra and TACV, are key steps. The overall broad reform of the SoEs and strengthening of the Government’s ownership and control capacity remains however a dense challenge and further measures are required. These companies must be able to utilize and achieve returns on many of the public infrastructure projects recently concluded. Only then will a private sector driven economy around the above mentioned clusters be possible.

In this sense, the transport and energy SoE infrastructure companies will receive heightened attention in these reform processes aiming to improve the associated efficiency and service delivery level. Specifically on transport, a series of measures, recently published in a sector policy letter (Annex 1), are already in progress such as the revision of law on ports, the review of the law on concessions (including the restructuring of port operator ENAPOR), the review of the port authority, a tariff revision already executed by the port operator, amongst others. The focus on transports will also prioritize the restructuring of the national airline TACV. The reorganization of the business units notably through the spin-off of the handling services is already underway and scheduled to be completed until the end of the current year. The energy sector will also see significant changes, specifically in the ability of the utility ELECTRA to collect and cut losses and increase the overall efficiency of energy and water production and distribution.
Additional critical areas of reform of noted importance are those related with the labor market. The terms of reference for a broad revision of the associated legislation are already being prepared. A series of recent diagnosis documents have shown that the rigidity of the labor laws favors informality and reduces the competitiveness of the critical labor production factor. An appropriate balance must be sought between the protection of the workers and the ability of firms to easily contract and manage their workforce according to principles of good performance and meritocracy.

Still in the scope of human capital, education is to remain an area of maximum priority. Over the past decade, Cape Verde has made noted progress in expanding the coverage of its conventional education system nationwide under a banner of low cost universal access to all. The effort was also noted in the university higher education system. However, the paradigm is shifting towards the reinforcement of quality and the proper enabling of a technical and vocational education and training system that can provide skilled employees to service private sector operators especially in the areas of competitiveness of the GPRSP III.

To conclude, it is in this scenario of important challenges that the Government of Cape Verde reaffirms once again its compromise on adopting the BSG recommendations and in this sense hopes to continue receiving the important support of partners through the effectiveness of the disbursements and technical assistances expected for 2013. The Group’s support over the past seven years has been instrumental and remains a necessary condition to ensure a continuing transformation of Cape Verde during this difficult international environment. Please find attached a set of annexes with complementary information such as the transport policy letter, short term reform agenda, tariff revision of the port operator and technical assistance needs matrix.

Reiterating once again our desire on maintain and excellent collaboration between the BSG and Government of Cape Verde, please accept my best regards.

Cristina Duarte
Minister of Finance and Planning
## Matrix of Reform Measures 2014

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<tr>
<th>OBJECTIVES</th>
<th>REFORM MEASURES</th>
<th>PROGRAMME MEASURES FOR 2013</th>
<th>PROGRAMME MEASURES FOR 2014</th>
<th>PROGRAMME MEASURES FOR 2015</th>
<th>EXPECTED OUTCOMES</th>
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<tr>
<td>1.1 Reform of the regulatory framework of economic activity</td>
<td>Adoption in 2009 of a law on public enterprises (lei n° 47/VII/2009 &quot;Estabelece o regime do Sector Empresarial do Estado, incluindo as bases gerais do Estatuto das Empresas Publicas do Estado&quot;)</td>
<td>Adoption of statutory instruments operationalizing the 2009 law on public enterprises provided for in Section 52(1) of the said law (lei n° 47/VII/2009)</td>
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<td>The reform of the regulatory framework of economic activity will help to improve the governance of public enterprises and the competitiveness of the economy by: (i) repositioning the State as shareholder rather than manager; and (ii) clarifying the roles of regulators and economic operators</td>
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<td>Adoption in 2009 of a legislative decree on the status of public managers (decreto - Lei n° 6/2010: &quot;Estabelece o Estatuto do Gestor Público&quot;)</td>
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<td>Adoption in Council of Ministers in 2010 of a resolution on good public corporate governance principles (resolução n° 26/2010: &quot;Aprova os princípios de bom governo das empresas do sector empresarial do Estado&quot;)</td>
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<td>Adoption in 2012 of a law defining the legal framework of independent economic and financial</td>
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### Cabo Verde - Public Corporate Governance and Investment Promotion Support Programme - Second Year (PAGEPPI-II)

**Country and Programme Name:**

**Programme Goal:** Improve the governance of public enterprises and promote private investment to streamline public expenditure and promote private sector contribution to growth.
| 1.2 Re-definition of relations between the State and public enterprises | Existence of a State equity participation service (Service das Participações do Estado - SPE) in the Directorate of the Treasury of the Ministry of Finance and Planning (MFP) | Enactment and publication in the Official Gazette in 2013 of the legislative decree modifying the structure, organization and operation of the Ministry of Finance and Planning with a view to reforming the State Equity Participation Service | Building the capacity of the Unit in charge managing the State’s equity participation by setting up the IT platform for monitoring public enterprises | Re-definition of relations between the State and public enterprises based on performance contracts and the reform of the entity that manages State equity participation will help to establish a culture of efficiency and accountability, which should reduce the loss incurred by public enterprises and improve the quality of services to users. | sector regulatory authorities involving a case-by-case redefinition of the status of existing regulatory authorities (lei n°14/VIII/2012 “Define o regime jurídico das entidades reguladores independentes nos sectores económico e financeiro”) | plan to revise their status with a view to introducing the reform stipulated in Law No. 14/VIII/2012 | | Re-definition of the status of certain independent regulatory authorities (e.g., decreto-Lei n°22/2013 of 31 May 2013 on the fusion ANSA–ARFA merger) | Preparation by MFP and submission in 2012 of the annual report on the liabilities of public enterprises for 2011 | Preparation by MFP and submission in 2013 of the 2012 annual report on the liabilities of public enterprises | Preparation by MFP and submission in 2014 of the 2013 annual report on the liabilities of public enterprises |
### Component 2. Investment Promotion

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<td>Signing in 2011 of one performance contract between the State and one major public enterprise (ELECTRA)</td>
<td>Signing in 2013 of two additional performance contracts between the State and two other major public enterprises (TACV, IFH)</td>
<td>Signing in 2014 of three additional performance contracts between the State and other major public enterprises (ASA, ENAPOR, EMPROFAC)</td>
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<td><strong>2.1 Improvement of the investment climate</strong></td>
<td>Adoption in 2012 of a law laying down the General Investment Code (lei n°13/VIII/2012 “Estabelece as bases gerais que permitam acelerar e facilitar a realizacao de investimentos em Cabo Verde”)</td>
<td>Adoption in 2013 by the Council of Ministers of a legislative decree operationalizing the law on the General Investment Code, especially with a view to establishing a one-stop shop for investor services</td>
<td>Adoption and operationalization of the decree establishing the Privatisation and PPP Promotion Unit.</td>
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<td>Entry into force on 1 January 2013 of the Tax Incentives Code (lei n°26/VIII/2013 “Aprova os princípios e regras gerais aplicáveis aos benefícios fiscais, estabelece o seu conteúdo e fixa as respectivas regras de concessão - Código de Benefícios Fiscais”)</td>
<td>Establishment of an Investment Promotion Agency (CV Invest)</td>
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<td>Existence of a draft Special Scheme for micro and small enterprises providing for: eliminating the requirement to pay a minimum capital to set up this type of business;</td>
<td>Adoption by the Council of Ministers in 2013 of an incentives regime for micro and small enterprises</td>
<td>Adoption by the Council of Ministers and transmission to the National Assembly of the revised version of the law on incentives for micro</td>
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<td>2.2</td>
<td>Improvement of public investment management to foster public-private partnerships</td>
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<td><strong>Completed in 2012</strong> of a first diagnosis of the public investment management system (<a href="#">World Bank</a>: &quot;A diagnosis of Cabo Verde’s Public Investment Management System&quot;)</td>
<td><strong>Update in 2013 of the diagnosis of the public investment management system</strong></td>
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<td><strong>Existence of a monitoring and evaluation system to monitor public investment programmes being fine-tuned</strong></td>
<td><strong>Design in 2014 of an action plan containing criteria for assessing priority investments and prospective PPP projects</strong></td>
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<td><strong>The investment prioritization, monitoring and evaluation approach aims to:</strong> (i) streamline public expenditure to obtain budgetary flexibility; and (ii) create an attractive partnership framework for the private sector as a new growth driver</td>
<td><strong>Establishment of a harmonized monitoring and evaluation system to monitor public investment programmes</strong></td>
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Note on the Country’s Relations with the IMF

Statement at the Conclusion of an IMF Mission to Cabo Verde

Press Release No.14/302
June 25, 2014

On May 28, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the 2014 Article IV consultation with Cabo Verde.

The economy of Cabo Verde has continued to face significant headwinds due to the prolonged downturn in key trading partners in Europe and weak domestic demand. Output growth slowed from 4 percent in 2011 to 1.2 percent in 2012. Staff estimates that growth moderated further in 2013, to about 0.5 percent. While tourism performed well, remittances and private capital flows continued to decline, and domestic confidence declined further. The unemployment rate was 16 percent at end-2013, with the rate for youth twice as high. Consumer price inflation has fallen sharply, reaching 0.6 percent in March 2014. On the external front, the current account deficit is estimated to have narrowed sharply, contributing to a positive overall balance of payments and allowing international reserves to increase to roughly 4½ months of prospective imports.

Given weak economic conditions, and in the absence of imminent pressures on the balance of payments or consumer prices, the Banco de Cabo Verde (BCV) reduced its policy rate by 150 basis points in March 2014. While banks remain well-capitalized, financial stability has been weakened by the slowdown in economic growth. Non-performing loans have continued to rise, and by end-2013 accounted for 16 percent of total loans. This has contributed to a decline in bank profitability.

On the budgetary front, the fiscal deficit fell to 7¾ percent in GDP in 2013, about 2 percentage points less than the year before. However, total financing needs (including on-lending to state-owned enterprises) remained very large, at 13 percent of GDP, causing total public debt to reach an estimated 98 percent of GDP by December 2013. The budget imbalance reflects the combination of weaker revenue performance and higher capital expenditure.

Staff projects Cabo Verde’s real GDP growth to pick up to 3 percent in 2014. Improving economic conditions in the euro area bode well for tourism, remittances, and Foreign Direct Investment (FDI). Domestically, consumer and investor confidence is expected to begin recovering, boosted by a more accommodative monetary policy stance. Inflation is expected to increase as activity picks up, but remain below 3 percent. The current account deficit should widen in 2014 as the demand for imports recovers, and is likely to remain high for a few more years, as the large-scale public investment program is gradually phased out. The principal near-term risks relate to a further delay in the European recovery, and to a resurfacing of financial stress in the euro area. Domestic risks are primarily fiscal in nature, given high public debt, though these risks are mitigated by the high concessionality and long maturity of this debt. Over the longer term, staff project growth of about 4 percent. The main risk to this outlook relates to Cabo Verde’s ability to implement the structural reforms needed to boost competitiveness and potential growth.
Executive Board Assessment

Executive Directors commended Cabo Verde’s economic and social progress in the past decade, as well as the authorities’ skillful macroeconomic management amid a difficult external environment, which has helped strengthen foreign reserves and safeguard the exchange rate peg. At the same time, Directors noted that Cabo Verde is vulnerable to external shocks, and that its public debt, while mainly on concessional terms, is elevated. They encouraged fiscal consolidation to rebuild buffers, and structural reforms to bolster productivity and long-term growth and enhance resilience.

Directors welcomed the fiscal consolidation achieved in 2013 and the authorities’ plans to restrain spending in 2014 and beyond. At the same time, most Directors saw merit in faster deficit reduction, balanced with the need to protect growth, to help bring public debt on a downward path. Directors recommended safeguarding priority social spending and prioritizing strategic public investment projects while focusing on enhancing their efficiency. They welcomed efforts to bolster domestic revenue mobilization, and noted the role of Fund technical assistance in supporting the reform efforts. Directors also commended recent actions to strengthen the governance and financial performance of state-owned enterprises, and encouraged continued efforts to improve their efficiency.

Directors agreed that the recent loosening of monetary policy is appropriate, given the slowdown in private sector credit growth and absence of pressures on international reserves or prices. However, the weak monetary transmission mechanism undermines the effectiveness of monetary policy, and Directors called on the authorities to strengthen their liquidity management capacity, improve interbank market efficiency, and continue developing the government securities market. It will also be important to maintain a sufficient level of international reserve buffers.

Directors supported the efforts to safeguard financial stability and address non-performing loans, including more intense bank supervision and new laws that strengthen the supervisory and regulatory framework. They encouraged the authorities to implement the remaining recommendations of the 2009 Financial Sector Assessment Program.

Directors noted staff’s assessment that the escudo remains broadly aligned with fundamentals. In order to enhance the economy’s resilience to external shocks and diversify its sources of growth, they called for further progress on reforms to bolster competitiveness, create jobs, and deliver inclusive growth. Improving the business climate and increasing labor market efficiency and reducing skill mismatches will be particularly important. Directors also encouraged the authorities to prioritize the goals of the medium-term development plan with the highest potential economic and social returns.
Administrative Map of Cabo Verde