AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND

REPUBLIC OF CAPE VERDE

COUNTRY STRATEGY PAPER
2009-2012

Regional–West 2 Department (ORWB)
September 2009

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CURRENCY EQUIVALENTS
(July 2009)

Currency Unit: Cape Verdean Escudo (CVE)

UA 1	=	USD 1.55223
UA 1	=	EUR 1.09822
UA 1	=	CVE 121.083

Fiscal Year
1 January - 31 December

ABBREVIATIONS AND ACRONYMS

ACP	African, Caribbean and Pacific States
ADB	African Development Bank
ADEI	Innovation Promotion Agency
ADF	African Development Fund
AGOA	African Growth and Opportunity Act
ANSA	National Agency for Food Security
EPA	Economic Partnership Agreement
ARAP	Public Procurement Regulatory Agency
ARE	Economic Regulatory Agency
ARFA	Agency for the Regulation of Pharmaceutical and Chemical Products
BCV	Banco de Cabo Verde (Central Bank of Cape Verde)
BDMP	Project Management Database
BIRD	International Bank for Reconstruction and Development
BSG	Budget Support Group
DBR	Doing Business Report
ECOWAS	Economic Community of West African States
CVE	Cape Verde Escudo
Electra	Empresa de Electricidade e Agua (Electricity and Water Company)
ETS	Economic Transformation Strategy
EU	European Union
EVI	Economic Vulnerability Index
AWF	African Water Facility
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
GSHDI	Gender-Specific Human Development Indicator
HDI	Human Development Index
ICTI	Institute of Information and Communication Technology
IDA	International Development Agency
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation

MCC	Millennium Challenge Corporation
MDG	Millennium Development Goal
MIC	Middle Income Country
MPD	Movimento Para a Democracia (Movement for Democracy)
MTEF	Medium-Term Expenditure Framework
NOSI	Operational Nucleus for Information System
OECD	Organization for Economic Cooperation and Development
PAGE	Electronic Governance Action Plan
PAICV	African Party for the Independence of Cape Verde
PANA	National Environmental Action Plan
PCR	Programme Completion Report
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PIP	Public Investment Programme
PNEEG	National Plan for Gender Equality and Equity
PPP	Public-Private Partnership
PRGS-II	Poverty Reduction and Growth Strategy Paper II-2008-2011
PRS	Poverty Reduction Strategy
PRSSP	Poverty Reduction Strategy Support Programme
PSI	Economic Policy Instrument 2006-2009
RU	Ultra-peripheral Regions
IFC	International Finance Corporation
SIGOF	Integrated Government Budget and Financial Information Management System
SME/I	Small and Medium Enterprises/Industries
TACV	Transportes Aéreos de Cabo Verde (Cape Verde Air Transport Company)
TFPs	Technical and Financial Partners
PMU	Procurement Management Unit
CPMU	Central Procurement Management Unit
UNDP	United Nations Development Programme
GBV	Gender-Based Violence
WTO	World Trade Organization

Executive Summary

1. **Introduction.** Cape Verde is an archipelago of ten islands in the Atlantic Ocean off the coasts of Senegal, Gambia and Mauritania, within the Sahel strip. As a result of its sound economic and social performance in recent years, it has gained the status of Middle Income Country (MIC). From the perspective of the Bank's credit policy, it has also moved from Category A to Category B, thereby accessing non-concessional resources of the ADB and concessional resources of the ADF. Against that backdrop, the preparation of the CSP 2009-2012 for Cape Verde falls within a new partnership framework. The country's progress at the political, economic and social fronts, its challenges and opportunities, economic transformation ambitions and the Bank's assistance strategy are summarized below.

2. **At the political level**, the country has embarked on the democratic path since 1991. There is political fair play, resulting from the stability of major institutions, credibility of the democratic process and enjoyment of civil liberties and political rights. Over the last decade, the country has organized 4 presidential and legislative elections. These were not only conducted under regular conditions but were also marked by democratic changeover that seems to have taken root in the political culture. The track record of Cape Verde augurs well for smooth presidential and legislative elections in 2011.

3. **At the macroeconomic level**, the country has recorded one of the most impressive economic performance in Africa. Between 2004 and 2007, GDP growth averaged 7%, with inflation (6.8% in 2008), the budget deficit (1.2% of the GDP in 2008) and debt (41.5% of GDP for the external debt and 15.8% for the domestic debt in 2008) brought under control. The engines of growth are the buoyant tourism industry starting from 1999, the robust investment rate that rose to 48% of GDP in 2008, remittances from the Diaspora, FDIs and ODA. **The global crisis** did not spare the major external sources of financing. To offset that, the Government put in place a contracyclical package of measures (easing of tax ratios on household and corporate income, a CVE 4 billion public investment programme and increased social transfers to vulnerable families). Although Government's response has been timely in stimulating demand and investment, its downside has led to a sharp deterioration of the public finance deficit from 1.2% of GDP in 2008 to over 9% in 2009. The current account situation has also worsened. The IMF is projecting a 3.5% growth for 2009 and 4% in 2010, representing the lowest economic performance since 2000.

4. **With regard to structural policies**, the monetary policy has consolidated the independence of the Central Bank in order to sustain the peg of the Escudo to the Euro and attract emigrant savings. The ongoing institutional and governance reforms aim at modernizing and rationalizing Government structures. The NOSI (Operational Nucleus for Information System) created to manage the Electronic Governance Action Plan (PAGE), has put in place the Integrated Government Budgetary and Financial Information Management System (SIGOF), and more recently the Citizen's House that enables the issuance of electronic civil records and registration of businesses, including for those in the Diaspora. Furthermore, to meet the requirements for the integration of Cape Verde into the regional and global economy (EPA/EU, WTO, ECOWAS), the Government has embarked on tax and customs reforms under specific action plans. The regional integration assistance strategy for ECOWAS is undergoing preparation and will help target and rationalize Bank interventions in regional multinational projects, studies and dialogue, while taking country specificities into account.

5. **Social progress.** Following robust growth and sizeable human capital investments, Cape Verde is expected to achieve most of the MDGs. The poverty rate fell from 37% to 28% between 2001 and 2006. Gender parity has been achieved in primary education and virtually in secondary education.

6. **Challenges and opportunities.** Cape Verde's foremost ***challenge*** stems from its insularity and archipelagic configuration, both of which have caused specific technical and financial problems to the development of energy, water and sanitation and transport as well as increased cost of production. The other challenges relate to: (i) the declining water resources and gradual salination of groundwater in coastal areas, attributable to climate change; (ii) the country's vulnerability to external shocks; and (iii) the business environment and competitiveness in want of improvement. With regard to ***strengths and opportunities,*** these reside in the strong tourism potential, the ingenuous management of relations with the Diaspora, economic, financial and democratic gains, the country's geo-strategic position for international transport and the potential for the development of renewable energy sources.

7. Cape Verde's **active portfolio** comprises 5 operations amounting to a net total of UA 17.53 million, including UA 7.54 million disbursed (43%). The July 2009 review deemed the overall performance satisfactory, with a rating of 2.2 compared to 1.6 in 1999. In future, dialogue and efforts will focus on maintaining the current good portfolio performance, including during the expected upswing phase in the coming years as a result of the relatively high volume of new ADB financing.

8. **Lessons from past operations that can inform the new strategy.** It is worth noting that the CSP 2005-2007 completion report and the Report Evaluating Bank Assistance to Cape Verde over the 1996-2007 period (OPEV), acknowledge: (i) the positive correlation between good macroeconomic and democratic governance and development, since it has helped check the current wastage problem; (ii) the need to develop infrastructure, notably through a public-private-partnership (PPP) arrangement; (iii) the significant potential of renewable energy sources; (iv) the need to pursue concessional aid; and (v) the success of the budget support approach which, within a joint donor framework, has proved to be an effective instrument of policy dialogue. To that end, Cape Verde is pursing the implementation of reforms supported by the IMF 2006-2009 Economic Policy Support Instrument (PSI). Through these reforms, the Government hopes to mitigate macroeconomic risks, resist more to external shocks and prepare for the long term decline of concessional aid.

9. **Orientations of the new strategy for 2009-2012.** The 2009-2012 CSP is set within the dual framework of the Economic Transformation Strategy (STE) in Cape-Verde (a long-term structuring vision) and the Poverty Reduction Strategy Paper II (PRSP 2008-2011). The present CSP 2009-2012 will focus on: (i) good governance to enable the country consolidate its gains; and (ii) infrastructure that will drive tourism as the engine of growth and increase the competitiveness of the economy.

10. Two strategic pillars may be derived from the foregoing. **Pillar 1** aims to sustain the economic and financial gains**.** The Bank will support reforms geared towards *strengthening public finance management,* notably through a set of budget support programmes. It will also prop up *Government's modernization efforts*, through the Data Centre Project, that will provide the country with a unified and structuring platform for enhanced digitalization. To *improve the business climate and competitiveness as well as promote the private sector,* the Bank will, in addition to budget support measures, undertake targeted economic and sector work (study on the cost of insularity, private sector profile and a

study on fiscal competitiveness of services, and budget support measures). Following this, it will focus on lines of credit to SMEs/SMIs and PPP investments.

11. **Pillar 2** aims to **contribute to infrastructure development.** The Bank will target *transport, energy and water resource mobilization* in light of the country's vulnerability to climate change. Specifically, it will contribute to transport infrastructure development based on international standards to reduce insularity costs and constraints, improve competitiveness and position the country as the hub of international transport. The Bank will also contribute to cutting energy production deficit and cost, the increasing demand for which is induced by rising economic activities and drinking water production through desalination. Lastly, to mitigate the effects of climate change on water resource mobilization, the AWF will finance a preliminary study that will guide both Government policy and project financing by the Bank.

12. **Issues relating to credit policy, status change and resources**. It is requested that the approval of this CSP by the Boards officially endorse the country's upgrade from Category A to Category B. As a blend borrower country, the sustainable ceiling of borrowing from ADB resources over the 2009-2013 period stands at UA 98 million. That notwithstanding, the level of ADB resources will follow the annual lending ceilings set by the PSI. For the ADF allocation, it is exceptionally proposed, subject to the plenipotentiary agreement at the mid-term review of ADF XI, that Cape Verde maintain the totality of its ADF XI Category A envelope because of its fragilities. If this proposal is approved, Cape Verde will gain access to the full current balance (UA 6.5 million) of its country allocation under ADF XI. The ADF XII allocation will be determined by the new policy envisaged for blend borrower countries.

13. **Recommendations:** The Boards are invited to: (i) consider and approve the Cape Verde Assistance Strategy for the 2009-2012 period; (ii) approve the relevant indicative lending programme; and (iii) endorse Cape Verde's upgrade from Category A to Category B, in accordance with the Bank's credit policy, while exceptionally maintaining the totality of its allocation under ADF XI in view of its fragile nature.

I. INTRODUCTION

1. The preparation of the CSP 2009-2012 for Cape Verde falls under the new phase of cooperation between the country and the African Development Bank Group (Bank). The country was upgraded to Middle Income Country (MIC) status in 2008 by a United Nations Resolution. Consequently in terms of the Bank's credit policy, it has migrated from Category A to Category B (Box 1).

Box 1: Reclassification of Cape Verde from Category A to Category B

The MIC status of Cape Verde led the World Bank to grant it eligibility to both IRBD and IDA resources in March 2009, as well as the status of a Small Island State. In view of the harmonization of the Bank's credit policy with that of the World Bank, Cape Verde has moved from Category A to Category B. Thus the country has access to both non-concessional resources of the ADB and concessional resources of the ADF. Should the Board approve the CSP under consideration, it will serve as a formal endorsement of this reclassification.

2. Cape Verde has embarked on the implementation of its Economic Transformation Strategy (ETS), a national long-term development vision that has guided the formulation of the Poverty Reduction and Growth Strategy Paper II-2008-2011 (PRGSP-II). The country is on the verge of economic take-off and is on track to achieving the Millennium Development Goals (MDGs). Its major challenge is to consolidate its achievements with a view to becoming an emerging economy. The CSP is also set within the context of the global financial and economic crisis that has temporarily increased Cape Verde's external financing needs.

3. These circumstances require a Bank strategy that addresses both the country's ambitions and the current crisis. The strategy should also enable the Bank to engage in quality dialogue and advice. The CSP under consideration is the result of intensive consultation between the Bank and the Government, development partners and various social stakeholders. It also draws on lessons from the Bank's assistance in the last ten years.

II. COUNTRY CONTEXT AND PROSPECTS

2.1 Political, Economic and Social Context

Political Context

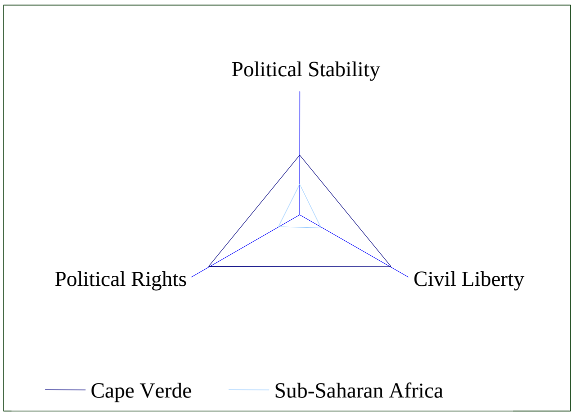
4. Since taking the democratic path in 1991, Cape Verde now claims a stable political and institutional environment. The 2008 *Freedom House* report ranks it as the leading African country for civil liberties and political rights (Graph 1), with a score comparable to that of some OECD[1] countries. The rule of law and notably the cardinal principle of separation and balance of power between the Executive, Legislative and Judiciary indices are comparable to that of developed countries[2]. Over the last decade, the country has organized 4 presidential and 4 legislative elections. These were not only conducted smoothly but were also marked by democratic power changeover, which now seems entrenched in the country's political culture. The African Party for the Independence of Cape Verde (PAICV) which ruled the country as a single-party State between 1975 and 1991, lost 2 multi-party elections following the country's democratization process in January 2001, and subsequently obtained a new parliamentary majority in 2006 with 57% of the seats (Graph 2). The presidential

[1] Freedom in the World 2008: Country Subscores

[2] According to the 2008 *Freedom House* report, Cape Verde scored 14 on a scale of 1 to 16, similar to the USA.

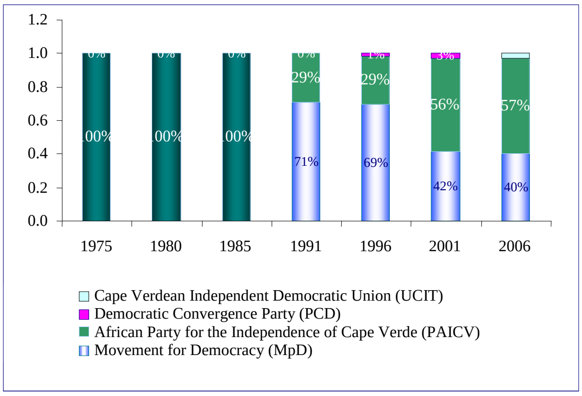
elections held in the same year confirmed the PAICV's return to power. In contrast, the municipal elections of May 2008 saw the victory of the opposition party *Movement for Democracy* (MPD). The next presidential and legislative elections are scheduled for 2011. Given the country's history, its progress towards democratic maturity and solidity of institutions should prevail. Consequently, these elections should not constitute a significant risk for the pursuit of the reforms, barring an intensification of the current crisis and exacerbation of social tensions, notably with the rise in unemployment. The media is free and the lack of ethnic, political and religious conflicts has enhanced socio-cultural cohesion.

Graph 1:
Political Context



Source: ADB, PEA 2008 and WB (Governance Indicators)

Graph 2:
Trend of Number of Parliamentary Seats



Source: ADB Statistics Department
www.electionguide.org/http://africanelection.tripod.com

Economic Context

5. Cape Verde owes its economic and social progress to the implementation of successive reform programmes (Box 2), with good governance as their main thrust. Since July 2006 it has been pursing a programme backed by an IMF Economic Policy Support Instrument 2006-2009 (PSI), aimed at assisting the Government to reduce macroeconomic risks, resist external shocks better and prepare for the long term decline of concessional aid. Apart from its insularity constraint, the country is facing challenges related to the fragmented nature of its territory, the small size of its population and scarce natural resources. It is also vulnerable[3] to risks mainly related to the external origin of its sources of financing[4], the

[3] The Economic Vulnerability Index (EVI) is a composite index developed by the United Nations that takes into account: (a) instability of agricultural production; (b) instability of exports; (c) economic significance of non-traditional activities; (d) concentration of exports; (e) constraint of small size of the economy; and (f) percentage of the

effects of which became evident with the current global crisis and the attendant decline of flows.

Growth and Growth Engines

Growth

6. During the pre-crisis global era, the country posted one of the best economic performance in the continent. Between 2004 and 2007, GDP growth averaged 7%[5], with inflation (6.8% in 2008), fiscal deficit (1.2% of GDP in 2008) (Graph 3) and the debt burden (41.5% of GDP for the external debt and 15.8% for the domestic debt in 2008) brought under control. Similarly, the level of international reserves stabilized around 3.9 months of imports during the period.

Box 2: Institutional and Governance Reforms in Cape Verde

Since 2004, Cape Verde has embarked on a Government modernization agenda which has given rise to a vast economic and modernization reform effort conducted and/or coordinated by the Ministry of Government Reform. These reforms aim principally at rationalizing State structures and building its management and control capacity.

The results observed to date are encouraging. The products developed by the Operational Nucleus for Information System (NOSI) and notably the setting up of the Government's Integrated Budgetary and Financial Management Information System (SIGOF), have improved budget planning and execution, in addition to accelerating administrative procedures. The services of the "Citizen's House" are a clear example of the benefits of the digitization of administrative procedures, since business registration is now reduced to 24 hours compared to 52 days previously. Furthermore, administrative documents such as birth certificates can now be issued almost instantaneously in the country or "without borders" in the host countries of the Cape Verdean Diaspora.

With regard to the rationalization of Government structures, a comprehensive diagnosis of the missions of ministries and departments has revealed redundancies and led to new organizations charts for 4 key ministries that will be replicated by the others.

Other key reforms are ongoing, including the setting up of a centralized structure for public procurement, a new tax and customs code that takes on board the country's commitments to the WTO and broadening of the powers of the Court of Account to cover public institutes, private or civil organization recipients of public funding.

Furthermore, four regulatory agencies were set up in 2004 to ensure compliance with rules of competition in various economic sectors, namely: i) the Economic Regulatory Agency (ARE) in charge of energy, water, road and maritime transport; ii) the National Agency for Food Security (ANSA) that regulates and guarantees basic food products; iii) the Regulatory and Supervisory Agency for Pharmaceutical and Food Products (ARFA) that supervises the importation and marketing of medical products; and iv) the National Communication Agency (ANAC) in charge of the telecommunications sector and new technologies.

The Bank which has largely supported previous reforms, will continue to do so notably through budgetary support and the financing of the Data Centre Project (meant to provide the country with a unified and structuring platform for the advanced digitization of the country). The said infrastructure will intensify the development of e-governance, the private sector and financial services. It will centralize and safeguard the country's electronic archives.

7. Cape Verde continued to perform well up to the first half of 2008 (the start of the global crisis), since the 2% decline in the tourism sector was seasonally offset by a 9% increase in FDI inflows. However, from the second half of 2008, the global crisis impacted on the economy through dwindling tourism revenue (7% decrease expected in 2009) and FDI (40% decrease expected in 2009), thereby decelerating the GDP to between 4.5% and 5% in 2009/[6], representing a 3 percentage point decrease in relation to the PRGSP-II projections. To counter the crisis, the Government put in place a fiscal package based on contracyclical measures (see. paragraph 12).

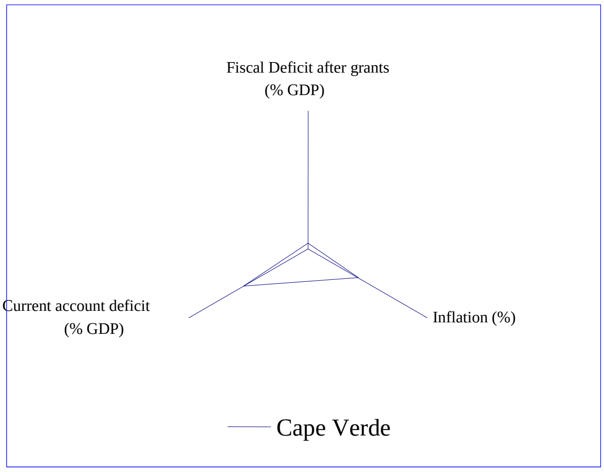
population displaced as a result of natural disasters. Cape Verde's EVI reached 57.92 in 2006, compared to the ceiling of 38 required for the reclassification of the country as an MIC.

[4] ODA, FDI, emigrant remittances and tourism income.

[5] In 2006 growth attained 10.8%, which was one of the highest rates in Africa.

[6] According to the Government

Graph 3:
Macroeconomic Management 2008



Source: IMF projections

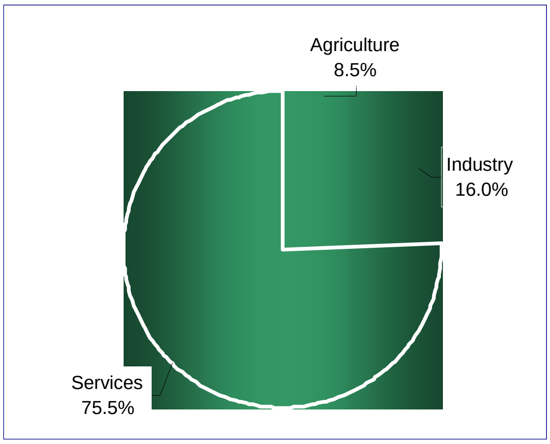
Engines of Growth

8. The services sector is the backbone of the Cape Verde economy, accounting for over 75% of GDP in 2008 (Graph 4). The rise in tourism[7] starting from 1999 shaped the country's new economic profile. The explosion of tourism had spill-over effects on the hotel industry[8], and revitalized the construction sector, real estate services, catering and agro-food industry. Over 80% of FDI inflows are concentrated in tourism and related activities. In terms of prospects, the Government estimates that ultimately the sector could attract over one million tourists compared to 330,000 in 2008. To support the expansion of tourism, it hopes to construct and/or expand at least four international airports and upgrade all the ports to international level. Agriculture which has been hard-hit by drought and scarcity of arable land[9], accounts for only 8.5% of GDP, even though it remains the leading employer in the country's economy. The manufacturing sector is narrow and its share in the GDP has not ceased to decline. To enhance production in the sector, Cape Verde will have to address the challenge of diversifying its productive base, notably through SMEs/SMIs, and increase its exports.

9. Investment is robust, with 48% of GDP in 2008, including 7.3% for the public sector. Domestic savings represented 36% of GDP, of which 12.8% is public. The gap between investment and savings was financed by foreign capital transfers (12.1% of GDP). The country also largely benefited from external financing for its development. Diaspora remittances, FDIs and ODA accounted for 51% of payment financing in 2007. Partly as a result of its limited population, Cape Verde received the most per capita ODA in Africa with over USD 266 in 2007 (Graph 5). Even though the share of ODA in the financing of the balance of payments is on the decline, (from 38% in 1995 to 14% in 2007), its contribution to development financing remains significant, thanks to the good financial governance that predicates its use.

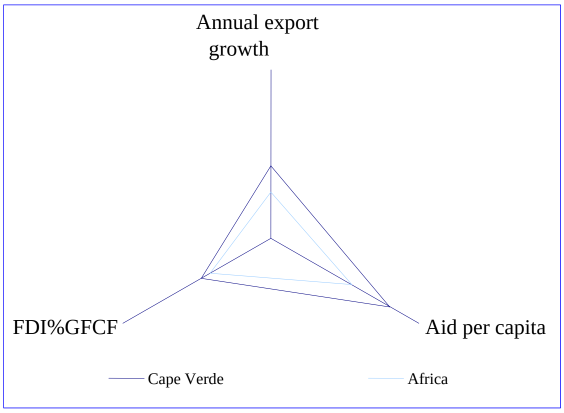
[7] The number of tourists increased from 24,000 in 1990 to 333,000 in 2008.
[8] Between 1999 and 2008, the number of hotels increased from 88 to 158 and the intake capacity from 5,200 to 13,700.
[9] Only 10% of the land is arable.

Graph 4:
GDP by Sector (2007)



Source: ADB Statistics Department, PEA 2008

Graph 5:
Major Engines of Growth, 2007



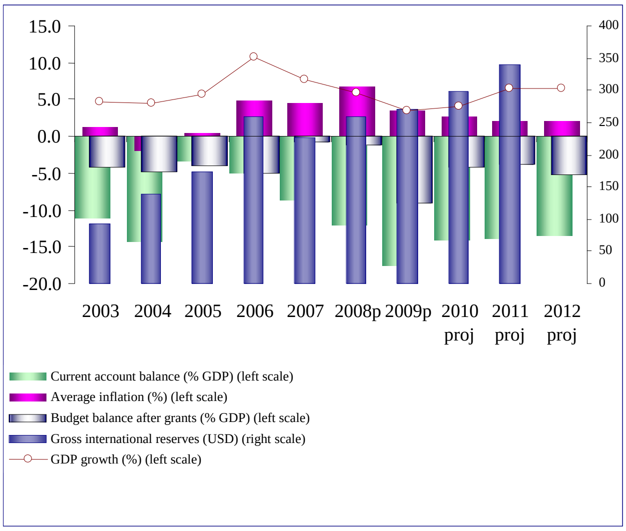
Source: ADB Statics Department

Medium Term Outlook

10. Growth is expected to slow down in 2009-2010 as a result of the global crisis. According to the IMF, the GDP will grow by 3.5%[10] in 2009 and 4% in 2010 (Graph 6), representing its weakest performance since 2000. This GDP trend is also attributable to a 40% decrease in FDIs and 7% of tourism activities in 2009[11]. For 2011 and 2012, the recovery is expected to raise the GDP to 6.6%; however, these forecasts fall far short of those of the pre-crisis era and the PRGSP-II[12].

[10] The IMF projections are more pessimistic than those of the Government
[11] During the first half of 2009, revenue from tourism fell by 23%, compared to the same period in 2008.
[12] Estimated at over 11% for 2010 and 2011.

Graph 6:
Macroeconomic Indicators



Source: ADB Statistics Department and IMF 2009 project

11. With regard to other aggregates, the IMF projects a deterioration of the current account, whose deficit is expected to increase from 13% to 14.7% of GDP between 2008 and 2009, subsequently stabilize beginning 2010 to 13.9% of GDP (2010) and further to 12% the following two years. Although the level of reserves will undoubtedly be affected by the crisis, it will not fall below 3 months of imports as a result of the decrease in the import level in 2010 and the increase in grants and concessional loans. Inflation, which increased to over 10% in October 2008, has since fallen back to 3.3%[13] in 2009, and is expected to decrease further to 2.7% in 2010 and 2% in 2011 and 2012.

12. To stem the economic slowdown, the Government has put in place a fiscal package of contracyclical measures involving the increase by CVE 4 billion of public investments, increase in social transfers to the most vulnerable population groups and easing of tax ratios on corporate and household income. Through these macro- and micro-economic measures, it hopes to compensate for the shortfall in private investments, boost household consumption and maintain infrastructure development on track. These measures have been combined with a contraction of Government's current expenditures aimed at maintaining the public deficit under control. Since they occur in a context of limited VAT revenue (40%) and non-tax revenue resulting from the drastic decrease in real estate transactions (purchase of land by foreign investors), the downside of these measures is that the overall fiscal balance has been adversely affected. Therefore, the fiscal deficit is expected to rise sharply from 1.2% of GDP in 2008 to over 9% in 2009, representing CVE 13 billion and thereby creating an unexpected financing gap of CVE 3 billion that the development partners will be called upon to fill.

Macro-economic and Monetary Management

13. Cape Verde based its development model on a **rigorous management of the macro-economic framework and monetary policy** under successive reform programmes supported by its development partners. The last of these programmes is backed by the IMF's PSI 2006-2009, whose sixth review (June 2009) concluded that nearly all the quantitative targets had been met[14]. The IMF has responded positively to the request by the authorities to

[13] Recent estimates show that inflation could fall further to 1.5% in 2009.
[14] The unmet target relates to the level of domestic assets of BCV which was CVE -3.9 billion compared to CVE -0.9 billion projected by the ISPE.

extend the PSI by one year to enable them conduct their own ex-post assessment of progress made and take ownership of the new three-year programme, 2010-2013.

14. With regard to monetary policy, since the 2002 Organic Law, emphasis has been on structural measures aimed at consolidating the independence of the Central Bank (BCV), supporting the peg of the Escudo to the Euro and capturing the savings of expatriates through attractive interest rates. The monetary policy has achieved the double objective of controlling inflation which has never exceeded 6% since 2000, and mobilizing the savings of the Cape Verdean Diaspora that contributed to stabilizing the level of international reserves beyond the 3 months of imports[15]. However, since the monetary policy has been restricted to some extent, it has impeded access to credit by the private sector notably SMEs/SMIs, thereby affecting the business climate.

15. **The fiscal policy** is designed to reduce the fiscal deficit and the domestic and external public debt without necessarily over-burdening the tax ratio. To reconcile the two objectives, emphasis has been on improving tax collection and rationalizing public expenditures. As a result of this policy, the public deficit was reduced from 19.5% of GDP in 2000 to 6.3% in 2005, and 1.2% in 2008. For its part, the external debt is largely sustainable, having fallen from 55% of GDP in 2005 to 41.5% in 2008; similarly, the domestic debt fell from 33% of GDP in 2005 to 13.8% in 2008, particularly following the domestic arrears plan formulated in 2004; the 2009 budget has made provision for their total clearance (2005 stock).

16. **The 2009 PEFA established that the country's financial environment** is robust. Thus, the credibility of the budget and parliamentary control procedures are in line with international good practices. Moreover, the country has been receiving active assistance since 2005 from the Budgetary Support Group (BSG) of which the Bank is a member.

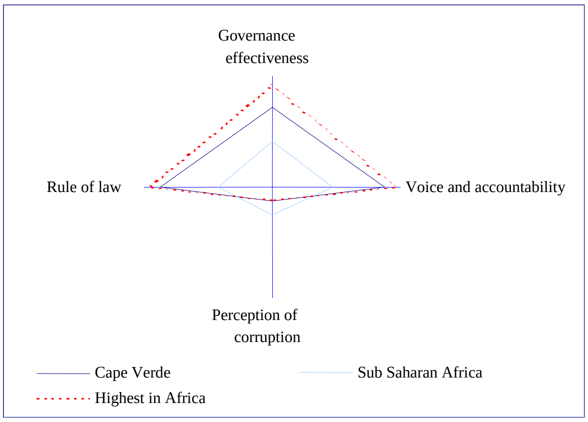
17. Despite these advances, risks persist. The first, which is structural, resides in the weak performance of some State-owned enterprises, notably the National Air Transport Company (TACV) and *Electra* (the water and electricity company), whose 2008 deficit amounted to EUR 9.9 million. The second, which is cyclical, relates to increased public spending stemming from the Government's fiscal package designed to offset the impact of the global economic crisis (see paragraph 12).

Governance

18. Cape Verde has been posting exemplary performance in governance and continues to capitalize on its gains. The 2008 edition of the Mo Ibrahim Governance Index for 2005 and 2006 ranked the country 3rd next to Mauritius and Seychelles, out of the 48 sub-Saharan countries. Specifically for the rule of law, transparency and corruption indices (Graph 7), the country improved by 5.7 points (from 80.4 in 2005 to 86.1 in 2006), thereby topping the list of sub-Saharan countries. Politics is conducted in accordance with a democratic constitution. With regard to corruption, the Transparency International Index ranked Cape Verde 47th out of 180 countries in 2008. The World Bank governance indicators have confirmed these achievements covering the 2003-2008 period by ranking the country above the 50th percentile out of 212 countries. With a score of 4.30 for governance, the Bank's CPIA 2009 has confirmed this good performance and ranked the country second after Ghana.

15 The decline in reserves that followed the misalignment of BCV with Euribor, during the second half of 2008, soon came to an end and found its level following the 100 point increase in the BCV guide rate in October 2008.

Graph 7:
Governance (ranking) (0-3)



Source: ADB Statistics Department and WB.

Business Climate

19. Paradoxically, despite the good economic performance and good governance gains, Cape Verde's score for business climate falls short of the average of sub-Saharan Africa and lags considerably behind the most performing countries of the continent (Graph 8). According to the World Bank's 2009 *Doing Business Report* (DBR), the country has even dropped from its 137th ranking to 143rd between 2008 and 2009, reflecting the bureaucracy and rigidities of the labour market.

20. **Bureaucracy has seriously hampered business start-up and closure**. Winding down business is a cumbersome process partly due to the lack of a preventive regulatory system and judicial recourse, and partly from the non-existence of a specific framework for bankruptcy or liquidation of assets. This legal vacuum has been the cause of the delays. However, the current delays will be replaced by more diligent service delivery starting from 2009, by the "Citizen's House"[16]. It is expected that this would help to improve the country's next DBR performance in this area. For winding down of businesses, the Bank's budgetary supports will be geared towards the implementation of the required policies.

21. **The rigidities of the labour market persist,** with barriers to lay-offs[17], even economic ones. The average cost to a business of dismissing a worker is equivalent to 93 weeks of wages. The new labour law passed in 2008 introduced flexibilities (non-indexing of wages to inflation, possibilities of changing labour contract), but its provisions which limit the use of fixed-term contracts has introduced another rigidity, which is the cause of the country's decline in the 2008 DBR ranking.

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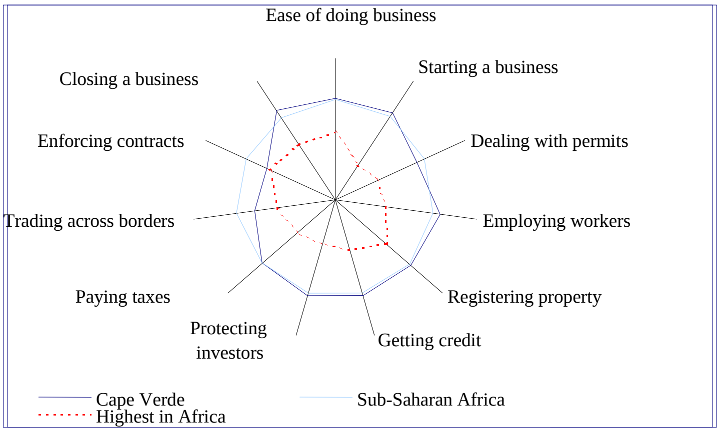
16 The Citizen's House now makes it possible to register a business online in less than 24 hours, instead of 52 days previously

17 The difficulty and cost of dismissal indices are respectively equivalent to 70 and 93 weeks of wages, whereas the average in OECD countries is 26.3 and 25.8.

Graph 8:
Ease of Doing Business (ranking)



Source: Ease of Doing Business 2009

Competitiveness

22. Cape Verde is not yet covered by the Global Economic Competitiveness Report. As a result, it is not possible to undertake a comprehensive evaluation of its competitiveness level. However the report on investment climate conducted in 2006 by the Regional African Business Development Programme provides some bases for assessment. Firstly, **the cost of labour[18] is higher than in similar countries** such as Indonesia, Philippines, Senegal, Mauritius and South Africa. Secondly, difficulties of access to foreign markets are aggravated by **high transportation costs.** One of the consequences has been that only 6% of manufacturing businesses have access to foreign markets. This is further compounded by the narrow domestic market and export challenges, thereby increasing production costs. **Access to electricity** is the third major impediment to investment, according to over 60% of business owners.

23. Aware of these shortcomings, the Ministry of Economy and Competitiveness created the Innovation Promotion Agency (ADEI). The latter, however, needs to double its efforts to fulfil its mandate more effectively.

Integration and Trade at Regional Level

24. To ensure the success of the STE, Cape Verde has made integration into the global economy one of the cardinal areas of concern (EPA with the EU and membership of the WTO in 2008). In terms of trade, the export of domestic goods can hardly exceed 7% of GDP due to the narrow productive base. In contrast, the import level represents over 50% of the GDP and by as much for Government tax revenue. The European Union (EU) is by far the leading trade partner, accounting for over 75% of trade,[19] compared to 2% for the Economic Community of West African States (ECOWAS). Trade relations with the EU hitherto governed by preferential access of ACP commodities to the EU market, is expected to be replaced by a new trade arrangement, the Economic Partnership Agreement (EPA), that the country is currently negotiating under the auspices of ECOWAS.

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[18] Despite its higher productivity compared to that of countries such as Indonesia, Philippines, Senegal, Mauritius and South Africa, the unit cost of labour is relatively high.

[19] Including Portugal, 54%; Spain, 43% of exports; and 48% and 18% of imports, respectively.

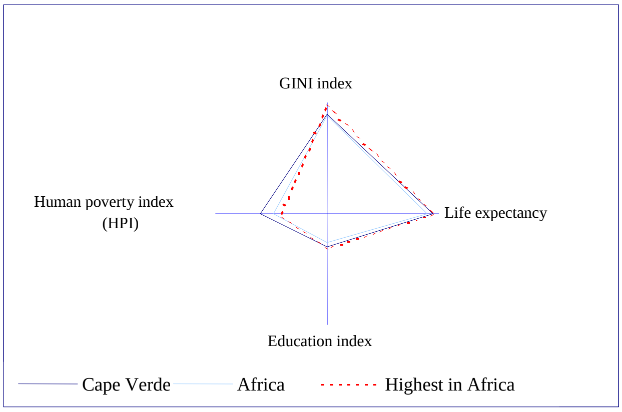
25. Under a broader partnership with the EU (Special Partnership), an agreement for the concerted management of migratory flows called "Mobility Agreement" is undergoing negotiation. The country could also enhance its cooperation with the Ultra-peripheral Regions (UR) of the EU[20] that would share with it geographic and economic similarities and thereby reap greater benefits from the *"Stratégie de Grand Voisinage" (Wider Neighbourhood Strategy)* for these URs. For the WTO, Cape Verde has undertaken to implement an action plan by 2012 aimed at harmonizing its customs system with the rules of that Organization[21].

26. Cape Verde has signed up to the ECOWAS regional integration programmes and projects. Thus, it will host the ECOWAS Centre for Renewal Energy and Energy Efficiency under an action plan to find a sustainable solution to West Africa's energy crisis. It has also signed up to regional drug control programmes, gender promotion, conflict prevention and resolution. Notwithstanding, the ECOWAS regional integration assistance strategy currently prepared by the Bank will help to better target and rationalize ADB interventions in regional multinational projects, while taking into account the country's specificities. Lastly, under the AGOA[22], Cape Verde has been exporting textile to the USA.

Social Context

27. As a result of economic growth and its social policies, Cape Verde recorded a sharp decline in the poverty index from 36.7% in 2000 to 26.7% in 2008. The country has already achieved 4 of the 7 MDGs and is one of the African countries with the best social indicators (Graph 9). Indeed, primary education for all and gender equality have been achieved, although the trend has reversed recently in secondary education to the detriment of boys. Furthermore, the infant and maternal mortality rates have declined significantly. Progress made in recent years suggests that Cape Verde will achieve the MDGs with the exception of the environment indicator. However, it is worth noting a decrease in social expenditure since 2006[23]. While this decline has so far not affected the education system mainly as a result of decrease in the number of pupils as a corollary of the demographic transition, the continued decrease in the share of social budgets could constitute a reversal risk.

Graph 9
Social Integration Policies



Source: World Development Indicators, WB, 2006

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20 These are: 4 French Overseas "Départements" (Martinique, Guadeloupe, Guyana and Reunion), 2 autonomous Portuguese regions (Madera and Azores) and the Canary Islands.

21 This entails (i) the consolidation of tariffs indicating the application of ceilings on customs duties ranging from 0 to 55% for some products and that could continue up to 2018; (ii) reduction of customs duties for some products (aeronautic industry and new technologies); and (iii) compliance of import procedures with WTO rules.

22 African Growth and Opportunity Act, an agreement that grants free access to US markets for Cape Verdean products.

23 Education: 16.8 compared to 21%; health: 7.4% compared to 8.5%; social welfare: 6.1 % compared to 8.2%.

28. Unemployment remains high at about 17% of the working population, particularly for the 15-29 (38%) age group. Social disparities exist as indicated by the Gini index of 49. These disparities as well as the possibility of falling employment opportunities due to the crisis and the intensification of immigration barriers in the traditional host countries could constitute a source of social tension. However, these risks could be mitigated by Government's efforts to maintain social cohesion which remains one of the pillars of PRGSP-II.

29. The status of Cape Verdean women in education, legislation and the implementation of the National Plan for Gender Equality and Equity (PNEEG) has improved. However, literacy among adult women is lower than that of men[24]. There are also disparities against women in terms of access to both public and private responsibilities. Lastly, the level of gender-based violence (GBV) is high. In 2007 the Government approved the Anti-GBV Plan and hopes to introduce affirmative action measures where necessary.

Environment and Climate Change

30. The insular nature of Cape Verde has made it more vulnerable to the impacts of climate change. The most exposed sectors are water, agriculture, forests and the coastal areas. The country is already faced with the problem of rising sea and ocean levels as well as decline in rainfall (230 mm/year, below the Sub-Saharan average). In the short term (10-20 years) the country could be further affected by a decline in rainfall and the shortening of the rainy season, in addition to suffering more frequent storms, floods and drought. The temperature could rise by 4º C by 2100 and rainfall decrease by 20%. Only 13% of rainfall recharges the water tables, whereas the remaining 87% runs off or evaporates. Groundwater resources estimated at about 124 million m^3 per annum are depleting as a result of intensive drawing or are becoming saline owing to saline intrusion caused by the increased extraction of sand from beaches for construction. On the other hand, despite the sizeable potential of surface water (on average 181 million m^3 per year), it is hardly exploited for lack of effective harnessing and storage facilities. This particularly affects the supply of drinking water which, although with a satisfactory level of supply of 90%, is threatened by the effects of climate change. The scarcity of water also affects agriculture, which is virtually entirely dependent on the depleting and saline groundwater.

2.2 Country Strategic Options

2.2.1 Country Strategic Framework

31. There is, first and foremost, the Economic Transformation Strategy (ETS) which is a long term vision adopted in 2003 to transform Cape Verde from a least developed country(LDC) into an emerging country. This transformation is designed to be both extensive and intensive. It is extensive in the sense that it is geared towards widening the country's productive base by developing niches such as high quality tourism, fishery products, international transport and information technologies. The development of these niches are based on the country's natural advantages, namely, (i) strategic position that makes it a gateway to Africa; (ii) a large coastline conducive for the development of deep-water harbours, fisheries and sea-side tourism; and (iii) airports that can be used for cargo flights. The ETS is also intensive since it aims to improve the competitiveness of the economy

[24] 71.9% for women and 86.5% for men. The prevalence of poverty is twice as high among female heads of households as male heads of households (37% vs. 19%).

through enhanced governance, skilled human capital, deepening of Government reforms and creation of a private sector-friendly environment.

32. Next follows the PRGSP-II 2008-2011, which supports the principles of the ETS as well as those of Government's Programme under the VIIth Legislature (2006-2011). The goal is to achieve double-digit economic growth, and bring unemployment down to below 10%. It hinges on the following five pillars: (i) promoting the Government reform; (ii) human resource development; (iii) promoting competitiveness by reconciling the challenges of sustainable development with globalization; (iv) strengthening economic infrastructure; and (v) strengthening social cohesion (Annex 2).

2.2.2 Weaknesses and Challenges

33. Insularity. Cape Verde is an archipelago of ten islands situated in the Atlantic Ocean off the coast of Senegal, the Gambia and Mauritania, along the Sahel strip. The archipelagic nature of the country and narrowness of its domestic market (about 500,000 inhabitants) pose problems of economy of scale for the production of goods and services, and the development of infrastructure and public utilities (Box 3). One of the structural problems is that the cost of inter-island transportation is on average one and half times higher that the cost of transportation between Lisbon and Praia. Faced with this challenge, the Government must encourage the establishment of a reliable inter-island transport in order to open up the national territorial space and reduce transportation and storage costs.

34. The constraints of insularity also affect the energy sector, to the extent that the non-connection of the electric grids of the various islands has compelled *Electra* to build a power generation plant on each island. This has led to high costs that affect production and hence competitiveness. The Government must pursue its investment and restructuring efforts in the energy sector. In particular, the restructuring of *Electra* entails the reduction of costs of production, including technical and non-technical losses. The development of production units using renewable energy sources is also an interesting option, notably under a PPP arrangement and/or the use of seawater desalination plants. Lastly, the inter-connection of inter-island electric grids will make it possible to centralize the power generated and thereby make economies of scale needed to reduce the cost of production.

35. Environmental and climate change. Issues pertaining to the environment, water resources and climate change are inextricably related to Cape Verde. Access to water and agricultural development are currently threatened by the decrease in rainfall and groundwater salination. To address these challenges, the country adopted a National Environmental Action Plan (PANA) in 2007, aimed at bolstering its resilience to these challenges. PANA gives priority to the mobilization and integrated management of water resources, the adaptability of agricultural, silviculture and pastoral production systems, and the protection of coastal areas. Notwithstanding, the environment and climate change remain complex challenges in Cape Verde.

36. Vulnerability in the face of external shocks. The economy of Cape Verde is not sufficiently diversified and remains dependent on external factors such as tourism revenue, remittances, FDIs and ODA. The financial crisis has demonstrated the scale of this dependence and the need to step up the diversification of the productive base, notably through the development of SMEs and economic partners. The Innovation Promotion Agency (ADEI) - the entity charged with this task - needs to intensify its efforts for the effective promotion of SMEs/SMIs.

37. Improving the business environment and the competitiveness of the economy. Cape Verde's business climate is less flourishing than should be the case. The computerization of the administration and the establishment of the Citizen's House are significant achievements for the business environment. In contrast, a legal framework for distressed businesses is necessary to reassure business owners, particularly in periods of crisis. Furthermore, additional effort must be made to introduce flexibility in the labour market, within a framework of social consultation. It is equally critical to develop appropriate vocational training programmes to match the quality of human capital with labour market needs, in order to enable the economic transformation. The World Bank, Portuguese Cooperation and the Netherlands have programmed interventions in the sector as part of their future strategies.

Box 3: Costs of Insularity

Insularity is defined as a set of geographic factors that characterize islands and landlocked territories. This situation generates 'permanent'' factors that affect their socio-economic conditions. The study of the economic characteristics of insular and landlocked countries show that despite their heterogeneity, they share common characteristics such as a higher EVI and a high opening up ratio (ratio of total external trade to GDP that generally exceeds 100%). Countries such as Singapore and Seychelles have an opening up ratio in excess of 300%.

Cape Verde shares these commonalities with other insular countries. Its EVI is 48.06% in 2009 and its opening ratio was 75% in 2007. Its economy is largely specialized in services, notably those related to tourism, which accounts for the country's relative success. However, many costs attributable to insularity persist. Firstly, transport cost (international and inter-islands) is high and constitutes an obstacle to exports (only 6% of Cape Verdean firms have access to external markets). The preliminary findings of the Bank's ongoing study on the cost of Cape Verde's insularity show that the transfer of a 20-foot container from Lisbon to the Praia Port amounts to EUR 1,387 - 7% higher than the cost to Dakar and 93% higher than the cost to Las Palmas. Inter-island transport cost is significantly higher since moving the same container averages EUR 2576.7. The low container transport frequency and the poor condition of the ports generate other higher costs related to storage and damage. Secondly, the energy sector is confronted with factors inherent to insularity. The archipelagic nature of the country and the absence of connection between the electric grids of the islands have compelled *Electra* to decentralize its production and opt for small sized and high cost production power plants. This excess cost is felt by businesses 60% of which view access to electricity as the main obstacle to investment. To these problems may be added those concerning the cumbersome management of the dispersed plants and the financial difficulties facing *Electra*.

2.2.3 Strengths and Opportunities

38. A still significant tourism potential. Tourism has become the primary source of growth and foreign exchange in Cape Verde. Thanks to its geo-climatic environment and investments made in hotel infrastructure, the country has managed to occupy a preferential position on the highly competitive tourism market. It is estimated that the number of tourists increased from 24,000 in 1990 to 333,000 in 2008 and could go up to one million over time. However, the sector is suffering from the lack of strategic vision that would enable it to position itself clearly on various market segments (mass tourism, quality tourism, ecological tourism, etc.). A sector strategy is being formulated, aimed at qualitative improvement, diversification of products and promotion of domestic tourism.

39. An ingenious management of relations with the Diaspora. Cape Verde has managed to maintain close socio-economic relations with its Diaspora estimated at about one million persons. Their remittances now constitute the second major source of foreign exchange for the country. The Government should pursue its policy of attracting savings from the Diaspora through interest rates, tax exemptions on their investments[25], and the credibility of its fixed Escudo/Euro exchange rate. The new digital services[26] provided by the administration are likely to strengthen these relations.

[25] As an example, the Diaspora is actively encouraged to invest in the inter-island transport company.
[26] Notably with the issuance of on-the-spot administrative documents through the Citizen's House portal.

40. Gains in economic and financial governance. Good political and economic governance enabled Cape Verde to better offset the current phenomenon of development slowdown. The country is a good illustration of the correlation between good governance and economic development. The strengthening of the electronic governance programme as described in the Action Plan for Electronic Governance (PAGE) as well as the planning and control capacity for enhanced effectiveness of public expenditure will enable the country to consolidate its achievements in good governance and attract more FDIs.

41. A geo-strategic position for international transport. Situated at the crossroads between Africa, Europe and America, the country intends to take advantage of its geographic position with regard to international air and maritime transport. However, exploiting this asset to the full requires the development of infrastructure to international standards. Expansion and modernization works are ongoing for the Praia and Mindelo Ports; similar works for the Brava, Fogo, Praia, and Sal Ports are on the drawing board. Mindelo Port could be transformed into a trans-shipment port with capacity to handle one million containers annually. In the air sector, the construction of the Praia Airport has had a real impact in terms of improving traffic and the development of tourism and sub-regional integration. The project for its expansion and the construction of an international airport in Sao Antao are being studied. Regarding the inter-island transport sector, the Government plans to induce private sector investment through subventions and concession contracts. However, in its ambition to become the regional hub, Cape Verde should not overlook competition from other existing or potential regional hubs. An in-depth study of the relative competitiveness of services in Cape Verde is, in this regard, a pre-requisite.

42. Integration into the regional and global economy. To transform itself into a regional economic hub, Cape Verde embarked on an active regional and even global integration policy. It signed up to the WTO in 2008 and initiated negotiations under the auspices of ECOWAS aimed at signing the EPA with the EU. However, in a country where taxation represents more than 50% of the Government budget, it is necessary to conduct studies to assess the fiscal and economic impact of its future agreements. The Bank’s economic and sector work will assist the country in that regard.

43. A potential for the development of renewable energy sources The absence of fossil energy and rising prices on the international market calls for a rethink of the country’s energy policy and the need to opt for alternative energy. The Government’s stated objective is to increase the share of renewable energy to 50% by 2025. There are real development prospects (wind, solar and kinetic) with the support of development partners and ECOWAS (Box 4). These prospects could contribute to reducing energy costs over the long term, but require the modernization of electricity distribution to absorb the new energy source. Furthermore, clean energy could be used to produce desalinated water at lower cost.

Box 4: Development of Renewable Energy in Cape Verde and the Role of the Bank

In recent years, the country has made efforts to bridge power deficits by intensifying investments in fuel-fired thermal plants. Experiments to promote renewable energy have also begun. These include:

(i) The Wind Power Project: this 28 MW pilot project which began in 1988 in Praia, Sal and Mindelo yielded satisfactory results during the first phase of implementation;

(ii) The Solar Energy Project entailing 3 300 kWh plants at Sal and 2 in Mindelo, though the results have been mixed due to maintenance problems; and,

(iii) A sea wave measuring plant on the island of Sal, project implemented with Danish Cooperation and which consists in harnessing 500 KWh of kinetic energy.

The promotion of renewable energy will foster access to energy for the disadvantaged population and subsequently rural development, poverty reduction and improvement of the people's living standard. It is becoming necessary for Cape Verde to create a favourable environment for the promotion of renewable energy and energy effectiveness, as well as optimize private sector participation. The renewable energy sector is also enjoying support from Portugal, Spain and the EU. In that regard, the ECOWAS Regional Centre for Renewable Energy that the country wants to host will receive assistance from major partners in the area. The Bank will contribute to the promotion of renewable energy through dialogue with the Government and the donor community, while providing technical assistance through its Climate Risk Management and Adaptation Strategy (CRMA) and the Clean Energy Investment Framework (CEIF).

With regard to current institutional and structural problems in the thermal energy sector, including the production deficit (46%), the Bank will focus its efforts on increased generation of thermal energy, cost reduction and improvement of consumer access. This will contribute to improving the Electra's financial situation. In view of the foregoing, investing in thermal energy is at this stage an urgent and complementary need for investments in renewable energy.

2.3. Recent Developments in Aid Coordination and Positioning of the Bank

44. **Aid Coordination.** The General Directorate for Planning of the Ministry of Finance is responsible for coordinating budget aid. In 2005, a budget support partnership (BSG) between the Government, World Bank, EU, Netherlands, Portugal, Austria, Spain and the Bank was put in place. Under that arrangement, the Government and technical and financial partners (TFPs) agreed to: (i) harmonize indicators and priority actions for budget support; (ii) undertake joint budget support reviews; and (iii) synchronize disbursements from the budget cycle in order to reduce the transaction cost of assistance. The 8th BSG joint review was conducted in the second half of May 2009 and the 9th review is scheduled for October 2009. Under the 8th review, it was agreed that the UNDP should monitor the MDG indicators. The areas of intervention of the major development partners are given in Annex 5. Similar to the BSG, there are "specific sectoral arrangements".

2.4. Positioning of the Bank

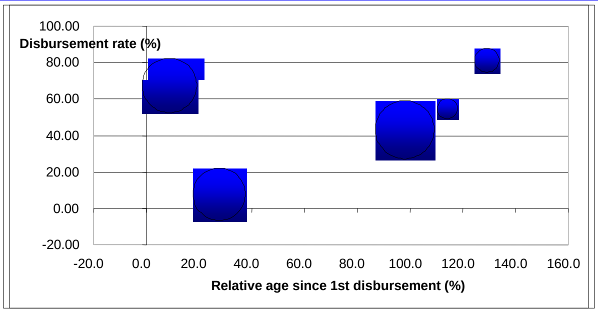
2.4.1 Bank Portfolio

45. Cape Verde's active portfolio comprises 5 operations (compared to 10 in 1999), including one at a closing phase. The entire portfolio amounts to UA 17.53 million, of which UA 7.54 million has been disbursed. Although modest in size, the operations target specific intervention sectors.

Table 1:
Portfolio Characteristics - July 2009

Sector	No. of Projects	Source of Financing (UA M)		Total Amount (UA M)	% Sector
		ADF Loan	ADF Grant		
Rural	1	5.96	-	5.96	34.0
Multisector	2	5.00	0.75	5.75	32.8
Infrastructure	1	4.82	-	4.82	27.5
Social	1	-	1.00	1.00	5.7
Total	5	15.78	1.75	17.53	100

Graph 10
Disbursement Rate by Project



46. The average age of the portfolio is 3.2 years, and the disbursement rate 43%, corresponding to an average annual disbursement rate of 18.4% (Graph 10). Below expectation (34%), this rate is attributable to various factors related to delays in start-up operations and the procurement process.

47. The July 2009 portfolio review deemed the overall performance satisfactory, with a score of 2.2 compared to 1.6 in 1999. This qualitative jump reflects progress in recent years in managing project implementation, notably a more effective involvement of the parties concerned.

2.4.2 Lessons from the Previous CSP

48. One of the findings of the 2005-2007 CSP Completion Report (CPR) was the success of the budget support approach which, under the joint donor arrangement, proved to be an effective instrument for policy dialogue. The CPR subsequently recommended that the concessional resources granted to Cape Verde be maintained, given the country's vulnerability. The third finding related to infrastructure development in the ETS, notably through public-private partnership (PPP) - despite the failure to privatize *Electra*. Another key recommendation was to examine the potential for developing renewable energy.

49. It is also worth noting the findings of the Evaluation Report on Bank Assistance to Cape Verde for 1996- 2007 prepared by OPEV. The report stresses that the country has succeeded in the delicate task of safeguarding its stability while undertaking the necessary reforms, implementing economic and social development policies that take cognizance of the needs of poverty reduction, and ensured Government ownership of these policies.

III. BANK ASSISTANCE STRATEGY FOR THE PERIOD 2009-2012

3.1 Rationale of Bank Group Assistance

Given the vision and options of the country as outlined in the ETS and PRGSP-II, as well as the challenges and opportunities, the Bank's strategy for the 2009-2012 period will highlight good governance to enable the country to consolidate its gains and infrastructure since it will drive tourism, the engine of growth, and enhance the competitiveness of the economy. The following two strategic pillars derive from the foregoing: **Pillar 1: Support good economic and financial governance gains; and Pillar 2: Contribute to infrastructure development.**

3.2 Expected Results and Targets

Pillar 1: Support Economic and Financial Good Governance

Objective 1.1: Support the Modernization of Government.

50. The Bank's support to Government modernization and effectiveness will be based on Government's strategy for overhauling the civil service, under the supervision of the Government Reform Coordination Unit (UCRE). The strategy is based on the organizational, institutional, legal, tax and digital reforms for resizing the administration. The Bank will target policy measures to reduce bureaucracy that has hitherto beset the business climate. It will also strive to implement tax simplification measures stipulated in the new tax and customs code. In terms of institutional reforms, the Bank's budget support operations will back measures to restructure the Ministry of Finance to make it more effective in terms of: (i) macroeconomic analysis and projections; (ii) financial resource mobilization; and (iii) strategic planning.

51. To support NOSI and PAGE for the digitalization of the administration, the Bank will finance the first phase of the National Multidisciplinary IT Platform Project as a point of support for a strategic programme of the information society. The platform will be used for: (i) the enhanced digitalization of public administration; and (ii) a future technological hub for service companies.

Objective 1.2: Pursue the strengthening of public finance management.

52. Cape Verde's public finance management system and the fiduciary framework have been strengthened considerably in recent years. However, there are challenges regarding the effectiveness of the tax recovery and internal audit performance. Over the 2009-2010 period, the Bank will contribute to strengthening public finance management through the institutional support/budget support project (PRSSP II) ongoing since 2006 and 2008. The latter, which will be strengthened with a sizeable supplement in 2009 and 2010, will be followed with a new budget support (PRSSP III) in 2011.

53. One of the qualitative results expected from the series of budget support operations is to assist the country in absorbing the effects of the economic crisis and deepen the reforms already initiated, aimed at optimizing public expenditure allocation to priority sectors[27], notably with the formulation of the Medium Term Budget Framework (MTBF). Other measures will protect the renewed public debt sustainability, while supporting Government efforts to incorporate all autonomous institute funds into the management of Government finances, with a view to avoiding arrears accumulation. A third set of measures will be geared towards strengthening the internal control system through the creation of new control structures and the extension of their mandate to all Government structures.

54. The effective functioning of the new public procurement system based on international standards is another key objective to be achieved to optimize public procurement. In that regard, the Bank will recommend the following actions for 2010: (i) creation of a centralized structure responsible for overseeing public procurement regulation, supervision and control (ARAP); (ii) establishment of the Central Procurement Management Unit (CPMU) at the Ministry of Finance, responsible for coordinating the public

[27] Ministry of Environment, Agriculture and Fishing (MEAP), Ministry of Health (MS), and Ministry of Infrastructure and Transports (MIT).

procurement processes of sector ministries; (iii) establishment of Procurement Management Units (PMUs) responsible for the technical management of public procurement at each sector ministry; and (iv) preparation of standard bidding documents.

Objective 1.3: Improve the Business Climate and Enhance Competitiveness.

55. Through its budget support operations, the Bank will encourage the Government to take the necessary steps to ensure that Cape Verde moves up to 132nd in the DBR early 2012, from its current 143rd ranking. Some bottlenecks should be removed in that regard: formulation of a legal framework for distressed enterprises, with provision for preventive settlement, legal redress, bankruptcy and liquidation of assets; and dialogue on flexibilities to be introduced into the labour market as part of social dialogue. Cape Verde will also benefit from the private sector development put in place by the IFC under the Millennium Challenge Account (MCA): building the capacity of local business owners, improving access to credit for SMEs, building the capacity of various stakeholders in the tourism sector and addressing the main constraints of private investments. In line with the programme, the Bank's interventions will be gradual. The Bank will first undertake economic and sector work on competitiveness and improvement of the business climate (a study on the costs of insularity, private sector profile and a study on the competitiveness of tax services and budget support measures). Subsequently, it will focus on lines of credit to SMEs/SMIs as well as PPP investments.

Pillar 2: Contribute to Infrastructure Development and Modernization.

Objective 2.1: Enhance Transport Infrastructure Development

56. The development of transport infrastructure based on international standards is crucial for reducing the constraints and costs of insularity, improving competitiveness, and positioning the country as an international transport hub. The objective pursued by the Government in its Transport Strategic Plan 2008-2011 is to provide the country with a transport system that meets international standards of effectiveness and quality. The Bank will finance the development of airport and harbour infrastructure, notably: (i) the Praia Airport Extension Project that will enable the rapid processing of 500 passengers/hour and provide facilities to international standards; (ii) the Mindelo Port Extension Project consisting in the extension over 3 ha of the platform and construction of a 400 m access road linking the quay to the public road network to facilitate the transit of containers and goods.

Objective 2.2: Reduce the Energy Production Deficit through Infrastructure Development

57. The Government's objective as defined in its Electricity Sector Strategy is to meet the growing energy demand induced by both economic activities and desalination needs for drinking water production. Thus, the aim is to increase the electricity generation capacity from 73.9 MW in 2008 to 100MW in 2010 and 140 MW in 2012. This production would come from fossil fuel thermal plants and, in the medium term, from the development of renewable energy[28] (50% of production by 2025). The Bank has been supporting the energy sector through the Santiago Production Capacity and Distribution Network Strengthening Project co-financed with the JBIC that will help double the installed capacity from 22 MW in 2008 to 44 MW in 2010. It will also finance two projects in the sector: the Project for the Interconnection, Distribution and Transmission of Electricity on 6 islands and the Project for the Centralization of Energy Production on 4 islands. The two projects will contribute to cutting: (i) current energy generation and distribution deficits; (ii) costs through the

[28] See Box 4 for details on renewable energy.

interconnection of inter-island networks; and (iii) technical and non-technical losses from 30% in 2008 to 24% in 2010 and 20% in 2012. The ultimate goal is to improve *Electra's* financial situation and reduce the amount of Government transfers from EUR 3.8 million in 2008 to EUR 2.0 million in 2010.

Objective 2.3: Contribute to Mitigating the Effects of Climate Change and Water Resource Mobilization

58. The reduction in rainfall coupled with the intensive exploitation of groundwater has led to the gradual salination of groundwater in the coastal areas, affecting farming activities and food security. Faced with this situation, reducing the pressure on groundwater resources has become an imperative. It is also necessary to explore the possibilities of retaining and harnessing a portion of the water that flows into the sea annually through the construction of small dams. The potential for surface water, estimated at 180 million m^3 of water per annum, is virtually untapped. The Bank will assist the Government to undertake a strategic study on water harvesting. The African Water Facility will finance a preliminary study on surface water harnessing. The study will guide both Government policy and financing of Government projects by the Bank, thereby enabling the Bank to determine ways and means of assisting the country technically through its Climate Risk Management and Adaptation Strategy (CRMA) and the Clean Energy Investment Framework (CEIF).

3.3. Monitoring/Evaluation Mechanisms

59. A results framework containing the country's development objectives, problems hindering the achievement of those objectives, the expected products and outputs for 2012, mid-term products and outputs and Bank's interventions over the 2009-2012 period, is given in Annex 1. This framework is in line with the monitoring system put in place by the PRGSP-II. The Bank will build on the current good portfolio performance and take advantage of the increase in SNFO staff to ensure continuous improvement in project and programme monitoring. Furthermore, a mid-term review report will be established in 2011 and a completion report in 2012.

Lending Operations

60. With Cape Verde's upgrade to MIC status, the country has become a Category B or "blend borrower" country in accordance with the Bank's lending policy, and thereby has access to both ADB and ADF resources. Approval by the Boards of the CSP under consideration will officially endorse this change of status. The level of sustainable lending threshold for ADB resources for Cape Verde is about UA 98 million over the 2009-2013 period. For the ADF, the strict application of the ADF resource allocation policy will result in a reduction by nearly 50% of ADF resources, in view of the 5% ceiling applicable to blend borrower countries. However, subject to the plenipotentiary agreement during the ADF XI mid-term review, it is proposed that Cape Verde keep the totality of its Category A envelope because of its fragile status. If the proposal is approved, the country will gain access to the full current balance of UA 6.5 million on its ADF XI country allocation. The ADF XII allocation will be determined by the new policy envisaged for blend borrower countries. Clearly, the country will benefit from the Bank's strategy for private sector development (2007) and its strategic framework for increased support to MICs (2008).

61. The programming derived from the Bank's strategy for the 2009-2012 period takes the significant increase in resources into account. Table A4.1 provides a list of lending programmes for the 2009-2012 period, depending on: (i) the indicative limits of ADB lending

resources; (ii) the current country allocation balance under the ADF XI; and (iii) the estimated ADF XII allocation, subject to its replenishment. In any event, the level of ADB resources will be subject to the annual lending limitations defined by PSI[29].

Non-lending Operations

62. The Bank will strive to maintain its dialogue with the Government through economic and sector work. The latter will address the issue of insularity, regional integration and integration into the global economy, relative competitiveness of service taxation and private sector profile. Four studies will be conducted (Table A4.2) between 2009 and 2010: (i) a study on insularity cost to identify the major bottlenecks and policies to minimize them; (ii) a study on the economic and financial impact of regional and global integration (EPA and WTO); (iii) a study on the tax competitiveness of Cape Verde aimed at transforming the country into a regional hub for transport and financial services; and (iv) a study of the private sector profile to identify its potential and constraints, and improve the business environment for Bank investments. The studies will not only help to promote quality dialogue, but will also serve as decision-making tools for the Government. To promote the private sector in 2009, the Bank will organize awareness seminars on financial products and services and the private sector window. Lastly, the Bank will use the MIC Trust Fund to finance the preparation of projects/programmes, feasibility and sector work as well as studies capable of generating new business opportunities in the public and private sectors.

3.4. Dialogue Issues

63. Dialogue will essentially focus on Cape Verde's regional integration within the ECOWAS zone and the complex process of negotiation under the WTO or partnership with the EU. The findings and recommendations of the six studies that the Bank hopes to finance through bilateral funding will provide elements for dialogue and decision-making. In that regard, the Government will be advised to ultimately put in place statistical and economic modelling tools necessary for planning and decision-making.

64. For the portfolio, dialogue will focus on the need to maintain the current good performance, including during the expected upswing in the wake of the relatively high increase in the volume of new ADB financing.

65. In its dialogue with the Government on the management of relations with the Cape Verdean Diaspora, the Bank could draw from the Multi-Donor Agreement for Migration and Development Initiative recently approved by the Boards, with a view to: (i) improving knowledge about emigrant remittances; (ii) supporting the reform of regulatory frameworks needed to improve remittances; (iii) developing financial products; and (iv) supporting productive investments and local development.

3.5. Potential Risks and Mitigative Measures

66. <u>Risk of increased debt.</u> The decrease in direct tax revenue stemming from the tax package and customs tariffs associated with various trade agreements (WTO, ECOWAS and EPA) pose potential risks to public finance. Already, the tax package will increase the fiscal deficit from 1.2% to over 9% of GDP between 2008 and 2009. If the crisis persists and the tax policy is maintained, the fiscal balance could be threatened. The Government may be tempted to resort to non-concessional borrowing to finance the deficit, and this could

[29] For 2009 this is fixed at USD 35 million, but could change depending on the country's solvability, returns on projects, notably those pertaining to infrastructure, as well as the current change in IMF procedures towards greater flexibility.

jeopardize debt sustainability. However, an improvement in tax collection, good macroeconomic governance and the effects of the expected recovery of the tax package mitigate this risk. Cape Verde can also count on the BSG, including the Bank and the PSI, to monitor the macroeconomic balances, especially non-concessional borrowing.

67. Risk of reduced concessional funding. The status of MIC may mean for some development partners[30] a reduction in the amounts of grants and concessional financing. This risk is mitigated by the fact that the majority of development partners, including the Bank and the World Bank, have given assurances to the Government that concessional aid will be maintained in the medium term. Other bilateral partners, namely Portugal and Spain, have considerably increased their concessional financing.

68. Security. The country's transformation into a hub for the transport of goods and persons could expose it to organized crime (drug trafficking and clandestine immigration). The country should build the capacity of security forces and cooperate with other partners (EU) as well as neighbouring countries for better control of its air and maritime borders.

IV. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

69. Cape Verde has made socioeconomic strides based on good economic and democratic governance, tourism, aid flows and emigrant remittances. These achievements have enabled the country to improve the living conditions of the population, stay on track towards achieving the MDGs and climb from LDC to MIC status.

70. The Bank's strategy for the 2009-2012 period takes into account the new status of Cape Verde as an MIC, measures to mitigate the effects of the global crisis and the country's goal to achieve a higher level of development as outlined in its ETS and PRGSP-II 2008-2011.

Recommendations

71. The Boards are invited to consider and approve the Bank's 2009-2012 Assistance Strategy in Cape Verde, based on two complementary pillars, namely. (i) Pillar 1: Support gains in economic and financial good governance; and (ii) Pillar 2: Contribute to the development of infrastructure. The Boards are also invited to approve the indicative lending programme for the 2009-2012 period.

72. Lastly, in accordance with the Bank's credit policy, the Boards are invited to endorse the re-classification of Cape Verde from Category A to Category B, while exceptionally maintaining the totality of its allocation under ADF XI in view of its fragile nature. Subsequently, the ADF XII allocation will be determined by the new policy proposed for blend borrower countries.

[30] Austria

Annex 1

Cape Verde CSP 2009-2012 Results Monitoring Matrix

PRGSP-II Objectives	Problems Hampering the Attainment of the Country's Development Objectives	Results and CSP Intervention Sector	Bank Intervention Objectives	Progress Indicators		Bank's Deliverables
				Mid-Term Review (2010)	End of Period (2012)	
Pillar 1 Supporting the gains of good financial and economic governance.						
Government Reform, through: i) Rationalization of Government structures	Overlaps and redundancies of some functions and responsibilities of various ministries and departments.	Modernization of Government.	Reform of Government's organizational framework	Continue setting up the new organization of the Ministry of Finance, Ministry of Environment, Rural Development and Maritime Resources, Ministry of Transport Infrastructure and Telecommunications and Ministry of Education and Higher Education 2009.	Finalization of restructuring of 5 ministries.	Poverty Reduction Strategy Support Programme – supplement (PRSSP II Additional programme of support to the poverty reduction strategy II – supplement (PRSSP II) Poverty Reduction Strategy Support Programme III – (PRSSP III)
ii) Ethics and transparency in public asset management.	Challenge to ensure consistency between PRGSP objectives and public finance planning and control.	Strengthening of public finance management.	Sustainable public debt viability management	Domestic debt/GDP maintained at less than 20%. Stock of 2005 crossed debt arrears maintained at 0 starting from 2010.	Same as above Same as above	Institutional Support (PRSSP I) Poverty Reduction Strategy Support Programme II (PRSSP II)

			Better public finance planning.	Adoption of the medium term framework in 2010.	Same as above	Additional support to PRSSP II – supplementary PRSSP II Poverty Reduction Strategy Support Programme III – (PRSSP III)
			Better public finance planning.	Increase in the number of internal auditing of municipalities initiated by the General Inspectorate of Finance from 4 in 2009 to 10 in 2010	Improve the quality and quantity of Government audits. Broaden the powers of the Court of Accounts to cover not only central administration but also public institutes and enterprises, and any private or civil organization beneficiary of public funds.	
			Improved public procurement effectiveness and control.	ARAP and PMU staff are appointed in 2009 Standard public procurement documents are approved by end July 2010 The number of ministries that publish their bid notices in accordance with the new code increases from 0 in 2008 to all ministries by 2010 CPMU staff are appointed in 2009 Inventory of moveable and fixed Government assets.	Enforcement of the public procurement code and its application to all the ministries	
			Reform of Government legislative framework	Adoption of new tax and customs codes in 2009	Passage of the bill on intellectual property	
iii) Modernization of public administration	Bureaucracy persists despite recent improvements.		Enhanced digitalization of public administration Creation of a technological hub for service companies.	Consolidation of services already put in place by the Citizen's House Commencement of Data Centre infrastructure works	More services provided by the Citizen's House (driving licence, national identity and voter's card) by 2011 Take advantage of the accumulated experience acquired by NOSI to launch ICT products and industries	Multidisciplinary IT Platform Development Project (Data Centre).

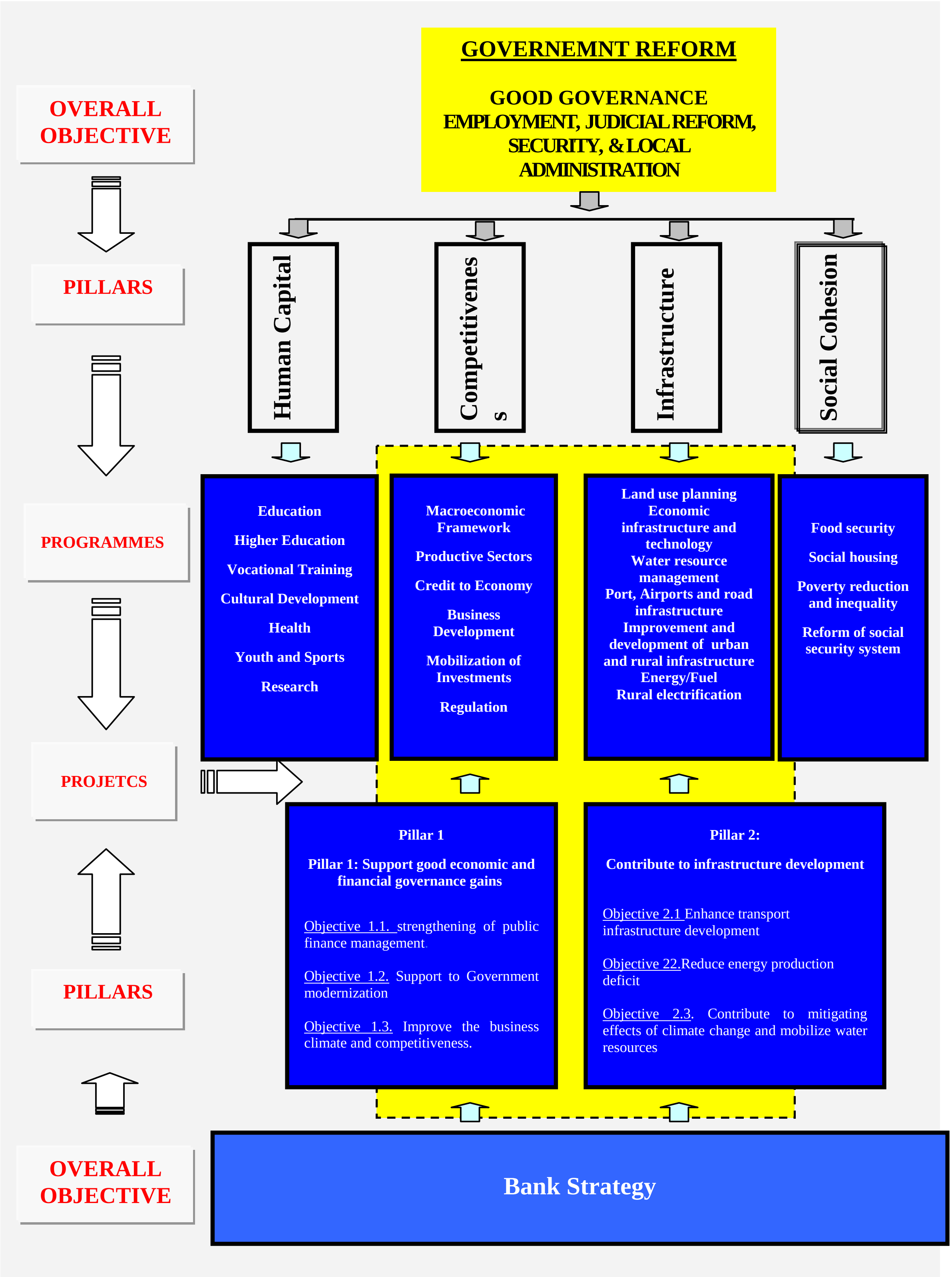
Competitiveness for business development	Business climate not conducive to private sector development.	Improvement of the business climate and competiveness	Diagnosis of major constraints for private sector development	Improvement of Cape Verde's ranking in D*oing Business*	Cape Verde's ranking in D*oing Business* improves from 143 in 2008 to 132 in 2012.	Private sector profile study Study on the competitiveness of tax services Study of the impact of political and regional integration and integration into the global economy Poverty Reduction Strategy Support Programme II (RSSP II) Poverty Reduction Strategy Support Programme II – Supplementary PRSSP II) Poverty Reduction Strategy Support Programme III (PRSSP III)
	High taxation for all businesses. High costs of business closures that prevents business owners from making the necessary adjustments during crisis periods.		Reduce tax pressure on businesses. Facilitate the closure of businesses	Rate of corporate taxation reduced be 5% by 2010 Pass the law on business insolvency in 2010.	Reduce corporate tax level to that of Mauritius.	
	A rigid labour market.		Reduce the rigidities of the labour market	Start the process of social dialogue for the revision of the labour market law.	Revise the labour market law in consultation with social partners.	

Pillar II. Contributing to Infrastructure Development						
Infrastructure Strengthening: i) Transport	Low transport capacity and high transport cost, notable that of inter-land transport	Increase transport infrastructure development	Modernize and develop air and maritime transport sector	Praia Airport: expected handling of 210 passengers per hour. Mindelo Port: Facilitation of container and cargo transit operations: number of containers increases from 61,434 TEU in 2008 to 150,000 TEU in 2010. Increase in storage capacity of containers per platform from 4.5 to 7.5 ha.	Praia Airport: rapid handling of 500 passengers per hour and provision of facilities in accordance with international standards Mindelo Port: number of containers increases from 150,000 TEU in 2010 (Phase 1) and 450,000 TEU in 2012 (Phase 2). Duration: 7 days for transhipment, 5 days for unloading of in-coming containers, 3 days for loading of outgoing containers and 15 days for shipping of empty containers	Praia Airport Expansion Project Mindelo Access Road Project
ii) Electricity	At the structural level, high power deficit and costs due to fragmentation of the electricity network. High technical and non-technical losses	Reduce the energy production deficit through infrastructure development	Overhaul Electra's financial situation. Increase electricity production.	Amount transferred from Government to *Electra* increases from EUR 3.8 million 2008 to EUR 2.0 in 2010. Power generation capacity increases from 73.9 MW in 2008 to 100 MW in 2010	Generation capacity increases to 140 in 2012.	Santiago Island Electricity Improvement Project Detailed study of electricity interconnection, distribution and transmission between the 6 islands Project for
			Support the interconnection of inter-island electric grids.	Duration of load shedding reduced from 752 hours in 2006 to 102 hours/year in 2010.	Electricity access rate increased from 70% in 2006 to 90% by 2015	

			Reduce technical and non-technical losses.	Decrease in the technical loss rate from 30% in 2008 to 24% in 2010 and subsequently to 20%.	20% technical loss rate by 2012.	electricity inter-connection, distribution and transmission between the 6 islands
iii) Water and sanitation and fight against climate change	Water supply threatened by climate change: low rainfall and salination of water table	Contribute to mitigating the effects of climate change and harnessing water resources	Support strategic reflection on water mobilization policy	Develop a strategy on water resource mobilization in Cape Verde	Implement the water resource mobilization strategy targeting at least 5 million m^3 of water.	Water resource mobilization study

Annex 2

Cape Verde Development Agenda



Annex 3

Main Operational Characteristics of the Active Portfolio (1 July 2009)

Sector / Operation	Source	Approv. Date	Sign. Date	Date of Effectiveness	Date of 1st disbursement	Closing Date	Amount Approved (UA million)	Amount Disbursed (UA million)	Disb. Rate (%)	Time before 1st disburs (months)	Age Since Approval (year)	Average Annual disburs (%)	Ext. period (yrs)	Risk*
Infrastructure – Energy														
Santiago Island Electricity Improvement Project	ADF 10 loan	19/12/2007	22/04/2008	12/12/2008	12/12/2008	31/12/2011	4.82	0.38	7.85	12.0	1.53	14.3	0	NO
1 operation							**4.82**	**0.38**	**7.85**					
Rural – Agriculture														
BV Picos and Engenhos Development Project	ADF 9 loan	18/09/2002	20/12/2002	27/04/2004	09/08/2004	31/12/2010	5.96	2.57	43.05	23.0	6.79	8.3	2	NO
1 operation							**5.96**	**2.57**	**43.05**					
Social – Education														
Education Sector Institutional Support (PAISE)	ADF 9 loan	29/09/2004	11/10/2004	17/08/2005	17/08/2005	31/12/2009	1.00	0.81	81.17	10.7	4.76	21.0	1	NO
1 operation							**1.00**	**0.81**	**81.17**					
Multi Sector – Budget Support														
PRSSP I institutional Support (grant)	ADF 10 loan	21/11/2006	15/12/2006	15/10/2007	15/10/2007	31/12/2009	0.75	0.41	54.76	10.9	2.61	32.0	0.5 (ongoing)	NO
PRSSP-II Budget Support	ADF 11 loan	22/12/2008	06/01/2009	27/02/2009	27/02/2009	31/12/2010	5.00	3.37	67.40	2.2	0.52	na**	0	NO
2 operations							**5.75**	**3.78**	**65.75**					
TOTAL/AVERAGE **5 operations**	90.% loans 10.0% grant						**17.53**	**7.54**	**42.99**	**11.8**	**3.24**	**18.4**		**0PR/5**

* Risk: No = non PP and non PPP project; PPP = potentially problematic project; PP = problematic project; PR = project at risk (PP or PPP)
** na = non applicable: disbursement in 2 tranches (budget support)

Annex 4

Indicative Lending Programme and Potential Economic and Sector Work

Table A 4.1
Indicative Lending Programme[31]

	Source	2009	2010	2011	2012
Pillar 1: Support to pursuit of economic and financial governance.					
1.1. Strengthening public finance management					
Supplementary budget support programme (PRSSP II)	ADB	20	20		
Budget support programme (PRSSP III)	ADB			10	
1.2. Support to Government modernization efforts					
Electronic platform project for the Administration (Data Centre)[1]	ADB			30	
	ADF			5	
1.3. Improving the business climate and economic competitiveness.					
(see PRSSP II, PAB, economic and sector work).	ADF				
Pillar 2: Support infrastructure development					
2.1. Transport					
Praia Airport expansion project	ADB		20		
Mindelo Port access road project	ADB				8
2.2. Energy					
Energy production centralization project (to be determined)	ADF	6.5			
Detailed study of electricity interconnection, distribution and transmission between the 6 islands	MIC Funds	0.5			
Project for electricity interconnection, distribution and transmission between the 6 islands	ADF				10
2.3. Water and Sanitation					
Water resource mobilization study	AWF	0.5			

[1] The possibility of the financing under PPP will be considered by the Government.

Table A4.2
Studies: Potential Economic and Sectoral

	Source	2009	2010	2011	2012
Impacts of the regional integration policy and integration into the global economy	MIC Fund	X			
Finalization of the study on cost of insularity	Adm Fund	X			
Study of private sector profile	Adm Fund		X		
Study of competitiveness of the taxation of services	MIC Fund		X		

31 Based on (i) indicative lending ceilings on ADB resources for the 2009-2013 period (UA 97-98 million), (ii) current balance of the country allocation under the ADF XI (UA 6.5 million), and (iii) estimation of the ADF XII allocation, subject to its replenishment. The programme will be set up subject to the non-concessional borrowing ceilings set out in the ISPE. Exemptions to these limits will be negotiated on a case by case basis between the Government and the IMF.

Annex 5

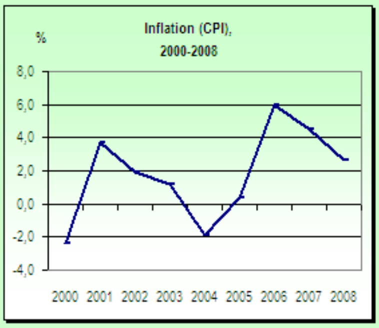
Major Development Partners and Main Areas of Intervention

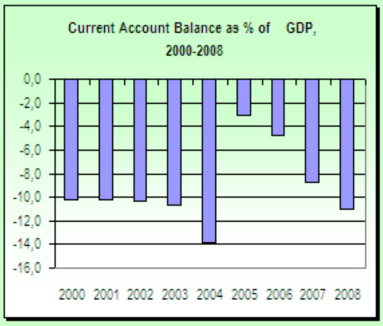
TFP	% of aid	Areas of Intervention
World Bank	17.9	Basic infrastructure, private sector, energy, water, financial management and public finance
Portugal	13.6	Human development capital, capacity building, decentralization, social protection and security
European Union	12.1	Infrastructure related to health, water and sanitation
Netherlands	10	Environment, public finance, vocational training
Luxembourg	9.8	Health, education and training, transport, water and sanitation
United Nations Systems	7.6	Good governance, water, sanitation, population, decentralization, education, health, rural development and child protection
ADB	5.5	Infrastructure, education, rural development, poverty reduction, energy
Japan	5.4	Fishing infrastructure, ground water
USA	4,2	MCA 2005-2011, transport infrastructure, rural development, private sector
Germany	2.4	Natural resources, education and vocational training
Spain	2.1	Decentralization, culture, public finance
ABEDA	2.1	Infrastructure, education, rural development, social protection, private sector
France	1.8	Good governance, decentralization, water and sanitation
Austria	1.6	Decentralization, water and sanitation, rural development, public finance
China	0.9	Construction infrastructure

Source: World Bank

Main Macroeconomic Indicators

Indicators	Unit	2000	2003	2004	2005	2006	2007	2008
National Accounts								
GNI at Current Prices	Million US $	577	677	807	1 003	1 105	1 289	...
GNI per Capita	US$	1 280	1 400	1 630	1 980	2 130	2 430	...
GDP at Current Prices	Million US $	571,1	849,2	955,2	1 065,6	1 275,6	1 517,3	1 952,0
GDP at 2000 Constant prices	Million US $	557,0	651,5	680,1	719,3	797,0	852,0	903,9
Real GDP Growth Rate	%	7,3	4,7	4,4	5,8	10,8	6,9	6,1
Real per Capita GDP Growth Rate	%	4,8	2,3	2,0	3,4	8,3	4,5	3,8
Gross Domestic Investment	% GDP	34,6	33,8	41,4	44,3	46,2	45,3	48,8
Public Investment	% GDP	5,8	4,0	3,7	5,6	5,8	4,9	5,5
Private Investment	% GDP	28,8	29,8	37,7	38,7	40,5	40,5	43,3
Gross National Savings	% GDP	20,0	20,0	25,3	37,6	38,0	33,4	32,9
Prices and Money								
Inflation (CPI)	%	-2,4	1,2	-1,9	0,4	6,0	4,5	2,7
Exchange Rate (Annual Average)	local currency/US$	119,7	97,6	88,8	88,7	87,9	80,6	76,1
Monetary Growth (M2)	%	13,0	8,6	10,6	15,8	18,0	10,7	4,3
Money and Quasi Money as % of GDP	%	60,8	68,2	73,7	76,6	76,2	77,4	66,4
Government Finance								
Total Revenue and Grants	% GDP	26,6	26,9	33,5	30,0	30,9	29,4	31,4
Total Expenditure and Net Lending	% GDP	34,5	31,1	38,2	34,0	36,0	30,2	32,7
Overall Deficit (-) / Surplus (+)	% GDP	-7,4	-4,0	-4,6	-3,7	-4,5	-0,8	-1,2
External Sector								
Exports Volume Growth (Goods)	%	25,2	9,9	-5,7	31,1	-0,4	-25,0	0,1
Imports Volume Growth (Goods)	%	-5,8	9,0	14,7	0,9	19,8	20,4	6,9
Terms of Trade Growth	%	17,7	-3,7	9,3	18,9	1,7	-3,9	-10,8
Current Account Balance	Million US $	-58,6	-90,8	-132,5	-32,1	-61,5	-132,0	-214,5
Current Account Balance	% GDP	-10,3	-10,7	-13,9	-3,0	-4,8	-8,7	-11,0
External Reserves	months of imports	1,0	2,0	2,6	3,2	3,8	3,3	2,3
Debt and Financial Flows								
Debt Service	% exports	16,0	18,6	19,5	18,2	11,2	8,0	7,2
External Debt	% GDP	60,3	76,8	79,7	69,6	61,4	60,7	50,2
Net Total Financial Flows	Million US $	119,0	185,9	209,3	260,2	191,5	110,8	...
Net Official Development Assistance	Million US $	93,9	143,3	143,2	162,0	138,4	165,2	...
Net Foreign Direct Investment	Million US $	43,4	33,5	68,0	81,6	130,6	177,2	...





Source : ADB Statistics Department; IMF: World Economic Outlook, September 2008 and International Financial Statistics, October 2008; ADB Statistics Department: Development Data Platform Database, April 2009. United Nations: OECD, Reporting System Division, January 2009.

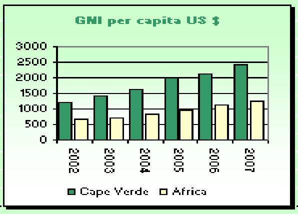
Notes: ... Data Not Available

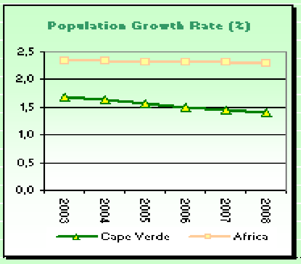
Last Update: April 2009

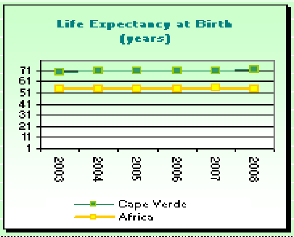
Cape Verde

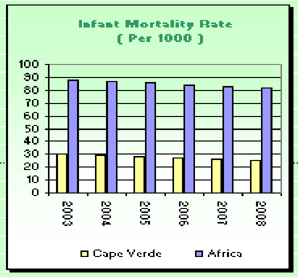
COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Cape Verde	Africa	Develo-ping Countrie	Develo-ped Countrie
Basic Indicators					
Area ('000 Km²)		4	30 323	80 976	54 658
Total Population (millions)	2008	1	986	5 521	1 229
Urban Population (% of Total)	2008	59,6	39,1	44,2	74,6
Population Density (per Km²)	2008	134,5	32,6	66,6	23,1
GNI per Capita (US $)	2007	2 430	1 226	2 405	38 579
Labor Force Participation - Total (%)	2005	36,1	42,3	45,6	54,6
Labor Force Participation - Female (%)	2005	38,2	41,1	39,7	44,9
Gender -Related Development Index Value	2005	0,723	0,482	0.694	0,911
Human Develop. Index (Rank among 174 countrie	2006	118	n.a.	n.a.	n.a.
Popul. Living Below $ 1 a Day (% of Population)	2002	36,7	34,3	25,0	...
Demographic Indicators					
Population Growth Rate - Total (%)	2008	1,4	2,3	1,4	0,3
Population Growth Rate - Urban (%)	2008	2,6	3,3	2,5	0,6
Population < 15 years (%)	2008	36,9	56,0	40,0	16,6
Population >= 65 years (%)	2008	4,3	4,5	3,3	15,6
Dependency Ratio (%)	2008	72,8	78,0	52,8	49,0
Sex Ratio (per 100 female)	2008	91,5	100,7	96,7	106,0
Female Population 15-49 years (% of total populatio	2008	27,1	48,5	53,3	47,2
Life Expectancy at Birth - Total (years)	2008	71,4	54,3	65,8	77,1
Life Expectancy at Birth - Female (years)	2008	73,8	55,5	67,6	80,6
Crude Birth Rate (per 1,000)	2008	24,1	35,8	22,2	11,2
Crude Death Rate (per 1,000)	2008	5,0	12,4	8,1	10,1
Infant Mortality Rate (per 1,000)	2008	25,2	81,8	51,4	6,3
Child Mortality Rate (per 1,000)	2008	30,0	134,5	77,4	7,9
Total Fertility Rate (per woman)	2008	2,7	4,6	2,7	1,6
Maternal Mortality Rate (per 100,000)	2006	36,2	683,0	450,0	9,0
Women Using Contraception (%)	2006	30,8	29,7	61,0	75,0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2006	41,8	39,6	78,0	287,0
Nurses (per 100,000 people)*	2006	90,8	120,4	98,0	782,0
Births attended by Trained Health Personnel (%)	2006	65,1	51,2	59,0	99,0
Access to Safe Water (% of Population)	2006	0,0	64,3	84,0	100,0
Access to Health Services (% of Population)	2005	...	61,7	80,0	100,0
Access to Sanitation (% of Population)	2004	43,0	37,6	53,0	100,0
Percent. of Adults (aged 15-49) Living with HIV/AID	2006	0,9	4,5	1,3	0,3
Incidence of Tuberculosis (per 100,000)	2006	0,9	315,8	275,0	19,0
Child Immunization Against Tuberculosis (%)	2007	86,0	83,0	89,0	99,0
Child Immunization Against Measles (%)	2007	74,0	83,1	81,0	93,0
Underweight Children (% of children under 5 years	2005	...	25,2	27,0	0,1
Daily Calorie Supply per Capita	2004	3 058	2 436	2 675	3 285
Public Expenditure on Health (as % of GDP)	2004	3,9	2,4	1,8	6,3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2007	101,5	99,6	106,0	101,0
Primary School - Female	2007	98,3	92,1	103,0	101,0
Secondary School - Total	2007	79,3	43,5	60,0	101,5
Secondary School - Female	2007	86,0	40,8	58,0	101,0
Primary School Female Teaching Staff (% of Total)	2005	66,1	47,5	51,0	82,0
Adult Illiteracy Rate - Total (%)	2007	16,2	38,0	21,0	1,0
Adult Illiteracy Rate - Male (%)	2007	10,6	29,0	15,0	1,0
Adult Illiteracy Rate - Female (%)	2007	21,2	47,0	27,0	1,0
Percentage of GDP Spent on Education	2007	5,7	4,5	3,9	5,9
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2005	11,4	6,0	9,9	11,6
Annual Rate of Deforestation (%)	2005	...	0,7	0,4	-0,2
Annual Rate of Reforestation (%)	2005	...	10,9	...	...
Per Capita CO2 Emissions (metric tons)	2006	0,5	1,0	1,9	12,3









Sources : ADB Statistics Department Databases; World Bank: World Development Indicators; last update : septembre 2009
UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports.

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

Annex 8

MDG Trend in Cape Verde

	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger				
Proportion of people living on less than $ 1.25 a day, (%)	..	..	..	..
Proportion of people living below the poverty line (%)	..	..	..	..
Share of the poorest quintile of the population in national consumption (%)	..	..	4.4	..
Proportion of under 5 year olds who suffer from malnutrition	..	..	..	..
Goal 2: Achieve universal primary educations				
Net primary education enrolment ratio (%)	..	..	..	..
Primary education completion rate (%)	51	64	102	92
% of pupils in 1st year completing year 5 (gross, %)	21	..	63	80
Illiteracy rate of youths (% ages 15-24)	..	..	..	..
Goal 3: Eliminate gender inequality and empower women				
Ratio of boys/girls in primary education (%)				
Proportion of women employed in non-agricultural sector (%)	..	..	..	..
Proportion of women represented at the single legislature or lower chambers of national parliaments (%)	..	..	..	..
Goal 4: Reduce by 2/3 under 5-year mortality				
Mortality rate among infants below 5 (per 1000 births)	60	50	42	34
Infant mortality (per 1000 births)	45	37	31	25
Proportion of 1-year old children immunized against measles (%)	..	..	..	..
Goal 5: Reduce by three-quarters the maternal mortality ratio				
Maternal mortality ratio (estimates for 100,000 births)	..	..	..	..
Proportion of births attended by qualified staff (% of total)	..	..	..	..
Contraception prevalence rate (% of women aged 15 to 49)	..	..	..	..
Goal 6: Halt and begin to reverse the spread of HIV/AIDS and other diseases				
HIV prevalence among 15 to 49 year olds (%)	..	..	..	..
Incidence of tuberculosis (per 100,000 persons)	..	..	..	..
Proportion of cases of tuberculosis identified and reported under DOTS (%)	..	..	..	..
Goal 7: Reduce by half the proportion of the population without access to basic services				
Proportion of population with sustainable access to drinking water supply (%)	..	79	80	80
Proportion population with access to improved sanitation system (% of population)	..	..	..	..
Proportion of forestry areas (% of total territory)	..	..	..	..
Proportion of protected land and marine areas (% of total territory)	..	..	..	..
Carbon dioxide emissions (metric tonne per inhabitant)	0.2	0.3	0.4	0.6
GDP per energy unit	..	..	..	..
Goal 8: develop a global partnership for development				
Number of telephone lines per 100 persons	2.3	5.4	12.1	13.8
Number of persons with access to a mobile telephone (per 100 persons)	0.0	0.0	4.4	27.9
Number of computers per 100 persons	0.0	0.2	1.8	7.0