Debt Management Performance Assessment (DeMPA)

Cabo Verde

October 2016

WORLD BANK GROUP

The DeMPA is a methodology for assessing public debt management performance through a comprehensive set of indicators spanning the full range of government debt management functions. It is adapted from the Public Expenditure and Financial Accountability (PEFA) framework. The DeMPA tool presents the 14 debt performance indicators along with a scoring methodology. The DeMPA tool is complemented by a guide that provides supplemental information for the use of the indicators.

For additional information on the World Bank's Debt Management Technical Assistance Program, including more on the DeMPA Tool, please visit our website at: http://www.worldbank.org/debt

Table of Contents

Glossary

ADB	African Development Bank
ADF	African Development Fund
BCV	Bank of Cabo Verde
CA	Court of Accounts
CCSS	Central of Custody and Settlement of Securities
CECV	Caixa Economica de Cabo Verde
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
CVE	Cabo Verde Escudo
CVSE	Cabo Verde Stock Exchange
DeM	Debt Management
DeMPA	Debt Management Performance Assessment
DMS	Debt Management Strategy
DNP	Directorate of National Planning
DPI	Development Performance Indicator
FDI	Foreign Direct Investment
FOS	Financial Operations Service
GDP	Gross Domestic Product
GIF	General Inspection of Finance
GPRS	Growth and Poverty Reduction Strategy
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
MoF	Ministry of Finance
MTFF	Medium-term Fiscal Framework
NA	National Assembly
NDBPA	National Directorate of Budget and Public Accounts
NDT	National Directorate of the Treasury
NISS	National Institute of Social Security
PEFA	Public Expenditure and Financial Accountability
PIP	Public Investment Program
POS	Public Offers Service
RMS	Resource Mobilization Service
SIFOX	Central of Custody and Settlement of Securities
SIGOF	Financial Management Information System
T-bills	Treasury Bills
T-notes	Treasury Notes
TSA	Treasury Single Account
US$	US Dollar
XDR	Special Drawing Rights

Preface

A World Bank (WB) team[1] visited Praia, from May 30 – June 08, 2016, in response to the request from the Government of Cabo Verde to conduct a debt management performance assessment (DeMPA) and a follow-up on the debt management reform plan prepared in 2013. The objectives of the mission were (i) To assess the debt management strengths and areas in need of reform in Cabo Verde through the application of the DeMPA methodology; (ii) to follow-up on the implementation of the debt management reform plan prepared in 2014 and assess the need and convenience of a full-fledged reform plan follow-up mission; and (iii) to discuss with the authorities next steps on other topics of technical assistance that had been requested, such as capacity building on debt sustainability analysis and assessment of refinancing risk in the medium term.

After two decades of strong economic growth, Cabo Verde's economy was adversely affected by the global economic crisis. Post crisis economic recovery remains fragile, with real GDP growth having slowed to 1 percent in 2015, down from 1.8 percent in 2014. The current account deficit improved to roughly 5 percent of GDP, due to a fall in imports, an increase in tourism exports and an increase in private remittances inflows.

Total government debt has been increasing sharply over the recent years, reflecting the frontloading of public investments by the government. From 2010 – 2015, total public debt increased from 71.9 percent of GDP to 120.0 percent of GDP. The composition of total central government debt reflects Cabo Verde's reliance on external financing, with most of external debt contracted under concessional terms. Going forward, however, the access to concessional financing will become significantly more constraint for Cabo Verde.

Cabo Verde has benefited in the past from receiving debt management technical assistance from a number of official institutions. Particularly from the World Bank, a first DeMPA assessment was carried out in 2009, followed by support to develop a medium-term Debt Management Strategy (DMS) in 2011 and 2013, and support to develop a debt management reform plan in 2013. This new DeMPA assessment has the objective of taking stock of the developments in the debt management agenda since 2009 and support the new government in identifying key areas for future reforms.

[1] The WBG team comprised Rodrigo Cabral (FABDM, TTL), Sebastian Essl (GMF13), and Samer Saab (international expert). Juan Carlos Vilanova (DRI, implementing partner) also participated in the mission, and Rohan Longmore (GMF01), senior economist for Cabo Verde, joined the mission for key meetings and provided the team with the country's economic background.

1. Executive Summary

This report assesses the debt management performance of the government of Cabo Verde by applying the 2015 World Bank DeMPA methodology.

Overall, there have been positive developments in government debt management practices in Cabo Verde. Some of those developments are reflected in improved DeMPA scores, as in the case of the preparation of a medium-term DMS, publication of debt management information, and documentation of procedures in the domestic market. In some other cases, improvements were not enough to change the scores, although relevant and acknowledged here – such as the case of domestic borrowing. In a number of other dimensions, such as those related to debt recording and operational risk, challenges persist.

The main findings of this assessment along the five main areas of government debt management are the following:

- ***Governance and strategy development***: The legal framework complies with the minimum requirements for effective debt management, but the draft of a new consolidated debt management law is an opportunity for improving it further. There were solid improvements compared to the previous DeMPA in the development of a medium-term DMS and in the publication of debt management reports. However, the DMS needs a substantial update, given the new reality the country will face in the medium-term, as well as institutional mechanisms to ensure that the strategy is implemented and monitored. There is also room for improvement in making public debt reporting more risk-oriented and focused on the compliance with the strategy.
- ***Coordination with macroeconomic policies***: There is a clear separation between monetary and debt management policies, good coordination between the debt office and the fiscal unit, and clear limitations on borrowing from the Central Bank (Bank of Cabo Verde – BCV). However, debt sustainability analysis has not been conducted. In addition, debt service forecasts could benefit from sensitivity / scenario analysis, especially given the large share of external debt in the total debt portfolio.
- ***Borrowing and related financing activities***: Substantial improvement was observed in the process of domestic borrowing, following the primary market reform implemented in 2013. However, the lack of an annual borrowing plan impedes compliance with minimum requirements – apart from that, compliance with both “B” and “A” scores would have been fulfilled. On the external side, the resource mobilization unit is pro-active in diversifying the sources of financing and separating the projects from its financing sources. However, there is no systematic analysis of the cost-risk tradeoffs or an annual borrowing plan, processes are not documented, and a legal opinion is obtained only after negotiations are concluded. The processes of on-lending and issuing of central government guarantees lack a comprehensive framework, which should include procedures and guidelines for credit risk assessment.
- ***Cash flow forecasting and cash balance management***: Although there are targets for the cash balance in the treasury single account (TSA) and cash balances are monitored on a daily basis, the TSA at the BCV is not remunerated, nor is the government actively managing its excess liquidity. There is good coordination and sharing of information between the units in charge of cash and debt managements, however, cash flow forecasts are not reasonably reliable given the centralized forecasting approach, the absence of systematic reviews and the dynamics of budget support

disbursements and their relevance in the budget revenues. . There is good coordination and sharing of information between the units in charge of cash and debt management, but accurate cash flows forecasts are challenging giving the dynamics of budget support disbursements and their relevance in the budget revenues.

- ***Debt recording and operational risk management:*** Positive points in this area are a motivated team with good capacity that in practice works to mitigate operational risks. An automated process for debt payments also exists. However, procedures (recording and payment) are not documented. Appropriate data security procedures are not in place for the domestic debt and guarantees databases, and there is no business continuity plan, segregation of functions, formal plan for staff development or written job description.

In addition to the updated debt management performance assessment, the team have assisted the MoF with an evaluation of the status of debt management reforms implementation. The main elements of implemented reforms are those mentioned above – reflected in the DeMPA evaluation – such as the preparation of the medium-term debt management strategy and the publication of a debt management statistical bulletin as part of the government's accounts. An important on-going reform is the discussion of a new and comprehensive debt management law.

Annex 1 brings a detailed update on the implementation of the debt management reform plan designed in 2013, showing good improvement in some areas, in particular the development of a DMS and debt management reporting, but less progress in operational risk management and data recording.

2. Country Background and Public Debt

2.1 Economic Background

Post crisis economic recovery remains fragile in Cabo Verde, with real GDP growth having slowed down to 1 percent in 2015 from 1.8 percent in 2014. The main drivers of growth in Cabo Verde are FDI and public investments, as well as tourism. Due to the completion of tourism infrastructure projects, however, FDI fell by 15 percent in 2015. In addition, the slowdown of public infrastructure investments against the background of significant increase in debt levels and the deceleration of agricultural output due to a persistent drought since 2014 further contributed to the economic slowdown. Credit provision to the private sector has been constrained, influenced also by relatively high ratios of non-performing loans (16.5 percent in 2015). During 2016-2017, economic growth is expected to be largely driven by the construction of new tourism facilities.

The current account deficit improved to roughly 5 percent of GDP, due to a fall in imports, increasing tourism exports and an increase in private remittances inflows. Portugal, France, Germany, Spain and the United Kingdom constitute the main markets for Cabo Verde's tourism export and the most important tourism related FDI inflows. Together with the United States, these countries also represent the main sources of remittance inflows. While tourism services exports and private remittances inflows have been increasing, a drop in import expenditure supported the improvement in the current account. Reserves remained robust in 2015, covering roughly 5 months of imports.

Table 1 – Selected Economic Indicators

	2013	2014	2015e	2016f	2017f	2018f
Real GDP Growth (in %)	1	1.8	1	1.5	1.9	2.2
Inflation (in %)	1.5	-0.2	-0.5	1	1.5	2
Current Account Balance (% of GDP)	-4.9	-8.1	-5.2	-5.7	-6.4	-6.9
Net FDI (% of GDP)	3.5	3.8	2	2.6	3.2	3.2
Fiscal Balance (% of GDP)	-10.3	-8.9	-4.3	-4	-3.7	-2.8
Debt (% of GDP)	104.2	115.1	120	121	121	118.6
Poverty Rate ($2/day PPP terms)	34.3	34.1	34.3	34.1	33.9	33.7

Source: World Bank estimates

Consolidation efforts improved the fiscal balance of Cabo Verde by 4.6 percentage points to a deficit of 4.3 percent in 2015. Fiscal deficits rose sharply in the aftermath of the global economic crisis, driven largely by the public investments expenditures. With a deficit of 10.3 percent of GDP in 2013, the government embarked on a gradual consolidation path from 2014 onwards. With the phasing out of projects under the public investment program (PIP) and the reduction in public investments, the fiscal balance improved to minus 8.9 percent of GDP in 2014, and to minus 4.3 percent of GDP in 2015. Authorities envisage further gradual improvement until 2018, with a projected fiscal balance of minus 3 percent of GDP.

Monetary policy in Cabo Verde aims mainly at maintaining the exchange rate peg of the Escudo with the Euro. As a reaction to the fall in capital inflows after the global economic crisis, the Central Bank of

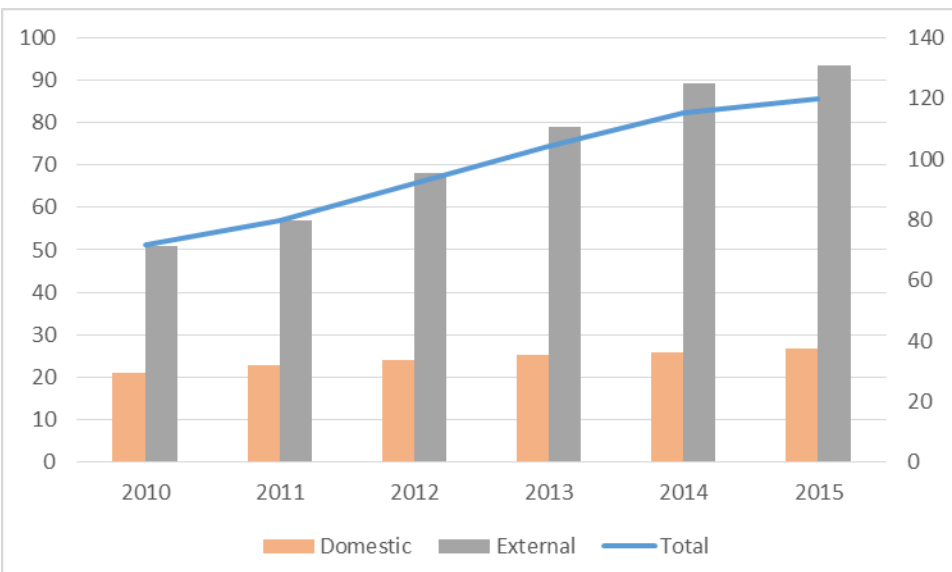
Cabo Verde (BCV) tightened conditions in the domestic market. The increase in interest rates, the increase in reserve requirements for domestic banks and a reduction in domestic credit in 2011 – following the rise in non-performing loans after the international financial crises - contributed to the slowdown of the domestic economy. Low growth, together with low international commodity prices kept inflation low, at -0.5 percent in 2015.

Estimates suggest that poverty reduction has slowed down over the recent years, with 34.1 percent of the population under the poverty line of US Dollar (US$) 2 per day. Sluggish economic growth, the severe drought of 2014 as well as the volcano eruption on the island of Fogo are the main reasons among the slowdown.

2.2 Public Debt in Cabo Verde

Total government debt has been increasing sharply over the recent years, reflecting the frontloading of public investments by the government and slowing down growth trajectory. From 2010 to 2015, the total public debt burden increased from 71.9 percent of GDP to 120.0 percent of GDP. This increase stems mainly from disbursements of external loans from multilateral and bilateral creditors. While domestic debt grew less pronounced, from 21.1 percent of GDP in 2010 to 26.6 percent of GDP in 2015, external debt rose sharply, from 50.8 percent of GDP in 2010 to 93.4 percent of GDP in 2015.

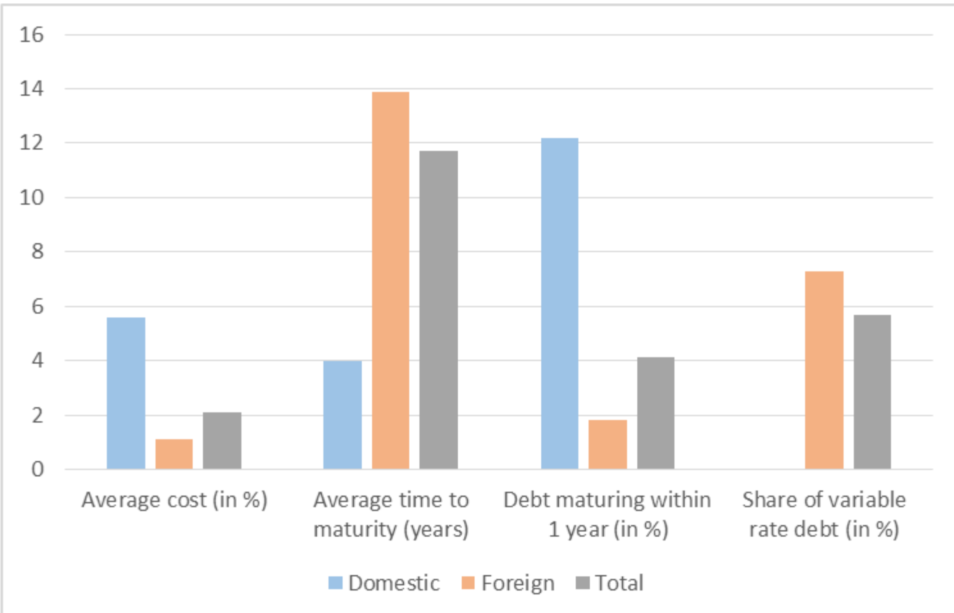
Figure 1 – Total Central Government Debt, 2010 – 2015



Source: Ministry of Finance

The composition of total central government debt reflects Cabo Verde's reliance on external financing, with most of external debt contracted under concessional terms. Consequently, the average interest rate on external debt is low at 1.1 percent in 2015. The average interest rate on domestic debt is 5.6 percent and the average interest rate on the total portfolio is 2.1 percent. Average time to maturity is high for external debt, indicating low refinancing risk. In addition, only 1.8 percent of external debt are to be refinanced within the upcoming year. The similar share for the significantly smaller domestic debt portfolio is 12.1. Aside from the relatively long maturity of debt, interest rate risk is further mitigated by the low share of variable rate debt. The share of total debt contracted with variable interest rates amounts to 5.7 percent, stemming exclusively from external loans, while domestic debt is contracted under fixed interest rates.

Figure 2 – Selected Debt Portfolio Cost and Risk Indicators, as of end of 2015

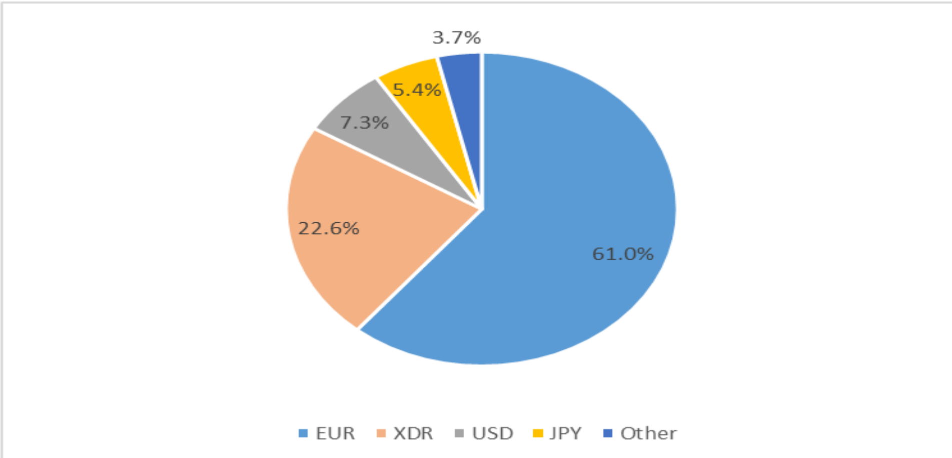


Source: Ministry of Finance

Currently, 47.2 percent of external loans are provided by multilateral creditors, 22.5 percent by bilateral creditors and 30.3 percent are commercial loans. The latter are of semi-concessional nature, with original maturities of 20 years and interest rates between 1.4 percent and 1.7 percent. Euro denominated external loans account for 61 percent, Special Drawing Rights (XDR) denominated loans for 22.6 percent and US$ denominated loans for 7.3 percent of total external debt. Taking into account the weight of those currencies in the composition of the XDR, which will be effective October 1, 2016, the Euro exposure of the external portfolio increases to 67.9 percent and the US$ exposure to 16.7 percent.

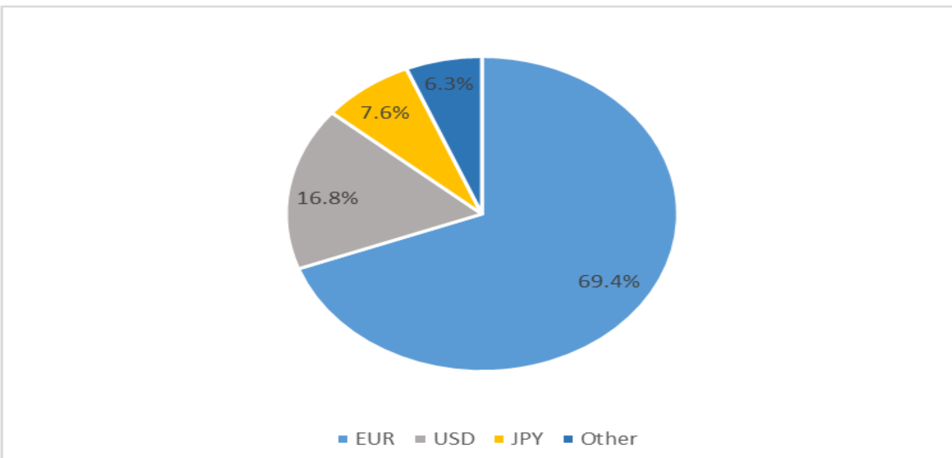
Going forward, however, the access to concessional financing will become significantly more constrained. The concessional windows provided by the International Development Association (IDA) and the African Development Fund (ADF) will gradually reduce for Cabo Verde over the medium-term, and will likely be replaced by funding from the International Bank for Reconstruction and Development (IBRD) and the African Development Bank (ADB). In order to diversify its creditor base, the government has been targeting Arab funds, as the Abu Dhabi Fund, as well as other creditors such as China.

Figure 3 – Currency Composition of External Debt, as of end of 2015



Source: Ministry of Finance

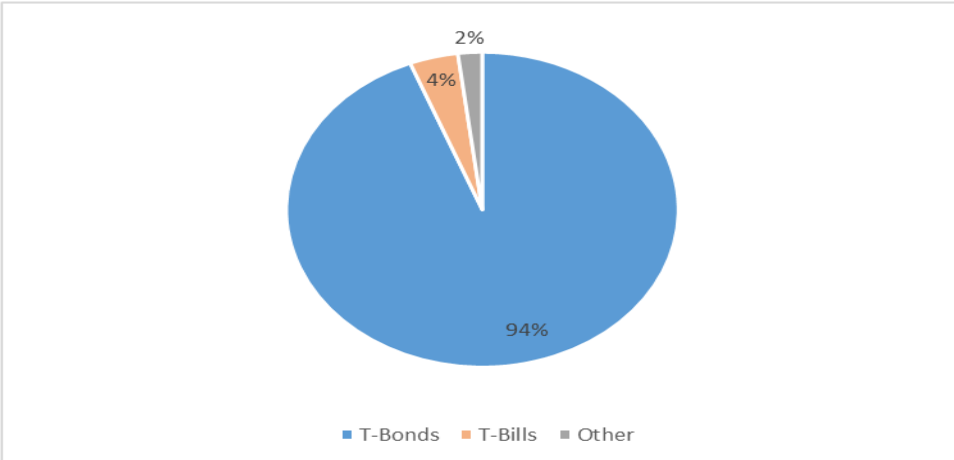
Figure 4 – Currency composition after XDR breakdown, as of end of 2015



Source: Ministry of Finance

The domestic debt portfolio is mainly comprised of Treasury Notes (T-notes) that are issued at a variety of maturities, usually between 5 and 9 years. Treasury Bills (T-bills) with a maturity of less than 1 year account for only 4 percent of domestic debt. All of domestic debt is issued with fixed interest rates.

Figure 4 – Composition of Domestic Debt, as of end of 2015



Source: Ministry of Finance

3. Debt Management Performance Assessment (DeMPA)

3.1 DeMPA Methodology

The DeMPA comprises a set of 14 debt performance indicators (DPIs), which encompass the complete spectrum of government debt management operations, as well as the overall environment in which these operations are conducted. While the DeMPA does not specify recommendations on reforms and/or capacity and institution building, the performance indicators do stipulate a minimum level that should be met. Consequently, if the assessment shows that the minimum requirements are not met, this clearly indicates an area requiring attention and priority for reform.

The DeMPA focuses on central government debt management activities and closely-related functions, such as the issuance of loan guarantees, on-lending, cash flow forecasting, and cash balance management. Thus, the DeMPA does not assess the ability to manage the wider public debt portfolio, including implicit contingent liabilities (such as liabilities of the pension system) or the debt of State Owned Enterprises (SOEs), if these are not guaranteed by the central government. The central government is nonetheless responsible for managing its contingent liabilities and thus for ensuring supervision of public debt and guaranteed public sector debt (which is part of the debt sustainability analysis), which DeMPA evaluates under the following indicators: DPI-1 “Legal Framework,” DPI-6 “Coordination with Fiscal Policy,” and DPI-10 “Loan Guarantees, On-Lending, and Derivatives.”

The DeMPA is largely modeled after the Public Expenditure and Financial Accountability (PEFA) Performance Indicators. While the latter cover broad aspects of public financing, the DeMPA focuses exclusively on central government debt management in a greater level of detail than do PEFA indicators. The points of convergence between these two tools lie in the areas of the recording of cash balances, debt management, and guarantees. There are strong links between PEFA indicators for audit and fiscal planning and DeMPA indicators for audit and coordination with macroeconomic policies.

The scoring methodology assesses each dimension and assigns a score of A, B, or C, based on a list of criteria. If the minimum requirements for a score of C are not met, the dimension is assigned a score of D. A score of C indicates that the minimum requirements considered necessary for effective debt management performance have been met. A score of D, however, indicates that the minimum requirements have not been met and that specific measures are necessary to correct the deficiencies and unsatisfactory performance noted.

The A score reflects sound practice for the dimension of the performance indicator, corresponding to the best practice level, while a B score is a mid-range score that falls between good practices and the minimum requirements.

In some situations, a dimension is not scored because the activity in the dimension has not actually been carried out (for example, derivatives are not used), in which case the term N/A (not applicable) is assigned to the dimension. The lack of information or even insufficient information makes it difficult or even impossible to assess a dimension, in which case the designation N/R (not rated) is assigned.

When the criteria for a score require that certain legislative provisions, regulations, or procedures be in place, the latter must not only have been approved or signed but must also have been implemented. If that is not the case, these provisions, regulations, or procedures are considered nonexistent, and cannot be taken into account in the debt management assessment and thus in the DeMPA scoring. The same principle also applies when the DMS, even if it has been drafted, has not been followed or updated.

3.2 Summary of Performance Assessment

Performance Indicator		Score 2009	Score 2016
DPI-1	1. Legal Framework	C	C
DPI-2	1. Managerial Structure: Borrowing and Debt-Related Transactions	C	C
	2. Managerial Structure: Loan Guarantees	C	C
DPI-3	1. DMS: Quality of Content	D	C
	2. DMS: Decision-Making Process	N/R	D
DPI-4	1. Debt Reporting and Evaluation: Debt Statistical Bulletin	D	C
	2. Debt Reporting and Evaluation: Reporting to Parliament or Congress	D	C
DPI-5	1. Audit: Frequency and Comprehensiveness	D	D
	2. Audit: Appropriate Response	N/R	D
DPI-6	1. Fiscal Policy: Provision and Quality of Debt-Service Forecasts	C	C
	2. Fiscal Policy: Availability and Quality of Information on Key Macro Variables and DSA	D	D
DPI-7	1. Monetary Policy: Clarity of Separation between DeM and Monetary Policy Operations	C	N/A
	2. Monetary Policy: Regularity of Information Sharing		D
	3. Monetary Policy: Limited Access to Central Bank Financing	C	C
DPI-8	1. Domestic Borrowing: Market-Based Mechanisms and Preparation and Publication of a Borrowing Plan	D	D
	2. Domestic Borrowing: Availability and Quality of Documented Procedures	D	C
DPI-9	1. External Borrowing: Borrowing Plan and Assessment of Costs and Terms	D	D
	2. External Borrowing: Availability of Documented Procedures	D	D
	3. External Borrowing: Involvement of Legal Advisers	D	D
DPI-10	1. Loan Guarantees: Availability and Quality of Documented Policies and Procedures	C	D
	2. On-lending: Availability and Quality of Documented Policies and Procedures	D	D
	3. Derivatives: Availability and Quality of Documented Policies and Procedures	N/R	N/A
DPI-11	1. Effective Cash Flow Forecasting	C	D
	2. Effective Cash Balance Management	D	D
DPI-12	1. Debt Administration: Availability and Quality of Documented Procedures for Debt Service	D	D
	2. Debt Administration: Availability and Quality of Documented Procedures for Data Recording and Storage	D	D
	3. Data Security: Availability and Quality of Documented Procedures for Data Recording and System and Access Control	D	D
	4. Data Security: Frequency of Back-Ups and Security of Storage	D	D
DPI-13	1. Segregation of key Staff Duties	D	D
	2. Staff Capacity and Human Resource Management	D	D
	3. Operational Risk Management, Business Continuity, and Disaster Recovery Plans	D	D
DPI-14	1. Debt Records: Completeness and Timeliness	D	D
	2. Debt Records: Registry System	D	D

4. Performance Indicator Assessment

4.1. Governance and Debt Strategy

DPI-1 Legal Framework

Dimension	Score
1. Existence, coverage, and content of the legal framework	C

Dimension 1

Requirement for minimum compliance: *The legislation (primary and secondary) provides clear authorization to borrow and to issue new debt, to undertake debt-related transactions (where applicable), and to issue loan guarantees (where applicable), all on behalf of the central government. In addition, the primary legislation specifies the purposes for which the executive branch of government can borrow.*

The debt management legal framework in Cabo Verde is spread out in different pieces of legislation. It is composed of:

i. The Constitution of the Republic of Cabo Verde;
ii. The Annual Budget Law;
iii. The Organic Budget law;
iv. The Organic Law of the Ministry of Finance;
v. Decrees on the issuance of domestic bills and bonds and the issuance of guarantees.

The Constitution, in its Article 177, empowers the National Assembly to authorize and regulate the government's borrowing and fix an annual cap for the government's issuance of guarantees.

The Annual Budget Law, in the chapter on the financing needs of the government[2], authorizes the government to contract external loans and to issue local debt with the purpose of financing the budget deficit. It fixes a nominal limit for the net increase in the domestic borrowing that corresponds to three percent of (projected) GDP. The Annual Budget Law also authorizes the Ministry of Finance (MoF) to implement some liability management operations, such as buybacks and exchanges, aimed at increasing the efficiency of public debt management. In addition, the budget law fixes a cap on the total amount of guarantees that can be issued by the government.

The Organic Budget Law (Law 78/1998) obliges the government to quarterly report to the National Assembly (NA) on the amount, financial terms, and use of resources of all new borrowing in the period. These information is sent to the NA as part of the government's annual accounts and quarterly as part of the Budget Execution Report.

The Organic Law of the MoF in its Article 4, defines the attributions of the Ministry. Among other tasks, it appoints the MoF as the one responsible for managing Cabo Verde's public debt and the financing

[2] Chapter IX – Financing Needs, Articles 43 (Financing of the State's Budget) and 44 (Public Debt).

needs of the government. It specifically assigns the National Directorate of Treasury (NDT), through its Financial Operations Service (FOS) unit, with those tasks. Furthermore, the organic law gives FOS the task of developing, planning and implementing the long-term DMS of the government. In its article 18, the Organic Law appoints the Resource Mobilization Service (RMS), within the National Directorate of Planning, as the unit in charge of mobilizing new external resources and participating, jointly and in coordination with the FOS, in the negotiation of external loan agreements.

The Decree 45/1996 empowers the MoF to issue guarantees on behalf of the government, establishing a limit (for each guarantee transaction) above which the MoF has to get authorization from the Council of Ministers. It also sets the basic guidelines for the issuance of guarantees. On the domestic issuance of bonds, the Decree-law 60/2009, followed by technical instructions issued by the MoF, regulates the issuance of bills and bonds and their main characteristics. There is compliance with all the aforementioned legislation.

Box 1: Drafting a new public debt law

The government has prepared a first draft of a comprehensive debt management law to be presented to the NA. This law has the objective of consolidating the debt management legal framework as well as equipping the country with a modern legislation to govern future borrowing activities that will be more market-based as the economy transitions into a middle-income status. The current draft establishes, among other provisions, the objectives of debt management, provides clear authorization for borrowing on behalf of the government, allows the government – under specific approval from the NA - to undertake liability management operations, including the use of some derivatives, and requires quarterly reporting on new borrowing to the NA. However, the new draft does not specify the purposes for which the government can borrow, require the development of a medium-term DMS or mandatory annual reporting to the NA, covering evaluation of outcomes against the approved strategy.

As the debt management legal framework, as evidenced above, provides clear authorization to borrow and issue guarantees on behalf of the government and specifies the purposes of borrowing, and given that there is full compliance with the legislation, the minimum requirements are met and a “C” score is assigned to this dimension. A higher score is not possible as the legislation does not include debt management objectives. This was the same score given in the 2009 DeMPA as there were no major changes in the debt management legal framework since then. However, the new debt management law that is being developed is a good opportunity for filling the gaps and aligning the legal framework with international sound practices.

DPI-2 Managerial Structure

Dimension	Score
1. The managerial structure for central government borrowings and debt-related transactions.	C
2. The managerial structure for preparation and issuance of central government loan guarantees.	C

Dimension 1

Requirement for minimum compliance: *Borrowings and debt-related transactions are undertaken either by the principal DeM entity or, if there is no principal DeM entity, by DeM entities that regularly exchange debt information and closely coordinate their respective activities through formal institutional mechanisms.*

Two main departments within the MoF manage the government debt in Cabo Verde with the support of the Stock Exchange for the issuance of government securities in the. The FOS instructs the Cabo Verde Stock Exchange (CVSE) to auction and settle securities in the domestic market, but remains responsible for decision-making regarding the timing, volumes, tenors, and maximum acceptable yields of the securities issued. The Resource Mobilization Service (RMS) within the Directorate of National Planning (DNP) of the MoF takes the lead in identifying potential sources of funding, and negotiating loans with bilateral, multilateral, and commercial creditors. These entities regularly exchange information and closely coordinate their respective activities via regular meetings, albeit without a set frequency for such meetings. In addition, the FOS staff are always involved in external debt negotiations led by the RMS, and all debt management decisions regarding domestic issuances are taken by the FOS, with the CVSE acting only as the agent of the government. As noted before, the functions of the two units and their coordination is well established in the Organic Law of the MoF[3]. This setup remains unchanged from the previous DeMPA assessment, except concerning the role of the BCV, which used to act as the fiscal agent for the government in terms of auctioning domestic debt securities.

In essence, debt management functions are centralized within the same ministry, albeit across two main directorates. With the several debt recording systems and tools being used simultaneously (CS-DRMS, separate Excel files for domestic, external, and guarantees, manual link with the centralized government financial management information system SEGOF and the very limited human resources count at present (two back office staff), operational inefficiencies are observed.

There is observed separation between the political and technical debt management decisions, particularly in regards to domestic bills and bonds. The recent introduction of the government securities market

[3] The Organic Law establishes not only the institutional structure and functions of all departments in the MoF, but also its operation standards and coordination mechanisms. Regarding debt management, for example, it formalizes the coordination between RMS and FOS (joint participation in negotiations of external loans, identification of potential sources of financing, and sharing of information for strategy development). Those coordination mechanisms are in place and functioning well.

auction platform at the CVSE has strengthened the price discovery mechanism and minimized price influence.

The current managerial structure is thus adequate the current borrowing context and has served Cabo Verde well. Going forward, as the landscape of borrowing gradually changes and more choices in terms and closer arbitrage between portfolio costs and risks will be required, the current debt management managerial structure would need to be revised to foster closer coordination, particularly with middle and back-office functions. In line with previous recommendations, job functions would need to be defined and codified along the back-middle-front office structure.

There are no formalized mechanisms to make the explicit connection between the guidance in the medium-term debt management strategy and the daily borrowing operations. This connection is usually articulated through an annual borrowing plan and/or a debt management committee, none of which are in place in Cabo Verde.

The minimum requirement for Dimension 1 is met as central government borrowings and debt-related transactions are primarily undertaken by FOS and RMS, and the operational domestic debt market functions are carried out by the CVSE as agent to the Government. Therefore, the score is “C”, unchanged from the previous assessment. For a score of “B”, borrowings would need to be steered by a formalized DMS, which is hard to verify in this context since there is no consolidated annual borrowing plan derived from the strategy.

Dimension 2

Requirement for minimum compliance: *If applicable, loan guarantees are prepared and issued by one or more government entities that regularly exchange information and closely coordinate their respective activities through formal mechanisms, both between themselves and with the DeM entity or entities.*

FOS, the main debt management entity, has sole responsibility by law for issuing and managing loan guarantees, and no loan guarantees have ever been issued by other entities. FOS analyzes applications for loan guarantees in accordance with the guidelines in Decree 45/96 dated November 1996, recommends to the Minister of Finance whether they should be granted, and records the transaction.

Loan guarantees may be issued to public sector and private sector enterprises, as well as to municipal governments, and they may be granted only for loans that fund investment activity. FOS is in charge of assessing the credit risk associated with the guarantee and making a recommendation to the Minister. However, the guidelines set by the aforementioned decree are general and do not constitute a comprehensive framework or a set of procedures on how the process should be carried out[4].

The minimum requirements for a grade of “C” are met. While Decree 45/96 provides broad guidelines on guarantees issuance, it cannot be considered a comprehensive formalized framework[5], and hence a grade of “B” is not possible. This situation is unchanged compared to the previous assessment.

---

[4] See DPI-1 and 10 for more information about the legal framework and operational procedures governing the issuance and management of loan guarantees.

[5] It is worth noting however that the government is currently embarking on a guarantee reform plan that includes, among other things, a formalized framework for issuance of loan guarantees and the establishment of a guarantee fund to mitigate against credit risk.

DPI-3 – Debt Management Strategy

Dimensions	Score
1. The quality of the DeM strategy document	C
2. The decision-making process and publication of the DeM strategy	D

Dimension 1

Requirement for minimum compliance*: A medium-term DMS is in place covering all existing and projected central government debt, based on the DeM objectives. The strategy is expressed at least as guidelines for the preferred direction of evolution of specific indicators for interest rate, refinancing, and foreign currency risks. In addition, if applicable, the strategy document contains a description of measures aimed at supporting domestic debt market development.*

Cabo Verde prepared its first DMS in 2011, and updated it in 2013, with support from the World Bank and the IMF[6]. Since then, the strategy has been annually updated as part of the budget cycle. However, the updates so far have been soft in the sense that the strategy has been still dominated by concessional loans and updates have mainly come from the review of the macro and debt portfolio data. The authorities are now recognizing that the current model's relevance is almost exhausted and that a comprehensive change in the DMS is necessary to cope with the new public sector financing needs. This change going forward would consider expanding the set of available debt instruments as well as the access to new creditors and markets in order to fulfill the financing needs.

Although the current primary legislation in Cabo Verde doesn't require the government to produce a DMS, the organic law of the MoF assigns the task of developing and implementing the DMS to FOS, and the government has, since 2013[7], been producing, implementing, and publishing a basic medium term debt management strategy, which helps guide borrowing, particularly the level of concessionality, foreign currency risk, and refinancing risk. In essence, de-facto borrowing decisions were up to recently highly conditioned by limited financing choices and adherence to structural program requirements[8].

Debt management in Cape Verde (at least for the 2018 horizon) will be guided by a formal DMS as it appears in the 2015 Budget Law that is based on an assessment of cost and risk over the medium term, considers linkages with macroeconomic policy and development of the domestic debt market, akin to standard medium term DMS methodologies. The adopted framework also considers a set of alternative strategies, and explicitly states a preference to one strategic direction that favors concessional, fixed rate EUR borrowing and gradual lengthening of maturities in the domestic market. Although only the basic objective of meeting the State's budget requirements is stated in the Annual Budget Law, debt management objectives of meeting those funding requirements at the lowest cost in the medium term

---

[6] A joint World Bank–IMF mission visited Cabo Verde in November 2013 to support the country in designing a new medium-term DMS.

[7] The 2014 World Bank Debt Management Reform Plan for Cabo Verde identified DMS formulation and implementation as a main pillar of reform to be undertaken in the short to medium term.

[8] Cabo Verde successfully implemented and graduated from a series of Policy Support Instrument non-financial programmes with the IMF in the last decade. A common structural requirement would be a firm limit on net domestic financing, as well as minimum grant elements for external loans.

while keeping prudent risk levels are stated in the strategy document. The strategy has been implicitly approved by the Minister of Finance, since it appears prominently in the annual Budget Law and its accompanying report. There is however no dedicated, separate approval and formalization process for the DMS. Going forward, the ongoing strategy update would need to take into account the changing nature of available sources of financing for Cabo Verde, particularly as traditional concessional sources become less available.

The minimum requirements for a grade of “C” are thus met for this dimension. In the past few years, FOS staff have been able to run the medium term DMS methodology independently, displaying adequate capacity to undertake cost-risk tradeoff analysis. Realistic, quantitative target ranges for interest, exchange, and refinancing risk management are needed for a higher grade of “B”. This would include specified target ranges for share of external/domestic debt, share of fixed/floating rate debt, and the share of short-term debt/total debt, to name a few.

Dimension 2

Requirement for minimum compliance*: The strategy proposal is prepared by the principal DeM entity or, if there is no principal DeM entity, jointly by the DeM entities. The views of the central bank are obtained; the strategy is formally approved; and the strategy is made publicly available, including through publication on official website(s) and in print media.*

As mentioned, the strategy is designed by FOS in cooperation with DNP. It is then shared for information, and after publication, with BCV at the Board level. The BCV takes no active part in its design or implementation, other than making sure there is no hindrance of monetary policy by domestic debt market operations through regular coordination with FOS. There is a de-facto clear segmentation of domestic debt securities market between BCV bills (very short term, up to 3 months), and MoF T-bills and T-notes (medium to long term).

Going forward, it is anticipated that future borrowing decisions would involve a greater degree of complication and would potentially have a bigger impact on monetary aggregates and the external position of the Government. Hence, closer cooperation with the BCV is one way to ensure that these decisions are kept compatible with monetary policy and domestic debt market development objectives.

The strategy is updated yearly, published in the Budget Law document, hence approved by Parliament, formalized, and made publicly available via the MoF website within a reasonable timeframe.

For this dimension, minimum sound practices would require that: (i) the strategy is prepared by FOS and RMS; (ii) the views of the BCV are formally obtained; (iii) the strategy is approved by the cabinet or council of ministers; and (iv) the strategy is made publicly available. Minimum requirements are thus not met since BCV views are not obtained and a grade of “D” is assigned for this. Closer integration with the Medium –term Fiscal Framework (MTFF) and the Growth and Poverty Reduction Strategy (GPRS) would give it a “B”, and annual updates of the strategy (which already takes place) would, ideally, give it a score of “A”.

DPI-4 Evaluation of Debt Management Operations

Dimensions	Score
1. Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt, loan guarantees, and debt-related operations.	C
2. The presentation and content of an annual evaluation report to the parliament or congress on DeM activities and general performance.	C

Dimension 1

Requirement for minimum compliance: *A debt statistical bulletin (or its equivalent), with the main categories listed in the "Rationale and background" section of this DPI (with the exception of the basic risk measures of the debt portfolio), is published annually, with debt data that are not more than six months old at the date of publication.*

A comprehensive statistical and analytical information on public debt is produced and published regularly in the Budget Execution Document (including annex), the government's accounts (and the accompanying notes and report), the BCV annual report and BCV periodic monetary policy implementation reports. All these publications are available on the respective entities websites within a maximum of 3 months of data cutoff date.

The available and published statistical information provide adequate details on central government debt stocks (by creditor, residency classification, instrument, currency, interest rate basis, maturity); debt flows (principal and interest payments); debt ratios and indicators; and basic risk measures of the debt portfolio. The Annual Budget Law document also includes basic stock and flow statistics on guarantees and on-lending, broken down by beneficiary institution. Some basic risk measures, like ratios of guaranteed debt to GDP, are also included, but in general, information on guarantees and other contingent liabilities tends to be published with a one year time lag.

The complement of published statistical information on public debt can thus be considered as an equivalent of a debt statistical bulletin, even if the information is not consolidated in one dedicated document. A grade of "C" is thus attributed to this dimension. A more comprehensive list of cost and risk indicators of debt portfolio, including for example maturity and refinancing risk indicators (like the redemption profile), average cost of portfolio, and interest rate risk (share of fixed rate debt), is needed for a grade of "B". It is worth noting that, in general, there has been a greater degree of transparency and comprehensiveness from the part of the Government in reporting on debt and debt related activities to the public (as evidenced by the scope of publicly available information), compared to the previous evaluation.

Dimension 2

Requirement for minimum compliance: *A report (or section of a wider report) providing details of outstanding government debt and DeM operations is submitted annually to the parliament or congress and is also made publicly available.*

The Annual Budget Law and its execution report contains sections dedicated to reporting on public debt and debt related transactions. It is made available online at the Ministry of Finance website (http://www.minfin.gov.cv) in the section called 'State Accounts' (*Contas do*

***Estado*), where reports since 2005 can be found and downloaded.** An explicit and direct evaluation of the debt transactions against the adopted medium-term DMS is not being prepared. **The** minimum requirements for this dimension are met, and a grade of "C" is attributed, unchanged from the previous evaluation. An evaluation of transactions against an adopted DeM objectives is needed for a score of "B".

DPI-5 Audit

Dimension	Score
1. Frequency of financial audits, compliance audits, and performance audits of the central government as well as publication of the external audit reports	D
2. Degree of commitment to address the outcomes from internal and external audits	D

Dimension 1

Requirements for minimum compliance: *An external financial audit of DeM transactions is undertaken annually. External compliance audits have been conducted in the past two years. Audit reports are publicly available within six months of completion of the audit.*

Cabo Verde has two levels of public debt auditing:

- The Court of Accounts (CA), which reports to the National Assembly, and thus is the external auditor; and

- The General Inspection of Finance (GIF) that is an internal auditor reporting to the Minister of Finance.

According to the Constitution, in its article 219, the CA is Cabo Verde's supreme audit institution for public financial management. The CA is responsible for issuing a technical opinions on the government's annual accounts to the NA, which is the authority in charge of approving or rejecting the government's accounts.

Debt management audits by the CA have been restricted to the appraisal of the government's annual accounts. However, even for this annual appraisal, debt management audit has been constrained by staff resources and capacity[9]. For those reasons, the annual audit has been concentrated on revenues and expenditures.

Due to the implementation of two important reforms – the program budgeting and the bankarization – that directly affected the work of the National Directorate of Budget and Public Accounts (NDBPA), in the recent past the NDBPA has delivered the government's annual accounts to the NA with a delay. This delay

[9] There is a small team of four people in the CA(?)

has affected the timing of the CA's appraisal of the accounts and the final decision by the NA. Because of that, the latest accounts that have been audit and approved by the NA are from 2012 – they got to the CA for assessment only in August/2014 and CA's technical opinion was issued in July/2015. For those accounts (2012), the auditing took place at the end of March 2015 and the report was published at the end of June 2015, evidencing around 3 months between the end of the auditing and the publishing of the report. The previous one - the 2011 annual accounts reached the CA in May/2013 and its technical opinion was issued in May/2014, followed by publication of the report in less than 3 months.

The CA's mission is to be an external controlling instance for public financial management, by checking whether the public entities' actions and legal agreement are in conformity with the laws, and auditing its financial statements with the objective of promoting transparency and accountability. This mission is reflected in the annual auditing of the government's accounts, which is both a financial statement and a compliance audit. However, the CA has not undertaken any performance auditing.

The GIF is the internal auditor for the Minister of Finance. Each year they prepare a plan of activities, listing the departments to audit. In principle, the Minister has the power to take areas out of the plan of activities, but in practice the Minister has never interfered with it.

Due to resource constraints, the GIF has been concentrating its auditing on a few departments that are considered more vulnerable. In this context, public debt management has never been comprehensively audited by GIF. The GIF is engaged in developing a business intelligence system that should help increase the efficiency of internal audits in the future.

In light of the above, a score of "D" is assigned to this dimension. Although the CA has conducted a financial statements and compliance audit and the audit reports have been published 3 months after the completion of the audit, the audits have had a lag or around 3 years (most recent audit report refers to the 2012 annual accounts). Although the 2009 DeMPA had also assigned a score of "D" for it, the direct comparison is not possible given the change in the methodology (performance audit was part of minimum requirements in the previous one).

Dimension 2

Requirements for minimum compliance: *The relevant decision makers produce a management response to address the outcomes of the internal and external audits of government DeM activities.*

When preparing the annual audit, if the CA finds any inconsistency in the accounts, it gives the relevant public entity an opportunity for clarification before including the incongruence in the final report. The Ministry of Finance has been active in responding to these requests for clarification.

However, after the audit report is published, there is no formal management response to address its recommendations. This can be partially due to the current legislation, which does now empower the CA to issue mandatory decisions, but only recommendations.

In the recent appraisal of annual accounts, there have been recommendations specifically to public debt management, but for which no formal management response has been prepared. Because of that, a "D" score is assigned to this dimension. This is different to the 2009 assessment when this dimension was not rated, but, as explained above, comparison in this DPI is not possible given the change in the methodology.

4.2 Coordination with Macroeconomic Policies

DPI 6 - Coordination with Fiscal Policy

Dimension	Score
Dimension 1: Support of fiscal policy makers through the provision of accurate and timely forecasts on total central government debt service under different scenarios	C
Dimension 2: Availability of key macro variables, an analysis of debt sustainability, and the frequency with which it is undertaken	D

Dimension 1

Requirement for minimum compliance: As part of the government's annual budget preparation, reasonably reliable and timely forecasts are provided on total central government debt service.

Total central government debt service forecasts are produced by the FOS. They are shared in a timely fashion with the NDBPA and are used in the annual preparation of the budget and the medium term budgetary framework. Debt service forecasts are prepared including a 10 percent "safety margin", in order to account for exchange rate fluctuations and possible adverse interest rate effects from floating rate debt.

The accuracy of recent forecasts is evaluated in monthly meetings at the formally established Budgetary Committee, comprised of the NDT, DNP, NDBPA and DNR. In addition, actual budget execution is contrasted with projections in a statistical bulletin, which is prepared on a monthly basis. In 2015, forecasts of interest payments came very close to actual budgeted amounts, i.e. 98.8 percent. However, both interest payments and amortization forecasts are likely to be subject to deviations, due to the above mentioned exchange rate and interest rate effects. Forecasts are reliable with execution rates within or around a 10% margin, as shown in the table below. Forecasts prepared by NDBPA do not include sensitivity analysis or scenarios in addition to the safety margin.

Table 2 – Central Government Total Debt Service (volumes in CVE mm)

year	Budgeted	Executed	Execution rate (%)
2010	2897	2684	93%
2011	2902	2666	92%
2012	2582	2865	111%
2013	3753	3261	87%
2014	3900	3554	91%

While the absence of sensitivity analysis does not allow a higher score, the minimum requirements for the first dimension of this DPI are met and the score is C. This score mirrors the assessment of the 2009 DeMPA.

Dimension 2

Requirement for minimum compliance: *Key macro variables (actual outcomes and forecasts) and an analysis of the debt sustainability that has been undertaken by the government within the past three years are shared with the principal DeM entity (or DeM entities).*

The main macroeconomic variables are projected by the NDBPA at the MoF. These variables, used for the annual budget preparation and the medium term budgetary framework, are regularly shared with FOS. The BCV does not provide inputs for macroeconomic forecasts and the budget preparation.

Debt sustainability analysis (DSA) is not undertaken independently on a regular basis, with the latest DSA being drafted by the IMF in the course of the 2014 Article IV mission. The FOS raised concerns of the applicability of the current World Bank/IMF DSA framework to the particular case of the small island economy. While the FOS performs a debt dynamic exercise, it cannot be regarded as a substitute to the World Bank/IMF DSA. FOS' analysis does not cover a comprehensive set of debt sustainability indicators and results of the exercise are not presented in a formal document, and can therefore not be evaluated. In addition, FOS only studies the sustainability of total central government debt over a short period of time, which is not sufficient given the long term nature of existing loans. Since no DSA is prepared by the Cabo Verde authorities, dimension 2 does not comply with the minimum requirements and is consequently rated with a "D". This assessment is the same as in the 2009 DeMPA.

DPI 7: Coordination with Monetary Policy

Dimension	Score
Dimension 1: Clarity of separation between monetary policy operations and DeM transactions	N/A
Dimension 2: Coordination with the central bank through regular information sharing on current and future debt transactions and the central government's cash flows	D
Dimension 3: Extent of the limit of direct access to financial resources from the central bank	C

Dimensions 1

Requirement for minimum compliance: Insofar as the central bank carries out DeM transactions as an agent of the central government, monetary policy operations are kept formally separate from DeM transactions. The central bank keeps the government and the market informed when transactions are undertaken for monetary policy purposes and when it transacts in the market as an agent on behalf of the central government. .

The BCV used to act as a fiscal agent for the government up until 2013, when an agreement was reached with the BCV to auction government securities through the CVSE. The reform of the primary market established a new digital platform for auctioning T-bills and T-notes, called the Public Offers Service (POS), which is managed by CVSE. This reform clearly and formally separated debt management transactions from monetary policy operations.

In order to implement monetary policy, the BCV issues its own securities, i.e. monetary regulation bills with maturities up to 90 days and monetary intervention bills with maturities up to 180 days, which do not comprise a direct liability to the government. After the reform of the primary market in 2013, coordination on issuance between BCV and the government has been efficient, since the BCV receives the governments quarterly issuance plans in due time and withholds from issuing at similar dates or in similar maturities.

Since the BCV does not act as a fiscal agent anymore, this dimension is not applicable. This constitutes a deviation from the score of C assigned in the 2009 DeMPA assessment and mirrors the fact that the BCV does not act as a fiscal agent for the government, after the reform in 2013..

Dimension 2

Requirement for minimum compliance: *When relevant for monetary policy implementation, there is at least monthly information sharing on current and future debt transactions and central government cash flows with the central bank.*

Information sharing on debt management operations between the BCV and the Treasury is formally regulated in a Memorandum of Understanding. Although this MoU foresees regular meetings, such meetings did not take place in 2015. Currently the exchange of information consists of the quarterly domestic issuance plans, shared by FOS with the BCV in a timely manner and BCV reported the plans as being reliable. Information on other central government's cash flows is not provided by the Treasury which forces BCV to conduct independent forecasts of government cash flows.

Since the information needed for monetary policy implementation is incomplete, the minimum requirements for the second dimensions are therefore not met and a score of D is given. This assessment is not comparable with the DeMPA 2009, since the methodology of DPI 7 changed in the course of the 2014 DeMPA methodology revision.

Dimension 3

Requirement for minimum compliance: *Access to financing from the Central Bank has a ceiling limit imposed by legislation*

Government's access to an overdraft facility at the BCV is regulated by the Organic Law of the BCV. The volume of financing under this facility is limited to 5 percent of the total central government revenues in the previous year's budget. Once the Government has accessed the facility, the BCV charges the government interest at the Central Bank's policy rate. The tenor of the overdraft balance is limited to the end of the fiscal year, at which point the balance has to be cleared. The government of Cabo Verde has not accessed the overdraft facility in recent years.

Since the maximum tenor of the overdraft facility exceeds three months, the score for this dimension is C but cannot be higher. Since there has been no changes in the legal provisions on the BCV overdraft facility, this assessment reflects the score of the 2009 DeMPA.

4.3. Borrowing and Related Financing Activities

DPI-8 Domestic Borrowing

Dimension	Score
1. The extent to which market-based mechanisms are used to issue debt; the preparation of an annual plan for the aggregate amount of borrowing in the domestic market, divided between the wholesale and retail markets; and the publication of a borrowing calendar for wholesale securities	D
2. The availability and quality of documented procedures for borrowing in the domestic market and interactions with market participants	C

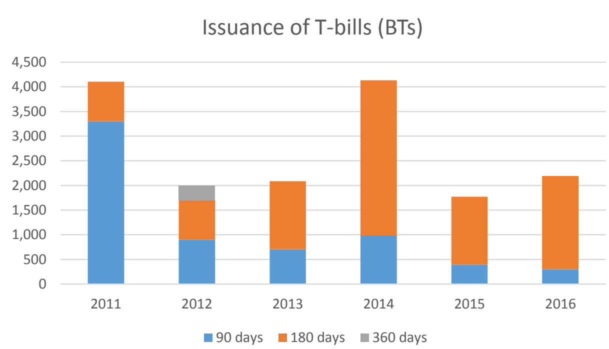
Dimension 1

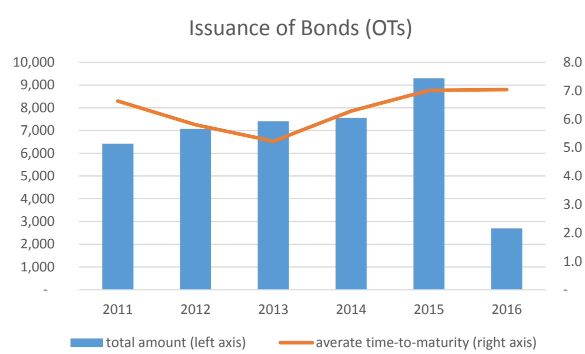
Requirement for minimum compliance: *The central government raises funds domestically using market-based instruments to fund the projected borrowing requirement. An annual borrowing plan for the projected aggregate amount of domestic borrowing—divided between the wholesale and retail markets and other sources—is prepared. In addition, a borrowing calendar that contains issue dates and instruments for wholesale securities for the following month is prepared and published at least one week ahead of the start of the month.*

The government issues T-bills and T-notes in the domestic market. T-bills are typically issued with three- or six-month maturities and T-notes are issued at a variety of maturities, usually between 5 and 9 years. The government's policy for actively managing refinancing risk is to determine the precise maturity of a new bond with a view to smoothing the redemption profile of the domestic debt portfolio.

The maturities currently issued by the government are concentrated on the long term. T-notes represent the vast majority of the instruments being auctioned and are currently about 95 percent of the stock of the marketable instruments in the domestic market. In fact, the maturity mix of instruments being issued presents a large gap as currently there is no issuance of instruments with maturities between 6 months and 5 years. Over the recent past, the government has been able to increase volumes and maturities in the domestic market.

Figure 5: Issuance of T-bills and T-notes (volumes in CVE 1,000,000)





Source: Ministry of Finance

In 2013, the government launched a new platform to conduct auctions of T-notes and T-bills, the POS. The platform is managed by the CVSE and the MoF conducts the auctions directly through the platform. Through the POS, the MoF is preparing the auction, announcing it to the market, conducting the auction, and publishing auction results. The platform is linked to the Central of Custody and Settlement of Securities (SIFOX), which is also managed by the stock exchange, and is linked to the BCV to make the financial settlement, constituting a delivery-versus-payment system.

When the government launched the new platform in 2013, a two-tier auction system was also introduced with a non-competitive round after the regular auction. A uniform-price competitive auction takes place in the morning, between 10.00 and 10.30 am, and up to 20 percent of the total amount offered can be sold in a non-competitive round that starts in the day before and closes at 3.00 pm on the auction day. Both institutions and individuals have access to the non-competitive offer, but non-financial institutions and individuals have to do it through a financial institution. Auction results are made publicly available, through the POS, on the same day for all participants.

Banks and other financial institutions, such as the National Institute of Social Security (NISS) and insurance companies, can participate in the first round of the auction, after being authorized by the BCV. Auctions are now conducted through a uniform-price system[10]. Usually in single price systems, instruments are sold to every successful bidder at the cut-off price of the auction. However, the system, currently in place in Cabo Verde, provides for all investors to get their bonds at the average rate of the accepted bids, allowing for an investor to end up buying a bond for a higher price than it has bidden for.

In the past, some market participants had the perception that the government had implicit caps for the interest rates on the primary market. However, over the recent past, due to a structural excess of liquidity in the economy, this issue has lost relevance.

A few days before the beginning of each quarter, the FOS releases a quarterly auction calendar with indicative dates of auctions, types of securities and amounts. It is shared with market participants through the POS platform and mailing list. The government can decide to conduct extraordinary auctions, besides those indicated in the calendar, in particular if actual revenues are much below those forecasted in the cash flow plan. However, the comparison of past auctions with the quarterly calendars shows great adherence to the announced auctions and amounts. In principle, the quarterly plan is prepared based on the medium-term DMS, the cash plan (cash flows forecast) prepared by the NDT, and the domestic maturity profile. However, because of the great uncertainties around the cash flows, in particular on the revenue side[11], the issuance plan ends up being more based on the projected amortizations – to refinance upcoming maturities – than on the overall cash flow of the government. After each quarterly plan, the government formally announces each auction one week in advance for T-notes and four days in advance for T-bills.

However, an annual borrowing plan is currently not being prepared by the government, mainly due to the uncertainties related to the annual cash plan, in particular regarding revenues forecasts as pointed out before. The uncertainties about disbursements related to budget support end up materializing in

[10] Before 2013, the Central Bank used a multiple-price auction to sell government's securities.
[11] One of the challenges is related to the dependence on budgetary support from external partners and the uncertainties associated with those disbursements.

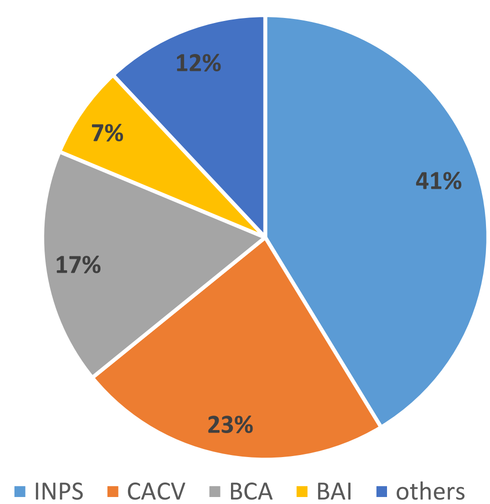
uncertainties on the funding needs for the year, which makes the preparation of the annual borrowing plan more challenging.

T-notes are not fungible and there is no creation of benchmarks, although there are no legal or operational impediments to issue fungible bonds. The government issued a fungible bond in the past but has not continued, claiming that there was low demand as market participant didn't understand the concept of fungibility. There is also a great concern on the creation of benchmarks given the increase in the refinancing risk generated.

Market development is a formal secondary debt management objective of the government of Cabo Verde, as stated in the DMS. The need to develop the domestic market is reinforced by the perspective that Cabo Verde will have less access to concessional and semi-concessional financing over time.

However, the domestic debt market is small and concentrated. There is a limited number of market participants, which are basically the major banks (3) and the NISS, which is the public pension fund. The NISS and three banks hold together almost 90% of outstanding T-notes, the NISS alone holding 41% of the total. A very significant share of domestic debt is held, directly or indirectly, by the public sector, considering that the BCV has 4%, the NISS has 41% of the domestic securities and also that the government is a major stakeholder of Caixa Economica of Cabo Verde (CECV) Bank[12], which has 23% of the stock.

Figure 6: Holders of T-notes (December 2015)



Source: Ministry of Finance

The secondary market for government securities is illiquid and underdeveloped. The level of activity in the secondary market is very low, with the average number of transactions being less than one per day. There is not a well-established yield curve for government securities and price discovery is poor. In general, price references are given by the last auction results. Market participants point the participation of individuals and non-financial institutions in the primary market (non-competitive round)

[12] NISS owns 32% and the Post Service 15% of CECV's capital.

and the lack of proper regulation for the secondary market as major impediments for market development.

In light of the above, a score of “D” is assigned to this dimension as an annual borrowing plan is not prepared, and this was the same score assigned in the 2009 DeMPA. However, it is worth noting that substantial improvements have been made since the primary market reform in 2013. Indeed, further requirements for scores “B” and “A” are complied with and if it wasn’t for the absence of the annual borrowing plan, a score of “A”, representing best practices, would have been assigned.

Dimension 2

Requirement for minimum compliance: *Borrowing procedures for all domestic borrowing as well as terms and conditions and criteria for access to the primary wholesale market and retail market are provided in print media or on the central government or the central bank web sites.*

The procedures for all domestic borrowing, as well as terms and conditions and criteria for accessing the market, are well established in the Decree-law 60/2009 and Technical Instructions issued by the MoF. While the Decree-law 60 lays off the basic legal foundation for T-notes and T-bills, Technical Instructions 02/2013 and 01/2013, issued by the NDT, establish all procedures regarding the auctions for the issuance of those securities. The set of procedures even include a contingency plan for the POS system and procedures that should be followed both by the government and market participants. All legislation mentioned above is available at the stock exchange’s website and through the POS platform.

Although the government publishes a quarterly issuance calendar, there is no regular or systematic communication with investors, where the government could receive feedback, present its DMS and plans, and discuss issues related to market development. At the time the POS system was developed, the government conducted consultation meetings with market participants, but over the last years, there has been no regular meetings. This situation worsened after the new system was put in place because the BCV used to conduct such a dialogue and the MoF has not filled this gap yet. Finally, information available at the MoF’s website is very limited.

In light of the above, as comprehensive procedures for domestic borrowing and criteria for accessing the primary market are publicly available, a “C” score is assigned for this dimension. A higher score is not possible due to the lack of regular meetings with market participants. This represents an improvement from the 2009 DeMPA, when procedures and criteria were not comprehensive nor publicly available and a “D” score had been assigned.

DPI-9 External Borrowing

Dimension	Score
1. Documented assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity) and a borrowing plan	D
2. Availability and quality of documented procedures for external borrowings	D
3. Availability and degree of involvement of legal advisers before signing of the loan contract	D

Dimension 1

Requirements for minimum compliance: *A yearly borrowing plan for external borrowing is prepared and assessments of the most beneficial or cost-effective terms and conditions for external borrowing that are obtainable from potential creditors and markets are conducted annually.*

External borrowing in Cabo Verde is for funding investment projects. The starting point, as the most important medium-term planning reference in the country, is the GPRS. The GPRS lists a set of projects and activities that are considered priorities for the country to achieve sustainable growth and poverty reduction, and considers a time frame of five years.

Front-office activities for external borrowing are undertaken by the RMS, a unit under the NDP, in consultation with the FOS, which performs middle and back-office functions for the total debt and is located under the NDT.

Having the GPRS as its main guidance, the RMS regularly sits with line ministries to discuss their needs for the medium term. Once a project is identified as eligible, the RMS will first try to mobilize resources to hire external partners to conduct feasibility and environment impact studies, as the unit lacks staff and adequate capacity to conduct those studies in-house.

If these studies are satisfactory the RMS will approach potential creditors to identify sources of financing. Contrary to what is commonly found in peer countries, the RMS has a very active role in reaching out to potential lenders and disassociating the project from the source of finance, i.e. being able to find more than one partner that is willing to finance the project. The RMS keeps a database of current and potential creditors and has been pursuing the objective of diversifying the potential sources of financing. However, the RMS doesn't prepare an annual borrowing plan and the database is not comprehensive in terms of the financial conditions.

Given the very active resource mobilization over the recent past and the current concerns about the level of public debt, the RMS has reduced its mobilization activity and most of the borrowing estimated to take place in the next 3 years will come from already negotiated financing envelopes.

Currently, around 96% of the external debt portfolio is concessional. The RMS always calculates the concessionality of the loan that is being negotiated as different partners may apply different calculations. However, the government does borrow in commercial terms, but in those cases it is able to mix it with grants to make it concessional as a package.

The RMS doesn't conduct a cost-risk assessment of the potential sources of financing and consults with the FOS whenever it has to choose among different financial terms. FOS' decision is guided by the medium-term DMS but no comprehensive analysis of the terms and conditions of the loans beyond concessionality analysis is undertaken.

In light of the above, a "D" score is assigned given the absence of an annual borrowing plan and annually assessment of the most cost-effective terms and conditions for external borrowing. This is the same score given in the 2009 DeMPA.

Dimension 2

Requirements for minimum compliance: *Adequate and readily accessible internal documented procedures exist for all external borrowings, including from international capital markets, and contain the requirement to enter all financial terms of the loan transaction into the debt recording system within three weeks of signing.*

As explained above, the RMS functions as a front-office for external borrowing, in coordination with the FOS. In general, a technical staff from the FOS accompanies the RMS team in negotiations and advises on the selection of creditors based on terms and conditions offered.

Although the Organic Law of the Ministry of Finance formally establishes the functions of the RMS and FOS, making it clear the RMS' role as the front-office for external borrowing, processes and procedures are not documented. Documented procedures describing in detail the steps taken in all the processes, including which entities participate in loan negotiations, the financial analysis undertaken, and recording of the transactions have not been prepared .

After the loan agreement is negotiated and become in effect, the FOS is responsible for recording it in the debt management system, but those procedures are also not documented. There is no preparation of a term sheet and the FOS will read through the loan agreement to extract the terms and conditions to be recorded.

In light of the above, a "D" score is assigned to this dimension as there are no documented procedures for external borrowing. This is the same score given in the 2009 DeMPA.

Dimension 3

Requirements for minimum compliance: *Legal advisers approve all clauses of the legal agreements before concluding the negotiation process.*

After the negotiation process, the Minister of Finance is the one who signs the loan agreement, which is sent to the Council of Ministers. With the Council's consent, the agreement is sent for publication in the Official Gazette. Only after the publication the General Attorney issues a legal opinion to ensure the loan agreement's conformity with the domestic legislation, and this is more to do with fulfilling a requirement from creditors to make the agreement valid than with seeking legal support for the MoF.

Most of the existing external loan agreements have been signed with official partners and have standard clauses. However, this is not true for some creditors and the expected increase in commercial borrowing in the near future intensifies the need for the MoF to have a more comprehensive legal support.

In light of the above, a "D" score is assigned to this dimension given that legal advisors are not involved before the end of the negotiation process. The same score had been assigned in the 2009 DeMPA.

DPI-10 Guarantees, On-lending and Debt-related Transactions

Dimension	Score
1. Availability and quality of documented policies and procedures for approval and issuance of the loan guarantees	D
2. Availability and quality of documented policies and procedures for on-lending of borrowed funds	D
3. Availability of a DeM system with functionalities for handling derivatives and availability and quality of documented procedures for the use of derivatives	N/A

Dimension 1

Requirement for minimum compliance: *There are documented policies and procedures for the approval and issuance of loan guarantees.*

The legal framework (Decree 45/96) establishes that loan guarantees may be issued to public sector and private sector enterprises, as well as to municipal governments. They may be granted only for loans that fund investment activity, and they have been refused in the past when borrowers sought guarantees for loans that would have funded recurrent expenditure. The guarantees outstanding are concentrated in strategic sectors, including electricity, port logistics, and air transport. While the annual Organic Budget Law imposes a ceiling on new guarantees (CVE 5000 million), there is no limit on the accumulated stock.

The guidelines governing loan guarantees are specified in the decree, albeit in very general terms. An entity that seeks a guarantee submits a formal request to the MoF, including the amount, a specification of the project that it would make possible, and the financial statements of the entity. FOS assesses the credit risk associated with the guarantee, based on the information provided and taking into account the feasibility of the project, but the procedures for this credit risk assessment are not documented[13], and the process is not comprehensive. The evolving credit risk associated with a loan guarantee is not monitored over its lifecycle, and no guarantee fee (or any other risk mitigation measure) is charged. FOS ultimately recommends to the Minister of Finance whether the guarantee should be approved. Guarantees less than CVE 15 million may be approved directly by the Minister of Finance; larger guarantees must be approved

[13] In practice, national and strategic interest considerations often take prominence over credit risk concerns when approving guarantees in Cabo Verde, as evidenced by the chronic financial poor health of the classic recipients (TACV, ELECTRA) of government guarantees.

by the Council of Ministers first. Once approved, guarantees are signed by the Director of the Treasury Department, delivered to the beneficiary, and published in the Official Bulletin.

This dimension becomes even more critical and relevant for Cabo Verde in the current context of a rather rapid increase in stock of outstanding guarantees and contingent liabilities[14] in general, and the chronic default of the SOEs on the loan repayment, triggering the guarantees. Also noteworthy is the fact that the government is currently studying a project to establish a guarantee fund to help mitigate the credit risk. The timeline for implementation of this project is not imminent but rather medium-term. Ideally, it would be accompanied with an enlarged, more comprehensive legal and operational framework that covers all relevant aspect of guarantees.

The minimum requirements for the first dimension are not met, as the Decree 96/45 cannot, in itself, be considered a detailed operational procedures guide. The grade is thus a "D"[15].

Dimension 2

Requirement for minimum compliance: *There are documented policies and procedures for the approval and lending of borrowed funds.*

There is currently no formal procedures for the approval of on-lent funds exist. In practice, on-lending has occurred with state-owned enterprises. The terms and conditions of on-lending mirror the underlying loan, with all interest-rate and foreign-currency risk being passed to the beneficiary. An assessment of credit risk is not carried out before an on-lending agreement is approved, there is no monitoring of credit risk over the lifecycle of the agreement and no fee is charged.

Consequently, the minimum requirements for the second dimension are not met, and a grade of "D" is attributed. This situation is essentially unchanged since the last assessment.

Dimension 3

Requirement for minimum compliance: *There is a DeM system with functionalities for handling derivatives. In addition, there are documented procedures for the use of derivative transactions, including (a) the purposes of derivative transactions, (b) a clear decision-making process, (c) preparation of a terms sheet (physical or electronic) by the debt managers who negotiated the terms of the transaction for all financial terms not later than one week after conclusion of the transaction, (d) rules for debt database entry and accounting, and (e) involvement of legal advisers from the first stage of the negotiating process of concluding the legal agreements with the counterparty.*

---

[14] The legal framework allows for municipalities to engage in domestic and external borrowing, which in practice tends to happen without central government guarantee or approval. Delays in information sharing to the MoF about this type of borrowing makes it hard at any given point for the central government to estimate its overall contingent liability position.

[15] While the previous DeMPA assessment attributed a "C" grade to this dimension mostly on the grounds that the guarantees phenomenon was still benign, a further review, and the recent evolution of the relevant dynamics warrants the revision.

Cabo Verde has not engaged in any financial derivatives operation so far, nor is there any legal framework or specific provision to do so. There are no procedures in place or a debt management system with functionalities for handling derivatives[16]. As such, this dimension is rated "N/A".

4.4. Cash Flow Forecasting and Cash Balance Management

DPI 11 – Cash Flow Forecasting and Cash Balance Management

Dimension	Score
1: Effectiveness of forecasting the aggregate level of cash balances in government bank accounts	D
2: Decision of a proper cash balance (liquidity buffer) and effectiveness of managing this cash balance in government bank accounts (including the integration with any domestic debt borrowing program, if required)	D

Dimension 1

Requirement for minimum compliance: *Reasonably reliable monthly aggregate forecasts of cash inflows and outflows and cash balances on central government bank accounts are produced for the budget year and are made available to the DeM entity. In addition, the cash balance forecast is updated monthly.*

Government cash flow forecasts in Cabo Verde are prepared by the NDT. The forecasts produced are neither based on inputs from line ministries nor from the BCV, but reflect a centralized forecasting approach performed solely by the NDT. Cash flow projections are shared on a regular basis with the FOS, however, there is no coordination on this issue with the BCV, which maintains a separate forecasting model, despite the fact that the Memorandum of Understanding would actually foresee regular exchange of information on cash flows.

Despite regular information sharing between the NDT and the FOS, aggregate forecasts cannot be deemed *reasonably reliable*. Forecasts of end-of-day balances are not obtained from line ministries nor government agencies, covering at least 80 percent of expenditures and revenues. Actual outcomes are not compared in a systematic way to cash flow projections, not allowing to identify the variance and to improve the forecasting approach. While the government did not access the overdraft facility during the past 12 months, the forecasting system applied by the NDT does not effectively ensure the cash balance remaining within its limits. In addition, the reliability of NDT forecasts has been adversely affected by the uncertainty regarding revenue streams. Over the recent past, authorities reported that up to 60 percent of revenues have consisted of budget support. Effective projections of revenue streams pose a challenge to authorities, since exact outcomes of negotiations on the modalities of budget support are hard to project.

[16] The draft new public debt management law includes provisions for the use of derivatives. A comprehensive derivatives framework would thus be needed when the new law goes into effect.

Since cash flow projections cannot be regarded as reasonably reliable, the minimum requirements for dimension 1 are not met and a score of D is assigned. This evaluation constitutes a downgrading compared to the 2009 DeMPA and reflects the centralized forecasting approach on the one side, and the absence of systematic evaluations and improvements of the approach on the other side.

Dimension 2

Requirement for minimum compliance: Issuance of short-term instruments is planned according to the forecast of monthly cash balances. In addition, the central government manages its surplus cash (that is, cash in excess of the target) through investment in the market in line with appropriate credit risk limits or with the central bank at market-related rates.

The government cash balance is managed centrally, through a single treasury account located at the BCV. The account is monitored regularly and a minimum balance of CVE 1.5 billion and ceiling of CVE 2.1 billion are targeted. The BCV does not pay interest on surplus balances. The Organic Law of the Central Bank of Cape Verde, however, would allow the BCV and the government to discuss and agree on remuneration, as the law does not rule out interest payments. Nevertheless, no advances have been made in that regard and no initiatives are planned at the moment. Cash exceeding the targeted minimum balances is not actively invested in markets. If the balance reaches the targeted floor, however, the quarterly auction calendar is altered through the introduction of T-bills.

The minimum requirements for the second dimensions are not met and a score of D is given, which is the same score as in the 2009 DeMPA. No improvements have been achieved on the issues of remuneration of the cash balance in the BCV account and cash exceeding the targeted minimum level of the balance is not actively managed.

4.5. Debt Recording and Operational Risk Management

DPI 12 - Debt Administration and Data Security

Dimensions	Score
1. Availability and quality of documented procedures for the processing of debt-related payments	D
2. Availability and quality of documented procedures for debt and transaction data recording and validation, as well as storage of agreements and debt administration	D
3. Availability and quality of documented procedures for controlling access to the central government's debt data recording and management system and audit trail	D
4. Frequency and off-site, secure storage of debt recording and management system backups	D

Dimension 1

Requirement for minimum compliance: *There is an adequate and readily accessible procedures manual for the processing of debt service payments which requires that (a) all payment notifications be checked* *with internal records before payments are made, (b) internal payment orders be subject to a minimum two-person authorization process, and (c) the payments be made by the due date.*

There are no formal documented procedures for debt administration and data security. However, operational risk, when undertaking these activities, is mitigated by the standard practices used by the staff of the FOS. Debt service payments, for external debt, are based on a monthly payment calendar prepared by the staff and are cross-checked with payment notifications received from creditors. All payment orders are prepared electronically and introduced into SIGOF, the Ministry's integrated financial system, and approved using electronic signature by the head of the department. Therefore, the external debt service process is subjected to a two-person authorization. The NDT issues an electronic order, still within SIGOF, and forwards it to the BCV for final execution. Confirmation of payment is found within SIGOF by the staff at FOS.

The process for domestic debt service follows different procedures. The staff at FOS issues monthly debt service payment forecasts for the following month to the CVSE. On the day the payment is due, the digital platform used at the Stock Exchange to keep the registry of domestic debt holders (SIFOX) issues debt service orders to the BCV which automatically deducts the Treasury Single Account (TSA) and then accounts for these payments in SIGOF. Once a week, the CVSE sends FOS the list of actual domestic debt service payments which is then crosschecked with their debt records and extracts from SIGOF.

Because there is not yet formal written procedures for the processing of debt service, the minimum requirements for Dimension 1 are not met, and therefore scoring a "D", same score as in the previous DeMPA assessment.

Dimension 2

Requirement for minimum compliance: *There are readily accessible procedures manuals for debt data recording and validation, as well as for storage of agreements and debt administration records, which require that (a) accuracy of debt data entries be separately checked before the entries are deemed to be completed; (b) debt data be constantly validated against received payment notifications; (c) all original, signed copies of loan and derivative agreements be stored and filed in a secure location where the documents are protected from incidents such as theft, fire, flood or other incidents that may damage or destroy any of these records; and (d) all debt administration records be kept in a secure filing system.*

Debt data recording follows a well-established but undocumented procedures. After a loan agreement has been signed, the RMD forwards the original loan agreement to FOS where it is scanned and filed in a shared folder, so that both departments have access to the loan documentation. The staff responsible for external debt then introduces all the loan's financial terms and conditions into their two debt recording systems: the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) and an Excel file that is kept as back up database. Loan data entries are verified afterward by the same staff that introduced the data and is consistently validated against payment notifications from creditors. The original loan agreements and debt administration records are stored at FOS in their offices with no additional security measures other than those existing for entering the Ministry's building. There is no additional protection for serious incidents such as fire or flood.

There are no documented procedures for recording or validating domestic debt or guarantees. For domestic debt, data is electronically transmitted after each auction, from the BVC to the FOS which is then used to update the Excel database. Furthermore, once a week, BVC sends electronically to FOS all debt related operations taken place during the week. For guarantees, the original data is secured at the time of approval but related operations in the following years is difficult to secure from the SOEs and participating commercial banks.

Dimension 2 is scored "D" because the debt administration and data security activities are not in compliance with all requirements for storing original loan agreements. Furthermore, there are no formal written procedures for debt recording. This score is the same as in the previous DeMPA assessment.

Dimension 3

Requirement for minimum compliance: *There are documented procedures for controlling access to the central government's debt recording and management system.*

Access to the debt recording system CS-DRMS, which keeps the external debt database, is password-controlled and every authorized officer has a unique user account and password issued by the FOS officer in charge of external debt. Additionally, a parallel external database as well as the domestic debt databases are kept in Excel[17] files which are stored in a digital folder with no access control. There are no formal written procedures for issuing or managing access codes to CS-DRMS.

This dimension is scored D because there is no documented procedures for controlling access to the central government's debt recording and management system. This score is the same as in the previous DeMPA.

Dimension 4

Requirement for minimum compliance: *Debt recording and management system backups are made at least once per month and stored in a separate secure location where they are protected from incidents such as theft, fire, flood or other incidents that may damage or destroy any of these back-ups.*

Back-ups of the Excel debt databases (for external, domestic and guarantees) are performed on a daily basis and are stored within the ministry's back up facility in the same building. This back up facility is not fire or flood proof. On the other hand, the CS-DRMS and SIGOF are automatically backed up, on a daily basis, at the Data Centre, a newly built secure government back up facility building at another location, close to the airport. This new back up facility complies with all best practices for these type of facilities and it is secure, fire, flood and theft proof with its own generator and separate emergency internet access.

Because not all databases are stored in secure and off side location, the minimum requirements for this dimension are not met and the score is a D. This score is the same as in the previous DeMPA exercise.

[17] See DPI 14 for further details

DPI 13 - Segregation of Duties, Staff Capacity, and Business Continuity

Dimensions	Score
1. Segregation of duties for some key functions, as well as the presence of a risk monitoring and compliance function.	D
2. Staff capacity and human resource management	D
3. Presence of an operational risk management plan, including business continuity and disaster recovery arrangements	D

Dimension 1

Requirement for minimum compliance: *There is clear separation between the debt managers with the authority to negotiate and contract, those responsible for arranging payment, and those responsible for recording and accounting for these transactions. The staff members entering data and checking data entries in the debt recording system are different as well as to ensure that there is a separate risk monitoring and compliance function.*

The institutional arrangements for debt management in Cabo Verde enable segregation of staff duties between those responsible for negotiating and contracting external debt and those responsible for arranging payments. The RMS within the MoF acts as the front office for external borrowing, and FOS acts as back office and it is in charge of registering loan and managing the database. For domestic debt issuance, auctions of government securities are made through the CVSE, which acts as agent for the government, using a digital platform that records electronically all issuances and domestic debt transactions. FOS, however, retains front-office decision-making responsibility as well as the responsibility for maintaining the official database. FOS carries out back-office activities related to external and domestic borrowing, including preparing debt-service schedules and payment orders, registering loans and transactions in the debt recording system, checking payment notifications, and preparing payment orders. Therefore, there is an overlap, between staff responsible for arranging payments and staff recording and accounting for transactions. Furthermore, there is no staff in charge of monitoring operational risk in the department.

The score for this dimension is a D because there is an overlap between the staff responsible for arranging payments and for recording and accounting for transactions for external debt. This score is the same as in the previous DeMPA exercise.

Dimension 2

Requirement for minimum compliance: *There are sufficient and adequately trained staff members with formal job descriptions that are reviewed and updated periodically.*

Staff working at FOS currently includes a director and four technical officers (two responsible for external debt and two responsible for domestic debt). To-date, turnover has been relatively low. One of the staff in the external debt section has been recently hired. The RMS, acting as the front office for external debt, consists of three staff. Staff lack formal individual job descriptions, as well as individual training and development plans, but they have received training from organizations including the IMF African Technical Assistance Centers, the Portuguese Ministry of Finance, and the World Bank, IMF and ADB. The new administration is considering designing individual training and capacity building plans but the process has not yet started. Currently, the Human Resources Department has prepared only training plans for the various departments based on their needs but these are geared towards individual staff. Existing training opportunities include: English and Excel. A Ministry wide training plan was prepared in 2015 but it has not been implemented yet. While staff are deemed sufficient in numbers for existing duties and able to carry out their current roles and responsibilities effectively, existing capacity will not be enough for undertaking more analytical and policy-oriented functions of debt management, and key person risk is a concern.

A new evaluation system for staff was prepared in 2015 but it is only being implemented, so far, at the Budget department. Codes of conduct, and conflict-of-interest guidelines are also absent. As a consequence, the minimum requirements for the second dimension are not met and the score is D. This is the same score as in the last DeMPA exercise.

Dimension 3

Requirement for minimum compliance: *There is a written business-continuity and disaster-recovery plan.*

No plan for business continuity and disaster recovery has been prepared, and the minimum requirements for the third dimension are therefore not met. This score is the same as in the last DeMPA exercise.

DPI 14 - Debt Records

Dimensions	Score
1. Completeness and timeliness of central government records on its debt, loan guarantees, and debt-related transactions	D
2. Complete and up-to-date records of all holders of government securities in a secure registry system, if applicable	D

Dimension 1

Requirement for minimum compliance: *There are complete debt records within a three-month lag for central government domestic, external, and guaranteed debt, as well as all debt-related transactions, including past debt relief and debt restructuring.*

Debt records are managed using two parallel debt databases. Data on external debt are maintained in CS-DRMS version 2000+, and in parallel in an Excel database which is used when the CS-DRMS experiences any malfunctions. Data on domestic debt and government guarantees are maintained using Excel spreadsheets. Staff in charge of external debt data administration conducts an annual review of the stocks with all creditors to verify the outstanding amounts. In general, debt data are recorded as soon as the transaction notice is received at FOS, however the external data bases are not kept updated within a three month lag. The Excel based domestic debt database is updated immediately after each auction and verified against weekly records from the CVSE. Therefore it is deemed to be complete, accurate and up to date.

The database for government guarantees is updated on an annual basis. Records on transactions for these guarantees are received by FOS from two different sources: the public enterprises and the commercial banks that participated in the operation. However the flow of information from these two sources is deemed poor and does not allow for a proper up-to-date upkeep of the database.

The minimum requirements for the first dimension are not met because the database for government guarantees and for external debt are not up-to-date within a three month lag. This is the same assessment as in the last DeMPA assessment.

Dimension 2

Requirement for minimum compliance: *The registry system has up-to-date and secure records of all holders of government securities.*

Since 2013, the CVSE has been keeping the registrar of government securities issued in the domestic market, which are dematerialized. The CVSE uses the digital platform POS to conduct the domestic debt auctions. This platform is then linked to SIFOX, which is another platform that links investors, the CVSE and the BCV. After conducting each auction, SIFOX advises the BCV to debit the appropriate amounts from the participants' accounts and to credit the TSA accordingly. When instruments are traded in the secondary market, SIFOX advises the BCV to deduct and credit the appropriate accounts and when confirmation from the BCV is received (using SIFOX) then ownership of the instruments is transferred. Changes of ownership among dealers are recorded immediately in the system and therefore the registry is deemed accurate and up-to-date record of the holders of government securities using a Delivery vs. Payment system. Back up of all operations is conducted on a daily basis and is kept at the Data Centre, a newly built facility that features a secure, fire, theft and flood protection. The Registry is internally audited on a quarterly basis, but the auditing focuses only on financial auditing of the securities' stock and does not include internal controls nor operational risks.

Because the internal auditing of the registry does not include internal controls and operational risks the minimum requirements for the second dimension are not met and a score of D is given to this dimension. This is the same score as given in the last DeMPA assessment.

5. Annex: Reform Plan Update

A - Background.

A World Bank team visited Cabo Verde in June 2013 to provide technical assistance to the government in their efforts to prepare a debt management reform plan. The reform plan efforts followed up on a World Bank-assisted Debt Management Performance Assessment (DeMPA) undertaken in 2009, and signaled the importance of debt management issues to Cabo Verde's economic landscape and the government's commitment to addressing these issues.

At the time, the central Government's debt composition reflected the traditional reliance on external sources of financing, but was expected to change, in the medium term, as the country graduated from LIC status and the existing sources of concessional financing started to dry up. The current expectations are that access to concessional financing will become significantly more constraint in the coming years. The concessional windows provided by the International Development Association (IDA) and the African Development Fund (ADF) will close in 2018, to be replaced by funding from the International Bank for Reconstruction and Development (IBRD) and the African Development Bank (ADB). Furthermore, and In order to diversify its creditor base, the government had started to target non-traditional sources of financing such as the Arab funds, as the Abu Dhabi Fund, as well as other creditors such as China. This move will make it necessary for Government to increase its institutional and technical capacity to assess the financial terms and conditions of these new sources of financing as well as developing the appropriate regulatory framework for securing and negotiating its developing financing, including a solid medium term debt strategy. Furthermore, since the reform plan was prepared and as part of its efforts to broaden the sources of finance, the Government has undertaken legal, regulatory and institutional measures to further develop its domestic market.

Since 2013, when the reform plan was designed, total government debt has increased sharply, reflecting the frontloading of public investments by the government. From 2013 – 2015, total public debt burden increased from 104.2 percent of GDP to 120 percent of GDP. This increase stems mainly from external disbursements of multilateral and bilateral creditors. While domestic debt grew less pronounced, from 21.1 percent of GDP in 2010 to 26.6 percent of GDP in 2015, external debt rose sharply, from 50.8 percent of GDP in 2010 to 93.4 percent of GDP in 2015.

It is in this context that the authorities requested a mid-term assessment of the status of implementation of the recommendations that were made and included in the reform plan developed in 2013. At the time, three priority reform areas were identified to help improve debt management performance in the medium term and assist the government to improve its overall debt management. The three priority areas were: (i) Medium-term debt management strategy; (ii) Development of the domestic debt market; and (iii) Debt data management and institutional framework. The main findings and recommendations in each area are described below.

B – Reform Plan Recommendations

The reform plan prepared with the authorities included different type of measures to be implemented in the short, medium and long term. They are summarized below:

Pillar I: Medium Term Debt Management Strategy

- To prepare and publish an updated medium-term debt management strategy, exploring alternative sources of funding both in terms of instruments and new creditors;
- To adjust operational processes to enhance coordination between the debt management strategy and the medium-term fiscal framework (MTFF) and the Growth and Poverty Reduction Strategy (GPRS);
- To prepare and publish an annual borrowing plan and an annual public debt report;
- To establish an internal quarterly public debt committee;

Pillar II: Development of the Domestic Debt market

- Improve procedures for primary market operations. It should include issuing fungible benchmark bonds, investigating the possibility of exchanging old securities for new fungible debt, finding the most appropriate auction mechanism (multiples versus uniform price), discussing pros and cons of allowing investors other than individuals to take part in the non-competitive round of auctions, discussing what type of institutions should be allowed in the primary market, considering abandoning the implicit ceiling of 6% on government bond yields, investigating the absorptive capacity of the domestic markets, how to best deal with the NISS as a major player, and ways to expand and diversify the investor base;
- Improve coordination with the Bank of Cabo Verde and cash management;
- Improve communication with the market by publishing an annual borrowing plan and an annual debt report, publishing basic information for market participants in the website of the Ministry of Finance and Planning, establishing quarterly meetings with market participants to discuss the development of the domestic debt market and getting their feedback on the issuance program, and establishing a broader forum to discuss the development of the capital markets in Cabo Verde;
- Consider asking for a specific technical assistance on government bond market development that could support the government in discussing and implementing some of the measures mentioned above.

Pillar III: Debt Data Management and Institutional Framework

1- In order to improve recording and reporting of public debt, the following actions are proposed:

- Make CS-DRMS fully operational;
- Improve the quality and amount of debt management information, both for internal sharing and for the public;

2 - In the short term, a section in the existing draft Treasury Management Act should be added to regulate debt management. The section should regulate all debt management activities and fill the existing legal vacuum in Cabo Verde such as:

- Assign clear authority to borrow and to service debt in order to centralize borrowing authority. Also, it is important that the line of delegation is clear, both for internal control and for due diligence purposes;
- Establish a high-level debt management objective in order to support the Government's accountability for debt management;
- Set out the allowed purposes of borrowing;
- Formally require the design of a Debt Management Strategy that sets out the medium-term framework for how the government will achieve its debt management objectives;
- Establish an efficient institutional structure for managing the government's debt;
- Set up the necessary governance, audit, reporting and accountability processes, including access to debt information from public enterprises.

3 - In order to improve the institutional set up for debt management, it is recommended that:

- FOS staff is divided along functional lines (back, middle and front office) so that operational risk is minimized and staff can specialize on a specific set of tasks;
- Once the mapping of tasks and responsibilities for back, middle and front offices is done, design individual job descriptions. Staff annual performance reviews would be required to guarantee effective use of human capital. Based on the tasks and responsibilities assigned to the units, design individualized training program so that staff is up to date in financial trends;
- Hire and train two additional staff for the DFOS to mitigate operational risk arising from turnover and better equip DFOS to undertake debt management functions.

4 - In order to minimize operational risk, it is recommended that:

- Operational manuals for back, middle and front offices' functions are prepared.
- Business continuity plans and an appropriate code of ethics for debt management staff are prepared;
- Loan document are stored in a fire and theft safe location.

C – Progress in the implementation.

Pillar I: Medium Term Debt Management Strategy

Since 2013, Cabo Verde has been producing, implementing, and publishing a basic medium term debt strategy, which has been assisting Government officials to guide its external and domestic borrowing along cost and risk considerations, particularly the level of concessionality, foreign currency risk, and refinancing risk. In essence, progress in this area has focus on formalizing the prior situation whereby de-facto borrowing decisions were highly conditioned by limited financing choices and adherence to structural program requirements.

Currently, external borrowing in Cabo Verde is mainly used to finance investment projects. In that context, the main reference for medium-term planning is the Growth and Poverty Reduction Strategy (GPRS). The GPRS lists a set of projects and activities that are considered priorities for the country to achieve sustainable growth and poverty reduction, and considers a time frame of five years. In this context, the coordination between debt management and GPRS has improved in the past years since the preparation of the Reform Plan.

Even though authorities have been preparing a basic medium term debt management strategy, they have stopped short of preparing an annual borrowing plan to assist them in the implementation of the strategy. Currently, the DFOS prepares and informs market participants of the domestic auction's calendar for the year, which is based on the budget. This approach is considered market friendly which reduces uncertainty and raises the efficiency of the strategy. The calendar is now electronically available to all participants through the auction platform used at the BVC, although sometimes the Ministry of Finance and Planning (MFP) makes some adjustments on auction's dates. However, an annual borrowing plan is more than the auction's calendar DFOS currently prepares. It should materialize the general guidelines from the DMS, providing more details of the funding strategy for the year. Furthermore, the current annual borrowing plan only considers domestic issuances and that the link with the DMS targets is weak.

There is currently no *dedicated* stand-alone debt statistical or analytical publication even though debt statistics and analytical information is published regularly in the Budget Execution Document (including annex), in the government's accounts (and the accompanying notes and report), in the BCV annual report and BCV periodic monetary policy implementation reports.

It is deemed that the available and published statistical information provide adequate details on central government debt stocks (by creditor, residency classification, instrument, currency, interest rate basis, maturity); debt flows (principal and interest payments); debt ratios and indicators; and basic risk measures of the debt portfolio. The Annual Budget Law document also includes basic stock and flow statistics on guarantees and on-lending, broken down by benefitting institution. Some basic risk measures, like ratios of guaranteed debt to GDP, are also included, but in general, information on guarantees and other contingent liabilities tends to be published with a one year time lag.

Authorities have also not stablished an internal quarterly public debt committee, even though, there is coordination with the Ministry that takes place at the Budgetary Committee. Therefore, the recommendation would be to expand the ToRs for this committee to act as institutional instance to monitor, discuss, and suggest changes in the public debt strategy.

Base on the findings of the mission, the following progress has been reported:

Recommendation	Progress	Pending reforms
1.- To prepare and publish an updated medium-term debt management strategy, exploring alternative sources of funding both in terms of instruments and new creditors	A basic medium term debt management strategy, is produced and published.	Develop a dedicated, separate approval and formalization process for the DMS.
2.- To adjust operational processes to enhance coordination between the debt management strategy and the medium-term fiscal framework (MTFF) and the Growth and Poverty Reduction Strategy (GPRS);	GPRS is used as basis for assessing borrowing level, sources and priority sectoral areas.	
3.- To prepare and publish an annual borrowing plan and an annual public debt report	No progress reported in this area. Comprehensive debt data is published but not as a stand-alone document.	Prepare and publish an annual borrowing plan. Prepare an annual stand-alone debt bulletin.
4.- To establish an internal quarterly public debt committee	No progress reported in this area	Establish an internal public debt committee.

Pillar II: Development of the Domestic Debt market

Market development is a formal debt management objective of the government, as stated in the DMS. The need to develop the domestic market is reinforced by the perspective that Cabo Verde will have less access to concessional and semi-concessional financing over time and by the broader vision of the government to make the country an attractive and competitive financial market.

However, the domestic debt market continues to be small and concentrated in few market participants. There is a limited number of market participants, which are basically the major banks (3) and the National Institute of Social Security (INPS), which is the public pension fund. The INPS and three banks hold together almost 90% of outstanding T-notes, the INPS alone holding 41% of the total. A very significant share of domestic debt is held, directly or indirectly, by the public sector, considering that the BCV has 4%, the INPS has 41% of the domestic securities and also that the government is a major stakeholder of Caixa Economica of Cabo Verde (CECV) Bank[18], which has 23% of the stock.

[18] NISS owns 32% and the Post Service 15% of CECV's capital.

The secondary market for government securities continues to be illiquid and underdeveloped. The level of activity in the secondary market is very low, with the average number of transactions being less than one per day. There is not a well-established yield curve for government securities and price discovery is poor. In general, price references are given by the last auction results.

In 2013, a major reform of the domestic debt market took place with the signing of an agreement between the BVC and the Ministry of Finance. The reform of the auction system established a new digital platform for auctioning T-bills and T-notes, called the Public Offers Service (POS), which is managed by the stock exchange of Cabo Verde (BVC). This reform clearly and formally separated debt management transactions from monetary policy operations.

Information sharing on debt management operations between the BCV and the government is formally regulated in a Memorandum of Understanding and quarterly domestic issuance plans are communicated to the BCV in a timely manner and are perceived as reliable. Nevertheless, while the Memorandum of Understanding also foresees the sharing of information on cash flows, currently the Treasury does not provide any information on cash flow forecasts to the BCV While the BCV conducts independent forecasts of government cash flows, these forecasts are not coordinated in any manner with the Treasury.

An annual borrowing plan is currently not being prepared by the government, mainly due to the uncertainties related to the annual cash plan, in particular regarding revenues forecasts as pointed out before.

T-notes continue not being fungible and there is no creation of benchmarks, although there are no legal or operational impediments to issue fungible bonds. The government issued a fungible bond in the past but has not continued, claiming that there was low demand as market participant didn't understand the concept of fungibility. There is also a great concern on the creation of benchmarks given the increase in the refinancing risk generated.

Although the government publishes a quarterly issuance calendar, as explained before, there is no regular or systematic communication with investors, where the government could receive feedback, present its DMS and plans, and discuss issues related to market development. At the time the POS system was developed, the government conducted many consultation meetings with market participants, but over the last years, there has been no regular meetings. This situation worsened after the new system was put in place because the BCV used to conduct such a dialogue and the MFP has not filled this gap yet. Finally, information available at the MoF's website is very limited.

Recommendation	Progress	Pending reforms
• 1.- Improve procedures for primary market operations: ○ It should include issuing fungible benchmark bonds, ○ finding the most appropriate auction mechanism	There has been progress in the development of the primary domestic market. Fungible bonds has been issued but they will not be continued Auction mechanisms deemed appropriate	Bonds should be fungible and re-opening should be used.

○ discussing pros and cons of allowing investors other than individuals to take part in the non-competitive round of auctions, ○ discussing what type of institutions should be allowed in the primary market, ○ investigating the absorptive capacity of the domestic markets, ○ finding ways to expand and diversify the investor base;	No discussion has taken place No study has taken place No study has taken place	A comprehensive study on the domestic market is needed to: Assess market participants, the absorption capacity of the market and finding ways to expand and diversify the investor base.
2.- Improve coordination with the Bank of Cabo Verde and cash management	No exchange of data and information on cash management	Improve capacity to prepare cash forecasts
3.- Improve communication with the market by publishing an annual borrowing plan and an annual debt report, publishing basic information for market participants in the website of the Ministry	Situation has deteriorated since BCV not involved	Improve communication with investors. Improving data and information on the website
4.- Consider asking for a specific technical assistance on government bond market development that could support the government in discussing and implementing some of the measures mentioned above.	No request has been prepared	Consider the need to request technical assistance developing domestic debt management.

Pillar III: Debt Data Management and Institutional Framework

Since 2013, there have been improvements in the way debt data is recorded. The CS-DRMS system used for recording external debt data has been updated and provides up to date debt statistics. Furthermore, a complete external debt database is kept in Excel as back up for of the system which is time consuming for staff. In addition, Government is currently assessing the need for developing another, more reliable debt recording system in order not to depend on external assistance and financing every time the recording system experiences any unexpected malfunctioning. The debt records are updated at least one a year with creditors and, during the year, against creditor's invoices. The domestic debt database is only kept in Excel and it is updated on a weekly bases against reports from the Bolsa de Valores de Cabo Verde, which conducts the auctions. Therefore, the status of the databases has been enhanced but it needs further improvement so as to not having to depend on external assistance to fix computer problems.

In terms of information sharing, since 2013, new reports have been created and produced regularly including a complete section in the quarterly Budget Execution Report and accurate and timely debt service projections used in the budget preparation process. Further improvements will need to include preparing a stand-alone debt statistical bulletin.

In order to improve the regulatory framework for developing a debt management strategy, the government is currently in the process of preparing a first draft of a comprehensive new debt management law to be presented to the National Assembly. This law has the objective of consolidating the debt management legal framework as well as equipping the country with a modern legislation to govern future borrowing activities that will be more market-based as the economy transitions into a middle-income status. The current draft establishes, among other provisions, the objectives of debt management, provides clear authorization for borrowing on behalf of the government, allows the government – under specific approval from the National Assembly - to undertake liability management operations, including the use of some derivatives, and requires quarterly reporting on new borrowing to the National Assembly. The draft however, does not specify the purposes for which the government can borrow, require the development of a medium-term debt management strategy or require mandatory annual reporting to the National Assembly, covering evaluation of outcomes against the approved strategy.

The institutional setup and operational risk management of at DSOF has not experienced much improvement since 2013. Most of the measures proposed in the Reform Plan rely on the push on the part of the ministry and therefore out of the hands of DSOF itself. A new staff has been hired to work on the External debt side, but staff has not been organized along back/middle/front offices. Currently, the front office functions for external debt has been undertaken by the Resource Mobilization Unit allowing some degree in mitigating operational risk. However the low number of staff at DSOF does not allow for much further disaggregation of functions. Job descriptions are still not been prepared, although the Human Resources Department at the Ministry of Finance is planning to undertake the preparation of job descriptions for the whole Ministry. This process will, in turn, allow for the preparation of individual training plans and facilitate the process for conducting yearly staff performance evaluations.

Although current practice mitigate the underlying operational risk in debt management practices, these procedures have not been formally documented to serve as guidelines for new staff or for serving as bases to choose more efficient practices. Business continuity plans and code-of-conduct regulations have not been prepared.

Base on the findings of the mission, the following progress has been reported:

Recommendations	Progress	Pending reforms
1.- Make CS-DRMS fully operational	CS-DRMS is now fully operational but does not record domestic debt. Furthermore, Excel databases are being used as	Streamline debt recording procedures and unify databases.

	back-up which is time consuming for staff	
2.- Improve the quality and amount of debt management information, both for internal sharing and for the public	New reports have been created, including a quarterly section for the Budget Execution Report.	Stand-Alone Debt Bulletin.
3.- Legal Framework	Prepared a draft that establishes, the objectives of debt management, clear authorization for borrowing on behalf of the government, liability management operations, including the use of some derivatives, and requires quarterly reporting on new borrowing to the National Assembly.	Law should specify the purposes for which the government can borrow, require the development of a medium-term debt management strategy or require mandatory annual reporting to the National Assembly, covering evaluation of outcomes against the approved strategy.
4.- Institutional framework	Hire an additional staff for external debt.	Based on staff size and capacity, allocate different responsibilities to them to minimize operational riskPrepare job descriptions, individual training plans, and performance reviews.
5.- Operational risk	No progress	Operational manuals, business continuity plans, code-of-ethics and loan storage.