Debt Management Performance Assessment (DeMPA)

Cape Verde

April 2022

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. The DeMPA tool presents the 15 debt 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

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Glossary

ABP	Annual Borrowing Plan
AfDB	African Development Bank
BC	Business Continuity
BCV	Central Bank of Cabo Verde
BVCV	Cabo Verde Exchange *("Bolsa de Valores de Cabo Verde")*
CCT	Treasury Committee
CEJUR	The Juridical Study Center (*CEJUR – Centro de Estudos Juridicos*)
CG	Central Government
CL	Contingent Liabilities
CVE	Cabo Verde Escudo (local currency)
DeMPA	Debt Management Performance Assessment
DGT	General Directorate of Treasury (*Direcção Geral do Tesouro*)
DM	Debt Management
DMIS	Debt Management Information Systems
DMO	Debt Management Office
DMS	Debt Management Strategy
DNP	General Directorate of Planning (*Direção Nacional do Planeamento*)
DPI	Debt Performance Indicator
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
DVP	Delivery-versus-Payment
ECF	Extended Credit Facility (from IMF)
FDI	Foreign Direct Investment
GG	General Government
GRE	Government Related Entities
HIPC	Heavily Indebted Poor Countries
HR	Human Resources
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
INSS	Social Security System (public)
IDA	International Development Group – World Bank Group
IT	Information Technology
JICA	Japan International Cooperation Agency
LiM	Line Ministries
MoF	Ministry of Finance
MTI/EMFMD	Macroeconomics, Trade and Investment/ Debt and Macro Forecasting team
NFPS	Non-Financial Public Sector
NOSI	SOE for IT sevices *(Núcleo Operacional Para a Sociedade de Informação*)
NPL	Non-Performing Loan
PFM	Public Financial Management
SDR	Special Drawing Rights
SIFOX	Platform that links investors, the BVCV and the BCV
SIGOF	Public Financial Management System
SGR	Treasury Unit (*Serviço de Gestão de Risco)*

SMR	Resources Mobilization Service (*Serviço de Mobilização de Recursos - SMR*)
SPAME	Economic Policy and Statistics Unit (MoF)
SOE	State Owned Enterprise
SOF	Main Debt Management Office *(Serviço de Operações Financeiras)*
SGTC	Treasury and Accounts Management Service
T-Bills (BTs)	Treasury Bills *("Bilhetes do Tesouro")*
T-Bonds (OTs)	Treasury Bonds *("Obrigacões do Tesouro")*
TC	Audit Court *("Tribunal de Contas")*
TIM	Monetary Intervention Bill
TRM	Monetary Regulatory Bill
TSA	Treasury Single Account
UGP	Unit Overseeing Projects (at the MoF)
UASE	Unit Overseeing SOEs (at the MoF)
WB	World Bank

I. Executive Summary

1. **A World Bank mission undertook applied the Debt Management Performance Assessment (DeMPA) methodology to evaluate the government's debt management (DM) capacity and institutions in Cabo Verde during Mar 28 – Apr 5, 2022[1].** The assessment covers the legal, institutional, and regulatory framework governing DM. The primary counterpart was the Ministry of Finance (MoF) and within it, the Department of the National Treasury / Financial Operations Service (respectively DGT / SOF as the Portuguese Acronym), which is the main DM office for the central government.

2. **The mission identified DM strengths and areas in need of reform, which are useful for measuring progress in DM capacity, supporting policy dialog with the authorities in the context of the second series of the Development Policy Financing operation (DPF).** The policy dialogue helped to build on what has changed since the 2016 DeMPA and discussing persisting gaps in government debt management practices.

3. **Reducing debt vulnerabilities is an urgent priority for the Government of Cabo Verde and would require a combination of debt reprofiling, higher economic growth and fiscal consolidation**. With limited space to borrow, it would also require effective Debt Management.

4. **The legal framework is complete and has been updated since 2018. Decrees-Law 42 and 48, together with internal operational manuals are comprehensive, but some provisions remain to be implemented, specifically related to forward-looking analysis and guarantees recovery mechanisms.** Strengthening analytical functions, as well as monitoring and developing recovery mechanisms in case guaranteed entities default on their obligations are key to mitigate risks and to deal with unexpected shifts in the debt's trajectory.

5. **Cash Flow forecasts are comprehensive and extend up to 12 months ahead, and estimates are broken down by week.** The figures are accurate and there are mechanisms in place to improve the quality of the forecasting. Cash balances held at the central bank are not remunerated, even though the regulation allows the BCV to do so. This is misaligned with international best practice.

6. **There have been improvements in the processes related to data recording, monitoring, payments and reporting, but operational risk remains significant.** The staff produces a significant amount of output and reporting and seeks to contain operational risks by finalizing the development of a Debt Management Information System.

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[1] This report is based in part on a mission to Cabo Verde led by Andre Proite (TTL), Leandro Secunho, Jose Franco Morais- all Senior Debt Specialists (MTI/EMFMD), and Juan Carlos Vilanova – WB consultant. The mission included Rosa Delgado – Country Economist (MTI/EAWM1) – and was supported by Daniel Reyes – Senior Economist (MTI/EAWM1).

7. **The main operational DM functions are well performed, but there could be improvements on the analytical side.** The DGT and DNP (Planning Nacional Directorate) staff, together with the Stock Exchange staff can undertake core functions related to issuances, monitoring, and servicing the debt[2]. There is a competitive recruitment process and turnover is relatively low. There are training plans and formal job descriptions. Nonetheless, forward-looking strategic analysis and a comparative analysis of external loans' terms and conditions are missing. Managing credit risks from SOEs is also important for the growing guarantees and on-lending portfolio. The staff would benefit from capacity building in these areas (see DPI 2.3)[3].

8. **Annex 2 summarizes the changes in scores since the last DeMPA conducted in 2016**, and the implementation of reforms based on past DeMPA findings.

Table 1 – Summary of DeMPA findings - 2022

Strengths	Weaknesses
1. Governance and Strategy Development	

• Managerial structure allows coordination among domestic and external borrowing decisions and the issuance of guarantees and on-lending
• Debt Legislation is comprehensive
• Debt Reporting
    o The DNT (Treasury) has published annual and quarterly reports on Central Government debt
    o Central Government guarantees and on-lending are included
	• Legal Framework
	    • The development of a debt management strategy has not been implemented.
	• Debt Management Strategy
	    • It was discontinued in 2019-20 due to the crisis
	• Debt Reporting
	    • There is no consolidated debt report of the General Government and the Non-Financial Public Sector
	• Auditing
	    • This function has been absent because auditors are not trained or lack the personnel to undertake audits of public debt.

2. Coordination with Fiscal and Monetary Policies	
• Debt flows and estimates are shared between the main DMO (DNT) and the Macro-Fiscal Area and are used in the budget and other policy documents • Clear separation between Monetary Policy and Debt Management	• Debt Sustainability Assessments are not conducted • Debt-Related Fiscal Risks are not quantified

[2] The DGT is deemed to be the main DMO-Debt Management Office

[3] DPI – Debt Performance Indicator

3. Borrowing and related financing activities	

• Market-based instruments are used domestically, and market participants are aware of the auctions procedures and results
• External Borrowing is processed and articulated between the Planning Department (DNP) and the DMO
• Guarantees are centralized and there is a well-defined process to issue based on the Treasury and UASE's (SOE unit) opinion.
	• The DMO does not frequently interact with market participants
	• Financial analysis is limited for external borrowing. The current focus is on concessionality terms only
	  o Maturities, currencies, and redemption profiles could be systematically analyzed.
	• Guarantees / On-lending
	  o Recovery mechanisms are still to be implemented. Such mechanisms should be based credit risk analysis of the beneficiaries.
	  o The quantification of risks should be applied
	  o On-lent credit should follow similar processes used for guarantees

4. Cash flow forecasting and cash balance management	
• The Treasury forecast cash flows for the full year and rolls the estimates 3 months forward at the year end. • Forecasts are updated and broken down on a weekly basis • There are mechanisms in place to improve forecasting accuracy • The issuance of ST instruments responds to cash needs	• The TSA is not remunerated
5. Debt Recording and Operational risk management	

• Recording and Payment processes are well defined
  o Separation of duties
  o The IT infrastructure supports DM operations.
  o There are monthly backups
  o Remote work has been adopted during the pandemic
	• Business Continuity plans are not formalized
	• The Debt System is not operational yet
	• The database is managed on spreadsheets

II. Background and Government Debt

II.1. Economic Background

9. **The COVID-19 pandemic caused the largest economic contraction on record and exposed the country's economic vulnerabilities.** Prior to the crisis, Cabo Verde experienced robust and accelerating economic growth driven by a thriving tourism sector and was benefiting from deep structural reforms (including in the SOE sector), fiscal consolidation, and debt reduction. The crisis reversed this progress, with Gross Domestic Product (GDP) contracting by 14.8 percent in 2020 (15.7 percent in per-capita terms), the second largest reduction in Sub-Saharan Africa (SSA). Recognizing the large economic threat posed by the crisis, and despite limited policy buffers, the authorities rapidly implemented measures to contain and mitigate the impact of the pandemic, including a comprehensive vaccination campaign. As of April 2022, Cabo Verde has one of the highest vaccination rates in Africa: 74 percent of the eligible adult population had received two doses, about 76.9 percent of eligible teenagers received at least one dose, and boosters were applied to 15.8 percent of eligible adults.

10. **Economic activity expanded by 7 percent in 2021, magnified by the base effect.** Supported by the gradual restarting of tourism from the second quarter, the services and industry sectors contributed 4.3 and 2.3 percentage points (pp) to GDP growth (Table 1). The agriculture and fishing sector registered a relatively good performance reflecting the recovery of the sector after four consecutive years of droughts and the gradual return of external demand for fish. On the demand side, private consumption, led by the recovery in tourism, contributed 6.3 pp to GDP growth. Likewise, public consumption contributed 6.2 pp, due to exceptional expenditure measures to respond to the pandemic. The contribution of total investment to growth was negative, driven by a reduction in public investment. FDI inflows accounted for 5.6 percent of GDP, an increase of 1.9 pp. Exports recovered during the second half of the year with the gradual recovery in tourism, but at the same time intermediate goods imports increased substantially making the contribution of net exports to growth for the year slightly negative.

11. **Inflationary pressures emerged in 2021, fueled by high international oil prices and disrupted global supply chains.** Cabo Verde's monetary policy is fully aligned with the European Central Bank as the Escudo is pegged to the Euro, with the Portuguese Treasury providing access to a short-term credit facility to support foreign exchange reserves. The hard peg provides a credible nominal anchor to the economy. The objective of monetary policy is to ensure price stability while supporting the peg. Inflationary pressures emerged reflecting the increase in international oil prices and global supply disruptions. Prices increased by 1.9 percent y/y, on average, in 2021, compared to 0.6 percent in 2020. This rise in prices was primarily driven by an 8 percent increase in alcoholic beverages and tobacco, a 6.2 percent increase in transport, and a 4.8 percent increase in accessories, household equipment and home maintenance prices.

12. **Driven by the gradual recovery of the economy in 2021, fiscal revenues increased by 2.5 percent, reaching 25.8 percent of GDP.** With the gradual reopening of the country to tourism and its spillover effects in other sectors, tax revenues reached CVE 33 billion (USD $339 million) in 2021, an increase of 2.7 percent compared to 2020. All sources of taxes increased, except taxes on income and profit, with a poor

performance due to COVID-19-related tax deferral payments. The crisis in 2020 also had a negative impact on the annual profit tax paid by firms in 2021. Taxes on goods and services and on international trade increased by 4.1 and 19.7 percent, respectively, compared to 2020, reflecting the rebound in economic activity and increase in imports. Non-tax revenue increased by 11.3 percent, reaching 4 percent of GDP, mainly reflecting an increase in revenues from the specific fee on tobacco, hospital medical services, and registry and notary fees. Grants accounted for 2.3 percent of GDP in 2021, 1 pp lower than in 2020, since part of the grants were frontloaded in 2020.

13. **However, the fiscal deficit remained high in 2021 because of sustained high current expenditure.** The overall deficit (including grants) stood at 8.8 percent of GDP in 2021 (compared to 8.9 percent in 2020). Total expenditures increased by 3 percent in 2021 due to additional measures put in place to address protracted effects of the COVID-19 crisis, reaching 34.6 percent of GDP. Current expenditures increased by 2.6 percent, reflecting continued spending on public health services, disease prevention and control, and support for hard-hit sectors. This added on the phased implementation of the Armed Forces Career and Salary Plan, together with the increase in the number of pensioners. Last the payment of arrears with suppliers has also added pressure on the spending side. Capital expenditure decreased by 3.1 percent due to the delay of several public investment projects, mainly investments to improve housing conditions, strengthen infrastructure in education, health, and roads. Social expenditure accounted for 47.7 percent.

14. **The strong post-COVID-19 economy recovery was set to continue in 2022 underpinned by the reactivation of the tourism sector, but the impact of the Ukraine war reduced growth perspectives in the short term.** Real GDP growth was set to remain high, while public debt as a share of GDP was set to start decreasing driven by fiscal consolidation and economic growth. However, the war in Ukraine substantially impacted the short-term outlook due to significant higher oil and food prices. The fiscal measures taken by the government to alleviate the impact of inflation on the poor will increase fiscal financing needs in 2022, thereby increasing public debt. Tourism flows can also be impacted as economic conditions in Europe tighten and air transportation costs increase.

15. **Real GDP growth is expected to reach 4 percent in 2022 due to inflationary headwinds from the Ukraine war but is expected to gradually increase thereafter.** Growth will be supported by the continued gradual recovery of the tourism sector as the impact of the pandemic fades and vaccination coverage increases. Growth is expected to average 5.3 percent between 2023 and 2025, led by the recovery of tourism and investments in the ICT, energy, and fishery sectors. Newly opened hotels have increased capacity and will support a sustained increase in tourist arrivals. As the Government restructures the operation of several important SOEs through public-private partnerships (PPPs), direct sale, and concession arrangements, and implements structural reforms under the strategic plan for sustainable development (PEDS 22-26), further private investment will be mobilized.

16. **The outlook is subject to downside risks stemming from new COVID-19 variants, the Ukraine war, and climatic shocks.** While the COVID-19 vaccination rollout is among the highest in Africa, the country remains vulnerable to new variants. An increase in the size or duration of the terms of trade shock

emanating from the Ukraine war could lead to higher inflationary pressures and the continuation of policy support to ameliorate its impact, which in turn could deteriorate fiscal and debt sustainability. Social tensions and poverty could increase after allowing for the passthrough of higher energy prices on electricity bills. Political pressures against continued fiscal consolidation in the aftermath of the crisis could also derail SOE reform efforts. However, the authorities remain committed to continuing to improve fiscal and debt management, with a view to lowering the debt burden and enhancing the provision of public services over the medium term. In addition, the country remains significantly exposed to natural disasters, including those related to climate change.

II.2. Government Debt

17. **Public debt increased from 154.9 percent of GDP in 2020 to 155.3 percent in 2021, driven by both domestic and concessional external loans.** Public debt (as a share of GDP) had been on a declining path before the COVID-19 crisis, falling from 128.4 percent of the GDP in 2016 to 124.1 percent in 2019. The increase in concessional external borrowing and domestic lending to cover financing needs (and the contraction of GDP) increased public debt to 154.9 percent of GDP in 2020. Public debt increased further in 2021, reaching 155.3 percent of GDP, with the need to resort to external concessional loans and the issuance of treasury bonds in the domestic market to cover financing needs. External debt accounted for 110.1 percent of GDP, whereas domestic debt represented 45.2 percent of GDP. Debt service increased 26.1 percent in 2021, due to the increase in domestic debt service, at 13.6 percent of GDP. Approximately 95 percent of public external debt is on concessional terms, characterized by low interest rates and long maturity profiles.

18. **The authorities are committed to returning fiscal consolidation over the medium term and aims to put the debt-to-GDP ratio decisively on a downward trend.** The Government intends to support enhanced macroeconomic stability as an important condition for boosting private investment over the medium term. Given the public expenditure structural rigidity, fiscal consolidation will be mainly revenue-driven, supported by the (i) steady recovery of the economy; (ii) improvement in tax systems efficiency; (iii) streamlining of tax incentives; (iv) increase in environmental and health taxation; (v) and broadening of the tax base to cover e-commerce. On the expenditure side, the Government is reprogramming external disbursements under the Multi-annual Public Investment Plan and containing non-priority expenditure. The primary deficit should improve from 5.4 percent of GDP in 2021 to 0.5 percent in 2024, reflecting increased domestic revenue mobilization and expenditure restraint. As such, the overall fiscal deficit is projected to slightly decline from 8.8 percent of GDP in 2021 to 7.2 percent in 2022, and gradually decline to 4 percent by 2024. Consequently, the public debt stock[4] is projected to increase from 155.3 percent of GDP in 2021 to 158.5 percent in 2022, declining to 144 percent by 2024. The current rebasing of national accounts is expected to reduce the debt-to-GDP ratio in 2022 by around 10 pp.

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[4] Public Guaranteed Debt, which includes Central Government and other entities.

Table 2 – Publicly Guaranteed Debt – 2018-2021

	2018			2019			2020			2021		
	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt
External Debt (A)	**1,674**	**0.8**	**100.0**	**395**	**0.2**	**100.0**	**1,913**	**1.1**	**100.0**	**2,502**	**1.3**	**100.0**
contracted by SOEs	1,674	0.8	100.0	395	0.2	100.0	1,913	1.1	100.0	2,502	1.3	100.0
contracted by private entities	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0	0.0
Domestic Debt (B)	**11,077**	**5.5**	**100.0**	**13,843**	**6.5**	**100.0**	**15,369**	**8.5**	**100.0**	**20,832.4**	**10.6**	**100.0**
contracted by local governments	396	0.2	3.6	363	0.2	2.6	356	0.2	2.3	359	0.2	1.7
contracted by SOEs	10,681	5.3	96.4	13,473	6.3	97.3	15,004	8.3	97.6	20,474	10.4	98.3
contracted by private entities	0	0.0	0.0	8	0.0	0.1	9	0.0	0.1	0	0.0	0.0
Total Publicly-Guaranteed Debt (A+B)	**12,751**	**6.3**		**14,238**	**6.7**		**17,283**	**9.6**		**23,335**	**11.9**	

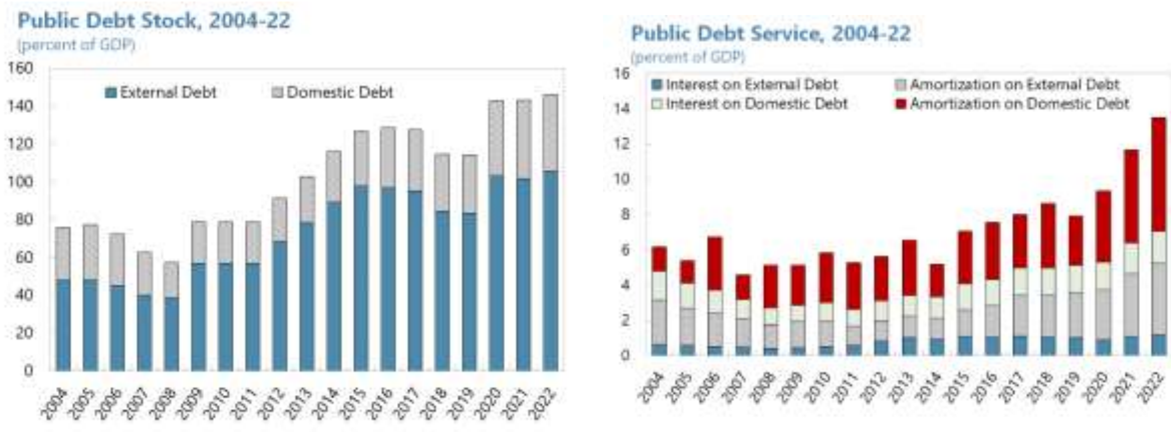
Source: MoF/ WB/IMF. Note: DGT/SOF publishes detailed cost and risk indicators for the Central Government debt – See DPI 4.

19. **SOEs (*Setor Empresarial do Estado*) represent significant contingent liabilities for the Central Government.** Table 2 shows that in aggregate, total guaranteed debt has almost doubled since 2018 and, though the government has improved the process of issuing and monitoring guarantees over time, there is no recovery mechanism in place to offset (at least partially) government losses in case of defaulted guarantees (see DPI 10.1).

20. **Domestic debt consists mostly of medium and long-term Treasury securities.** At end-2021, domestic Treasury bonds represented 98 percent of domestic debt, with an average maturity and interest rate of about 7 years, and 4.5 percent, respectively. Commercial banks hold 53.6 percent of domestic government securities, with non-banks holding 46.4 percent of which the national social security fund accounts for 22 percent. The remaining part is scattered among individuals and companies.

21. **According to the on-going joint world Bank/IMF DSA, the risk of external debt distress is moderate whereas the risk of overall debt distress is high.** Nevertheless, public debt remains sustainable. The debt coverage of the DSA comprises the central government, extra budgetary funds, the central bank, and guarantees, in line with fiscal accounts. Compared to the previous joint World Bank/IMF DSA, published in September 2020, the risk of external debt distress changed from high to moderate. The present value (PV) of public and publicly guaranteed (PPG) external debt-to-GDP ratio breaches its threshold only in 2022 under the baseline, and protractedly under stress test scenarios. The PV of total public debt-to-GDP ratio is projected to breach the threshold during 2022–28 under the baseline scenario and stress test; at the same time, liquidity indicators (debt service to revenue and debt service to export ratios) remain firmly below their respective thresholds, reflecting the high concessional nature of external debt. The external and overall debt outlook is assessed to be sustainable and is supported by continued recovery of economic activity over the medium term and a return to the pre-pandemic fiscal consolidation path.

Figure 1 – Public Debt and Debt Service – 2004-22



Source: MoF, WB, IMF.
Note: External debt includes publicly- guaranteed SOE debt from 2015 onwards.

III. Debt Management Performance Assessment (DeMPA)

III.1. DeMPA Methodology

22. **The DeMPA 2021 methodology comprises a set of 15 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 are based on sound practices and stipulate a minimum level that should be met. Consequently, if the assessment shows that the minimum requirements are not met, this indicates an area requiring attention and priority for reform. A complete description of the methodology can be found online.

III.2. Summary of Performance Assessment [5]

Debt Performance Indicator		Score 2022	Score 2016
DPI-1	1.1. Central Government's Legal Framework	B	C
	1.2. Public Sector Entities' Central Government's Legal Framework	D	-
DPI-2	2.1. Managerial Structure: CG Borrowing and Debt-Related Transactions	B	C
	2.2. Managerial Structure: Issuing Loan Guarantees/On-Lending	A	C
	2.3. Staff and Human Resources	A	-
DPI-3	3.1. DMS: Quality of Content	D	C
	3.2. DMS: Decision-Making Process	D	D
	3.3. ABP: Annual Borrowing Plan	D	-
DPI-4	4.1. Central Government Debt Report- Content and Timeliness	C	C
	4.2. Reporting to the Legislature	C	C
	4.3. Public Sector Debt Report- Government Coverage	C	-
DPI-5	5.1. Audit: Frequency, Comprehensiveness and disclosure (Financial, Compliance, Performance)	D	D
	5.2. Audit: Degree of commitment to address audit outcomes	D	D
DPI-6	6.1. Fiscal Policy: Provision of Debt-Service Forecasts	C	C
	6.2. Fiscal Policy: Fiscal Risks Monitoring in the Non-Financial Public Sector	C	-
	6.3. Fiscal Policy: Availability of Key Macro and Fiscal Variables and DSA	D	D
DPI-7	7.1. Monetary Policy: Separation between Monetary Policy and DM Operations	C	Not Applicable
	7.2. Monetary Policy: Information Sharing with the CB on current and future debt transactions and CG cash flows	D	D
	7.3. Monetary Policy: Limits of direct access to CB Funding	C	C
DPI-8	8.1. Domestic Borrowing: The publication of a borrowing calendar for wholesale securities and publication of issuance results	A	D*
	8.2. Domestic Borrowing: Clarity in rules and procedures	C	C*
DPI-9	9.1. External Borrowing: Appropriate organizational arrangements and processes for external borrowing from all sources, including financial analysis of terms and conditions	D	D*
	9.2. External Borrowing: Availability and degree of involvement of legal advisers before signing the loan contract	A	D*
DPI-10	10.1. Loan Guarantees: Issuance of central government loan guarantees	C	D
	10.2. On-lending: Management of On-lending Operations	D	D
	10.3. Derivatives: The use of Derivatives	NA	NA
DPI-11	11.1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts	B	D
	11.2. Effectiveness of cash balance and liquidity management	D	D
DPI-12	12.1. Debt Recording	C	D*
	12.2. Debt Payments	C	D*
DPI-13	13.1. Data access, backups and IT infrastructure	B	D*
	13.2. Business Continuity (BC) and Disaster Recovery (DR) Plans	D	D*
DPI-14	14.1. Debt Records: Completeness and Timeliness of CG records	D	D
	14.2. Debt Records: Registry System and Debt Holders	D	D
DPI-15	15.1. The use of Debt Management Information Systems (DMIS)	NA	-

Note: Some indicators marked with "*" are not directly comparable given the change in the methodology. See Annex 2 – Evolution of DeMPA scores over time and Reform Implementation for a detailed description. The notation "-" means that the indicator was introduced in 2021.

[5] The DeMPA methodology was revised in 2015 and 2021, and not all indicators are directly comparable between 2011 and 2021. See DeMPA 2021 – Annex III and https://www.worldbank.org/en/programs/debt-toolkit/dempa

Table 3 - Evolution of DeMPA scores

				2016		2022	
upgrade	downgrade						LIC DSA rating: High risk of Debt Distress
Core Functions	Governance and Strategy Development	Legal	1.1	C		B	New regulation in place- broader guidance for guarantees
			1.2	-		D	
		Managerial	2.1	C		B	Coordination among DM units was formalized
			2.2	C		A	Coordination among DM units for guarantees was formalized
			2.3	-		A	
		Strategy	3.1	C		D	No strategy in place
			3.2	D		D	
			3.3	-		D	
		Reporting	4.1	C		C	score mantained under more rigorous scoring
			4.2	C		C	
			4.3	-		C	Guarantees are included in report for municipalities and SOEs
		Audit	5.1	D		D	
			5.2	D		D	
	Coordination with Macro Policies	Fiscal Policy	6.1	C		C	
			6.2	-		C	
			6.3	D		D	
		Monetary Policy	7.1	NA		C	
			7.2	D		D	
			7.3	C		C	
	Borrowing	Domestic	8.1	D		A	Stock Exchange (BVCV) has operationalized the auctions with high transparency
			8.2	C		C	
		External	9.1	D		D	
			9.2	D		A	Legal Advisory along the entire process
		Guarantees and On-lending	10.1	D		C	Guarantees' management has improved
			10.2	D		D	
			10.3	NA		NA	
	Cash Flow Forecasting + Cash Bal. Manag't	Cash Flow Forecasting + Cash Bal. Manag't	11.1	D		B	Estimates have become more accurate improved and broken down by week up to 12 m ahead
			11.2	D		D	
	Debt Recording and Operational Risk Manag't	Recording and Payments	12.1	D		C	
			12.2	D		C	
		IT Structure	13.1	D		B	
			13.2	D		D	
		Debt Records	14.1	D		D	
			14.2	D		D	
		The use of the DMIS	15.1	-		NA	

IV. Performance Indicator Assessment

4.1 Governance and Debt Management Strategy

DPI 1 - Legal Framework

DPI	Score
1.1 - Central Government's Legal Framework	B
1.2 - Public Sector Entities' Legal Framework	D

DPI 1.1 - Central Government's Legal Framework

Institutional Aspects

23. **Decree-Law 43/2018 ("Public Debt Law") is the main piece of legislation and has significantly strengthened the public debt management (DM) legal framework. Moreover, Decree-Law 42/2018 provides a comprehensive framework for sovereign guarantees and on-lending operations.** Other legislation has been recently updated, and the Ministry of Finance Organic Law (Decree-Law 76/2021) provides specific responsibilities to the Treasury General Directorate (*Direção Geral do Tesouro – DGT)* and National Planning Directorate (*Direção Nacional de Planeamento*), the main DM units.

24. **The Ministry of Finance Organic Law defines (in its article 4) the attributions of the Ministry.** The Ministry is responsible for "managing the public debt and the state financing" and authorizes sovereign borrowing. It also authorizes the Minister to issue guarantees and undertake on-lending operations.

25. **Article 177 of the Constitution determines the National Assembly's responsibility on the authorization and general conditions for Government borrowing, and on the definition of annual limits for sovereign guarantees provision.** The Public Debt Law defines (Article 6, (1) and (2)), specific responsibilities for the Ministry Council and the Financial Operations Service (*Serviço de Operações Financeiras – SOF*), housed in the Treasury (MoF), guiding their debt negotiation and operational rules. Articles 4, 35, 55 and 57 of MoF's Organic Law establish the participation and coordination at the directorate and service levels. Finally, MoF's decision (*Despacho*) Nº 37/2018 (Item 1.2) defines other DM attributions given to SOF.[6]

26. **Authorization to issue guarantees is defined in Decree-Laws Nº 43/2018 and Nº 42/2018, Articles 13 and 16, respectively**. Articles 4, 5, 7, 8, 10, 13, 14 and 15 of the latter detail how guarantees must be issued (limits, scope, finality, enabling conditions, collateral, and fees, and procedures – see DPI 10). Authorization to issue guarantees and undertake on-lending operations is further defined in article

[6] Besides other general guidance for the MoF.

76 of the Law Nº 4/IX/2021 that approves the 2022 budget. Articles 80 and 81 of the same Law define limits for annual guarantees concession and the increase of domestic net indebtedness.

27. **The definition (list) of debt instruments used by the Central Government is found in Article 13 of the Public Debt Law (Article 14 specifies securities general characteristics).** Decree-Law Nº 59/2009 details the legal regime and features of T-Bills (*Bilhetes do Tesouro - BTs),* while Decree-Law Nº 60/2009 does the same for T-Bonds (*Obrigações do Tesouro - OTs*). Ordinance (*Portaria*) Nº 30/2013 of the Cabinet of the Ministry of Finance and Planning, transfers custody, settlement and registry of government securities from the Central Bank to Cape Verde Stock Exchange (BVCV), listing all the existing securities at the time. On the same day, two separate Instructions (Nº 1/2013 and Nº 2/2013) from the General Directorate of Treasury (*Direção Geral do Tesouro – DGT)* details the issuances of BTs and OTs, respectively (including pricing methodology and auctions procedures).

28. **Borrowing purposes are defined in Article 4, item 2 of the Public Debt Law.** It includes the purpose of efficiently covering government financing needs, ensuring a balanced cost distribution between annual budgets, among others.

29. **Debt Management objectives are defined in the same article as above.** Besides covering government borrowing needs, the objectives aim to minimize direct and indirect costs in the medium and long-terms, to avoid maturities' concentrations, as well as to minimize risks, to promote balanced and efficient monetary and financing markets, and to foster the development of the domestic debt market.

30. **The Public Debt Law also requires the government to report the debt and guaranteed debt.** Article 17, item 1.c mandates the development and publication of an Annual Debt Report, whereas item 1.d determines the elaboration and publication of quarterly and annual debt statistical bulletins, not later than 60 and 90 days of the end of the period, respectively (see DPI 4).[7]

31. **The development and publication of a medium-term debt management strategy and of an annual borrowing plan are also mandated by Article 17 of the Public Debt Law (items 1.a and 1.b).** The legal framework is solid in this regard; however, it has not been complied with. Neither a debt strategy nor an annual borrowing plan is published (see DPI-3).

32. **A framework to guide the management of guarantees and on-lending operations is regulated by Decree-Law 42/2018.** However, there are some aspects that still require implementation (see DPI 10).

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[7] Compliance with the required timeliness for the publication of debt bulletins are verified and evaluated under DPI 4, since the legal requirement for this aspect is more restrictive than what DPI 1.1 aims to capture.

Implementation Aspects

33. **The mission assessed that all core provisions (as encoded in the DeMPA criteria) from the legal framework are implemented.** The authorization to borrow and to issue guarantees stem from the Minister of Finance and there is a formal delegation to the technical staff to undertake the transactions. The purpose of borrowing and DM objectives are clear, and the government publishes debt reports.

34. **The DMS has not been developed[8], and the framework for Guarantees and On-lending have not been fully implemented. Therefore, the score is a "B".** The enactment of the Public Debt Law in 2018 has strengthened the legal framework; however, a higher score is not possible given the pending implementation issues, specifically related to DMS development and on-lending operations. The score was a C in the previous 2016 DeMPA evaluation, because the existing legislation at that time did not specify debt management objectives (Public Debt Law was under elaboration).

DPI 1.2 - Public Sector Entities' Legal Framework

Institutional Aspects

35. **Legal requirements for Non-Financial Public Sector (NFPS) entities to report their borrowing activities exist even though provisions are scattered throughout different legal pieces.** Law Nº 55/IX/2019 ("Law of Basis for the State Budget"), Article 80, deals with the obligation of public sector entities to provide the needed information for the Ministry of Finance to report accordingly. Item 6 determines: *"With the objective of enabling the consolidated financial information regarding the public sector, the independent administrative entities and the local autarchies must send [to the Government member responsible for the Finance area], according to terms to be defined in the Decree-Law of budget execution, the following elements: … e) the public debt management operations, the use of public credit and the specific conditions of public borrowing...".*

36. **Since local governments are autonomous entities with their own legal framework, no further legal requirements for their reporting obligations towards the Central Government were found.** The authorities have informed the mission team that there are ongoing actions and system development to request information from these entities to integrate public sector debt statistics. The Law of Basis for the State Budget already provides the general legal basis, but further secondary regulation is needed.

37. **Information sharing from state-owned enterprises is already subject to regulation.** Ordinance (*Portaria*) Nº 48/2021 of MoF requires that State Owned Enterprises - SOEs (*Setor Empresarial do Estado – SEE)* report to (*Unidade de Acompanhamento do Setor Empresarial* – UASE), a unit within the MoF, financial information on a monthly, quarterly, and annual basis. Article 2 of the Public Debt Law also provides the general legal basis for borrowing activities of the entire public sector (excluding local

[8] When developed, it also needs to be approved and published.

autarchies that are regulated by a separate law). However, the Law is silent on SOEs' reporting obligations[9].

38. **The requirement for the Central Government to report the debt of NFPS bodies is established by the Law of Basis for the State Budget, article 80, item 5.** The responsibility is explicitly given to the Ministry of Finance to "ensure the public availability of consolidated financial information of the public sector". As mentioned above, item 6 is more specific in reference to debt and borrowing transactions. The Public Debt Law specifies the required coverage of public debt bulletin. This is specified by Decree-Regulatory n.5/2021.

39. **The Central Government (CG) is not legally entitled to give all NFPS bodies authorization to borrow.** Decree-Law Nº 42/2018 establishes CG's (MoF's and DGT's) roles in the process of issuing guarantees but does not cover non-guaranteed borrowing. There are indirect mechanisms to assess (and possibly constrain) SOE's borrowing. In cases where a proposed borrowing transaction is higher than 10% of the state-owned enterprise capital, the CG is required to approve it (as a shareholder), regardless of the debt being guaranteed or not by the CG. Local government non-guaranteed borrowing is not subject to CG's scrutiny.[10] Article 14 of the Law of Basis for the State Budget establishes limits for the central administration, but also specifies in its item 4 that the Budget Law sets specific limits for annual indebtedness of entities of local governments, local companies, state corporate sectors, among other public sector bodies. In any case, the CG (or MoF) does not have a role in giving authorization to these bodies to undertake borrowing transactions.

Implementation Aspects

40. **The legislation has not been implemented yet and the score is a "D".** UASE has been monitoring and reporting on SOEs' debt, but MoF currently does not receive information about local government unguaranteed debt despite the existing legal authority to collect it, provided by the Law of Basis for the State Budget. CG does not have a role in authorizing NFPS bodies borrowing either. This indicator was not rated in the previous 2016 DeMPA.

DPI 2 - Managerial Structure

DPI	Score
2.1 - The managerial structure for central government borrowings and debt-related transactions.	**B**
2.2 - The managerial structure for preparation and issuance of central government loan guarantees and on-lending operations	**A**

[9] However, this has been undertaken (see DPIs 4 and 6).

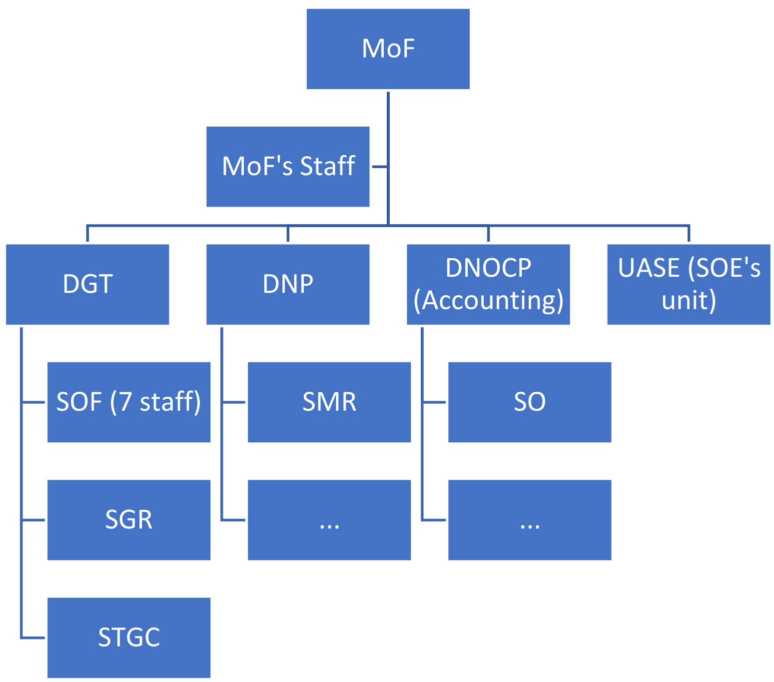
[10] The authorities have informed the mission that non-guaranteed subnational debt is not sizeable, although no estimates were presented.

2.3 – Staff and Human Resources.	A

DPI 2.1 - Managerial Structure for Debt

41. **Debt management activities are undertaken by two directorates within the MoF with a good degree of coordination**. The General Treasury Directorate (DGT) is responsible for public debt management and treasury activities, while the National Planning Directorate (DNP) is responsible for designing the economic policy and the national development strategy, which is highly dependent upon investment projects financed by multilateral and bilateral financial institutions. Figure 2 presents a template of the MoF structure highlighting the units contemplated in this report.

Figure 2 – Current Managerial Structure (simplified version)



Source: MoF Organic Law

42. **Typical debt management and treasury activities are integrated within DGT, which is broken down into three service units.** The Financial Operations Service (SOF) oversees debt management strategy, debt reporting, government securities issuance in the local market, guarantees/on-lending activities and negotiation of external debt loans. The Risk Management Service (SGR) is responsible for designing the treasury plan, which includes cash forecasting and operational risk management. The Treasury and Accounts Management Service (STGC) is the unit that manages the Treasury Single Account (TSA) and executes financial programming for both debt and all other spending.

43. **The Resources Mobilization Service (SMR) is the unit within DNP responsible for the relations between the MoF and international financial institutions providing funds for investment projects**. SMR

works closely with SOF on debt management issues and liaises with line ministers regarding public investment. DNP has two other service units, responsible respectively for designing and monitoring the national economic strategy (SPEMA) and economic policy and statistics (SPAME).

44. **Treasury bills (BT) and bonds (OT) in the domestic market are issued through the Cape Verde Stock Exchange (BVCV) system, although all the decision making is done by DGT/SOF**. While DGT/SOF takes strategic decisions regarding timing, tenors, volumes, cut-off rates, prices, the BVCV plays an operational role in the process, including managing the auction system and publishing results. Additionally, BVCV has responsibilities concerning market infrastructure, such as the custody and clearing system for domestic securities.[11]

45. **There is good and formal coordination between SOF/DGT and SMR/DNP, which together execute most DMO activities. The score is a "B".** Coordination is key to assuring that the funding needs for public investments are met in accordance with the implicit Debt Management Strategy (DMS), as stated in the budget. The Organic Law of MoF states that both SMR and SOF participate in the negotiations of external debt loans, and this has been observed.[12] Additionally, both DGT and DNP are members of a future Treasury Coordination Committee (CCT).[13] The highest score requires that a single unit manages debt. The score improved compared to the previous 2016 DeMPA (score C)[14] and the regulation clearly formalizes the coordination between DM units.

DPI 2.2 - Managerial structure for issuing guarantees and on-lending operations

46. **Guarantees and on-lending operations are undertaken by SOF/DGT**. As stated in the Organic Law of MoF, SOF is responsible for providing an ex-ante opinion on each guaranteed operation as well as publishing periodic reports on guarantees. Moreover, Decree-law 42/2018 further regulates the guarantees framework, while on-lending transactions are regulated annually in the budgetary law (see DPI 1.1).

47. **Eligible beneficiaries apply for guarantees or on-lending operations to the Minister of Finance and his final decision is taken based upon a technical assessment prepared by SOF/DGT.[15]** This unit analyzes the cost, risk, limits and records, and reports on the operations.[16] Furthermore, transactions above CVE 50 million must be submitted for approval to the Council of Ministers.

[11] Note that in the case of Cabo Verde, the Central Bank does not take part in the domestic issuances.
[12] Decree-Law 76/2021, art. 31-e and art. 54-c.
[13] While CCT activities are pending regulation, a monthly report on cash flow transactions and forecasting is prepared by DGT and distributed among stakeholders.
[14] The criteria has changed and formal coordination was lifted to the B level, now met by Cabo Verde.
[15] Eligible beneficiaries are mainly SOEs, while subnational governments account for a very small share of the total outstanding amount of guarantees. Recent legislation allowed also the government to provide guarantees to private companies, in order to mitigate the economic effects of the COVID-19 pandemic.
[16] See DPI 10.

48. **The process of guarantees is well organized from an institutional point of view.** The legal framework is sound, and the operational process is conducted based on clear operational procedures.

49. **As the guarantees framework was updated in 2018, managerial structure and framework for the issuance of guarantees became more robust. The score is an "A".** This is an upgrade compared to the score C in the previous 2016 DeMPA, when the supporting legislation was not as complete as now.

DPI 2.3 – Staff and Human Resources

50. **DGT executes most activities related to treasury and public debt management and the number of staff is adequate to the workload**. The current structure is functional considering the characteristics of the debt portfolio and complexity of DM operations. The three service units within DGT (SOF, SGR and STGC) have well defined responsibilities established in the MoF Organic Law and execute their duties based on comprehensive operational procedures.

51. **SOF oversees most of the typical DMO activities with a seven-people team, out of which three are dedicated to domestic debt and three to external debt, besides the supervisor**. SOF currently has 7 staf (3 for external debt, 3 for domestic debt, and 1 manager), is responsible for (i) designing and monitoring the Debt Management Strategy (DMS), (ii) issuing government securities in the local market (together with the BVCV), (iii) assessing and negotiating loans in the international market, (iv) issuing guarantees and on-lending transactions, (v) debt reporting, (vi) managing the Debt Management Information System (DMIS- which is under construction).

52. **Recruitment for debt management functions follows the same procedures for the rest of MoF and is based on a selective process**. Turnover among MoF civil servants is low[17], salary is competitive compared to private sector jobs[18], and there is a career plan in place according to which salary is a function of the number of years worked at the MoF. Moreover, there is a code of conduct for the public administration.[19]

53. **The staff is trained to perform the DMO's core activities.** On the positive side, debt operations are not highly complex and consist in locking into predefined loans from traditional external lenders and issuing securities in the domestic market where securities yields are quite stable and secondary market activity is shallow, as participants typically hold securities to maturity. Guarantees are largely processed according to the existing framework. Recording and reporting are satisfactory and should improve with the advent of the DMIS. Conversely, analytical functions are missing and there are opportunities for training and capacity building for forward-looking assessments, such as the DMS, ABP and DSA. Moreover,

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[17] SOF chief works there since 2005 and there are other employee with more than 10 years' experience.
[18] It was quoted on an interview the mission had with staffs from SOF.
[19] The mission had evidence of those from the HR department.

skills in financial market analysis could be further developed and credit risk assessment of guarantees' and on-lending beneficiaries could be refined.

54. **The staff is considered very good, responsive to the DMO needs and the score is an "A".** This DPI was introduced in the new DeMPA methodology published in 2021 and was not scored in the previous 2016 DeMPA.

DPI 3 – Debt Management Strategy

DPI	Score
3.1 The quality of the DM strategy document	**D**
3.2 The decision-making process and publication of the DM strategy	**D**
3.3 The Annual Borrowing Plan	**D**

DPI 3.1 – The quality of the DMS document

55. **Cape Verde has not prepared a Debt Management Strategy (DMS) since 2019.** MoF/DGT/SOF has received capacity building to develop a DMS in 2011 and 2013, and the Public Debt Law enacted in 2018 mandates the elaboration and publication of a debt management strategy. According to the authorities, debt strategies were developed between 2017 and 2019 but were never formally approved by the Council of Ministries (as required by the Law) and published. Against the backdrop of a highly uncertain environment caused by the COVID-19 pandemics, SOF has not updated the strategy in 2020 and 2021. There are plans to update the DMS in late 2022 for the 2023-2027 period.

56. **Considering that there is no DMS in place, the score is a "D".** If the Ministry of Finance had published and followed the DMS the score could have been higher. The previous assessment in 2016 granted a "C" score based on the related content previously published.

DPI 3.2 – The decision-making process and publication of the DMS

57. **The DMS has not been prepared since 2019 and therefore the decision-making process and publication are lacking.** Article 17 of the Decree-Law 43/2018 states that the sole responsibility of SOF is to prepare and then publish the strategy, upon Council of Ministries' approval. There is no regulation regarding the DMS content and clear practices on how it will be integrated in the budget document and the medium-term expenditure or budget framework.

58. **Considering that a DMS has not been prepared, approved, and published, the score is a "D".** The score is the same as in the latest DeMPA in 2016. Although a DMs was prepared then, the BCV's views were not obtained during the strategy elaboration.

DPI 3.3 – Annual Borrowing Plan (ABP)

59. **There is no Annual Borrowing Plan published on an official website.** However, the government publishes scattered information on the yearly financing plans in Section 5.13 of the Informative Annex of the State Annual Budget, which informs the total government financing needs for the year. It then splits the needed financing into external and domestic funding.[20] External sources are also broken down by economic sectors to be benefitted, currency preferences are generically disclosed, and the aim to prioritize funding on concessional and semi-concessional terms is stated. Domestic financing is planned to be covered with the issuance of government securities, respecting the limits established in the annual budgets. A detailed annual domestic debt auctions calendar is published, adding more granularity to the plans for the annual borrowing (see DPI 8).

60. **Cape Verde does not publish an ABP as a stand-alone document, therefore the minimum requirement is not met, and the score is a "D".** However, the good amount of information and transparency provided in the budget documents and in the domestic auction calendar needs to be acknowledged in a publication directed to market participants with more details on the calendar, tenors and type of DM operations. This DPI was not rated in the previous 2016 DeMPA due to methodological changes.

DPI 4 – Public Debt Reporting

DPIs	Score
4.1 - Central Government (CG) debt report, content and timeliness	C
4.2 - Reporting to the legislature	C
4.3 - Public debt report – Government coverage	C

DPI 4.1 – Central Government Debt: Content and timeliness

61. **SOF publishes three main debt reporting documents. The first type of debt report produced by SOF is called the Quarterly Report.** It is prepared with a time lag of four months. The most recent one was published in April 2022 and covered end 2021[21] debt data, comparing it with the previous three years. It Includes:

- Total debt sustainability ratios.
- External debt stock and composition by creditor and creditor type, interest rates, disbursements by economic sector and debt service
- Domestic debt stock, composition issuance and debt service, by instrument

[20] Domestic financing is limited to the issuance of government securities and external financing to project financing loans.
[21] https://mf.gov.cv/web/dgt/documentac%C3%A3o/-/document_library/naJgsqcf3hne/view/2549770

- Maturity profile for domestic debt.
- Outstanding stock of Guarantees
- Table including a summary of all cost and risk indicators.

62. The second debt reporting document is the Annual Statistical Bulletin,[22] issued in December 2021 and reporting on end-2020 debt data and three years' historical trend. The report, therefore, has a time lag of about a year. It includes:

i. Sustainability indicators: Total debt ratios in terms of GDP, exports, and government revenues,

For external debt

ii. Data on stocks (end 2020) for external data including, by creditor and type of creditor, interest rates type and ranges of interest rates, recent trends (2018-2020)
iii. Maturity (short vs. long term)
iv. Disbursements (amounts, economic sectors, and creditors)
v. Debt service (by creditor and creditor type) net flows and transfers.
vi. New loans, by creditor and concessionality

For domestic debt

vii. Data on stocks (end 2020)
viii. Maturity ranges – in percentage of domestic debt with less than 12-months maturity, between 1- 3 years, 3-5 years, 5-8 years, etc.
ix. Issuance
x. Debt service
xi. For Guarantees: remaining stock, by guarantee, at the end of 2020
xii. Table with all the cost and risk indicators of the existing debt portfolio

63. **There is a third report, produced on an annual basis, that is sent to the National Assembly as part of the overall budget execution report.**[23] There is also a one-year time lag involved. The report includes the same data and information as the annual bulletin. The last one available on the Ministry's website refers to 2020. The next one, referring to 2021 will be published in September 2022. Further reporting on stocks and flows is also available at the BCV's website as part of their macroeconomic and balance of payments reports.

64. **Debt reporting in Cape Verde is very detailed and the score is a "C".** Although the quality and frequency of debt reporting complies with the minimum requirements, a score of B is not attained because of the time lag between the base year and the publishing time (four months) for the Quarterly Report and (one year) for the Annual Bulletin. The score from the last assessment in 2016 is not comparable due to methodological changes.

[22] https://mf.gov.cv/web/dgt/documentac%C3%A3o/-/document_library/naJgsqcf3hne/view/2549770
[23] https://mf.gov.cv/web/dgt/documentac%C3%A3o/-/document_library/naJgsqcf3hne/view/2549868

DPI 4.2 – Reporting to the Legislature

65. **The existing debt reporting from the Central Government to the Legislature, including the debt section of the budget execution report, provides an accurate and comprehensive assessment of the outstanding debt and DM operations.** The content shows the evolution of the debt from 2019 to 2021 and specifies the debt variation factors. It includes information on stocks, debt service, disbursements and new loans and issuances in the domestic debt markets. It also includes information on the outstanding stock of Government guaranteed debt.

66. **There is no DMS in place in Cape Verde and therefore the existing debt reports lack a section describing the DM performance.** According to international best practice the annual report should compare the results achieved in the year against the strategy and guidelines predefined in the DMS. The analysis typically describes how the financing needs were covered, the impact of intra-year's operations on debt composition (domestic and external); cost (interest/revenues and average interest rate); debt structure (average maturity); and risk exposure (variable and fixed).

67. **The level of debt transparency in Cape Verde has gradually increased and the score is a "C".** Debt management operations are relatively simple, and the funding options are restricted to concessional lending and rolling-over T-Bonds and T-Bills by instruments of similar tenors. The information published allows the Legislature to track what has happened throughout the year, although a better description of the country's debt portfolio risk would enrich the report. Higher scores would require the performance to be compared to the DMS. This indicator received the same score in the last assessment in2016.

DPI 4.3 - Public Debt Report: Government Coverage

68. **Central Government (CG) liabilities are restricted to the debt instruments reported in the quarterly and annual debt reports.** There are no fiscal arrears which typically differentiates this indicator from DPI 4.1.

69. **Non-Financial Public Sector (NFPS) entities are not reported.** There is information on the stock of five guarantees (see DPI 4.1) but the non-guaranteed debt is not published. The authorities expect to publish comprehensive statistics for the entire NFPS in the first quarter of 2023.

70. **The coverage of the public debt data covers the Central Government, and the score is a "C".** For the highest score, debt reporting would need to include NFPS's debt, which would comprise guaranteed and non-guaranteed debt from municipalities and SOEs. Currently, , the authorities are tasked to report the missing gap: municipal non-guaranteed debt. This indicator was not evaluated in the previous 2016 assessment due to methodological changes.

DPI 5 - Audit

DPI	Score
5.1 - Frequency and comprehensiveness of external audits (Financial, Compliance, Performance) and their public disclosure	**D**
5.2 - Degree of commitment to address audit outcomes	**D**

DPI 5.1 - Frequency and comprehensiveness of external audits (financial, compliance, performance) and their public disclosure

71. **The Audit Court (*Tribunal de Contas - TC*) is the supreme audit authority in the country and is responsible for external financial audits of all Government accounts.** In addition to government accounts, the TC also reviews SOEs accounts, municipalities, and specific expenditure operations. The TC selects, at the beginning of the year, the institutions, and entities it will audit during that particular calendar year. Alternatively, Parliament can, at its own discretion, request additional audits to be conducted in specific institutions.

72. **The TC is currently understaffed.** It has 39 auditors, which is deemed to be insufficient to undertake all the official tasks assigned to it and to expand its operations to include performance and compliance auditing. Its staff has benefited from technical assistance from the Portuguese and Senegalese Audit authorities. Furthermore, INTOSAI has provided support for the acquisition of IT equipment. TC's annual budget is allocated by the Ministry of Finance through the Budget submitted to Parliament.

73. **The TC has just submitted the financial audits for the 2018 government budget.** It is currently trying to finalize the audit for the 2019 budget year and to start the audit for 2020 before the end of the year. The last published audit report[24] dates to 2017 and was submitted to Parliament. It is made up of 5 sections, one of which is dedicated to debt management operations. The audit, however, focuses only on the financial accounts. Even though the 2018 law permits the TC to undertake any type of audits, it does not undertake compliance or performance audits because of the lack of resources and the technical capacity to undertake them. Consequently, there have been no debt management related audits to determine the effectiveness and efficiency of operations, fraud prevention, IT systems or control systems. The TC has embarked on a process to improve its technical capacity and has recently been able to conduct a performance audit of the National Emergency Fund (FNE) that oversaw some of the emergency disbursements during the COVID-19 pandemic.

74. **The annual audit reports have all been published in the TC's website.[25]** Due to the delays in auditing Government accounts, these reports are posted with an approximate four-year delay.

[24] http://www.tribunalcontas.cv/index.php?option=com_jdownloads&view=category&catid=6
[25] http://www.tribunalcontas.cv/index.php?option=com_jdownloads&view=category&catid=6

75. **Financial audits are conducted with more than a year's lag. Furthermore, no compliance audits have been conducted within the past two years. The score is a "D"**. For a higher score of "C" a financial audit should be conducted on a yearly basis, with audit reports publicly available within six months of the audit's completion. Furthermore, an external compliance audit of DM debt transactions should be undertaken within the past two years. The score was a "D" in the previous 2016 assessment for the same reason.

DPI 5.2 - Degree of commitment to address audit outcomes

76. **The Government has not addressed any of the issues raised in the most recent audit report and the score is a "D".** The last audit report on the Government's financial operations dates back to 2018. The report highlighted some specific issues to be addressed by the Government. For instance, the last report included a recommendation for creating a contingency fund to mitigate risks emanating from issuing government guarantees, even if there have not been any defaults recorded.[26] According to the TC, no reaction has yet been received from the Government about this or any other recommendation. The previous evaluation in 2016 included a grade of "D" for the same reason.

4.2. Coordination with Macroeconomic Policies

DPI 6 - Coordination with Fiscal Policy

DPI	**Score**
6.1 - Provision of debt service forecasts	**C**
6.2 - Fiscal Risks monitoring in the NFPS	**C**
6.3 - Availability of key macro and fiscal variables and DSA	**D**

DPI 6.1 - Provision of debt service forecasts

77. **The Treasury Department (DNT) prepares, for budget-formulation purposes, estimates on debt service of all central government debt.** The numbers are based on the debt database, generating short term debt service, and forecasts for external debt disbursements, domestic debt issuances and budget financing needs. As mentioned, the DNT houses both the DMO (SOF) and the Risk Department (SGR) responsible for financial programming, and there is information sharing between the two units.

78. **Law 78/V/98 (*Enquadramento do Orçamento*) Article 19 (1) and (2) require that the debt service and financing estimates be annexed in the Annual Budget Law and this is being implemented.**

[26] The authorities have mentioned they plan to implement this recommendation, which also finds reference in the existing legislation (See DPI 1.1 and 10.1). This is under negotiation as a prior action under the World Bank Development Policy Funding series for 2022.

Evidence was provided and estimates do not deviate more than 10-15% from observed figures between 2018-19. After the start of the pandemic, the budget was revised throughout the year given the rise in cash needs to offset the crises and support health services, so short-term domestic debt estimates changed substantially in 2021. Even so, the budget review included updated estimates of debt service.

79. **Debt service estimates are based on the same interest and exchange rates used for the budget.** There is a macro-unit within the MoF providing estimates of main macro-fiscal variables for all units in the ministry.

80. **There is no medium-term DMS in Cabo Verde.** The DMS was produced up to 2019 but was not updated in the following years (see DPI 3.1). The authorities seek to resume the DMS in 2022 and the debt service estimates will be extended to cover the medium-term.[27]

81. **Debt service forecasts prepared by the DNT do not include sensitivity or scenario analysis to factor in changes in interest and exchange rates and/or severe shocks or worst-case scenario.** The DNT uses macro forecasts for the foreign exchange rates and applies a 10 percent devaluation and fixes the interest rates from creditors which are known in advance. Nonetheless, the external debt forecast would benefit from having sensitivity analysis for the exchange rate and the domestic debt servicing forecasts could be stressed by applying higher domestic interest rates and higher-than-expected volumes.

82. **As the debt service estimates generated by the DMO cover the whole Central Government debt, and use the same macroeconomic assumptions used in the budget and are applied in the budget, the score is a "C".** The score could be a "B" if the authorities were to undertake sensitivity analysis for both exchange and interest rates. The score in the previous 2016 DeMPA was also a "C".

DPI 6.2 - Fiscal Risks monitoring in the NFPS

83. **The main fiscal risks in the NFPS are represented by the State-Owned Enterprises (SOEs) and they are being monitored.** The state-led entrepreneurial sector is significant in the local economy. In 2021, the business generated by the SOEs represented 15.1 percent of GDP, while total assets and liabilities reached 65.8 and 58.3 percent of GDP, respectively. Within the MoF, there is a unit (UASE) dedicated to monitoring and publishing quarterly reports covering 33 out of the 44 existing companies.[28] The latest Quarterly SOE Report from 4Q 2021 covers debt liabilities from SOEs, while the largest 6 SOEs represent more than 60 percent of all SOE liabilities (roughly 37.6 percent of GDP).

84. **The Quarterly SOE Report also provides information on guaranteed and on-lent credit for individual companies.** Section 5.3 (Macro-Fiscal) risk analyzes the contingent liability stemming from SOEs based on their capital structure, and the credit support expected for 2022. The risk analysis is based

[27] Hence, the sub-DPI 6.1.c3 does not apply.
[28] See MoF/UASE website. Note that not all SOEs have outstanding debt.

on the SOE Health Check Tool[29], which helps to signal what companies may materialize the liability into the central government balance sheet. The government has imposed annual limits on guarantees (see DPI 10.1) and is developing an SOE privatization program, but there are no limits on overall debt stock other than the one imposed on the central government debt.

85. **Other fiscal risks are represented by local government (municipalities) debt.** Guaranteed debt from municipalities is reported separately (see DPI 4.1), and the volumes are relatively smaller than guaranteed SOEs debt (1.6 percent of all guarantees or CVE 319.1 mn (USD3.12 mn). There is non-guaranteed debt held by local banks, but the authorities have not monitored that implicit liability. However, the local government's limited access to credit suggests that standalone credits are not as large as guaranteed debt, and the authorities are poised to start reporting all liabilities by the end of 2022.[30]

Figure 3 - Expected Risk for 2022 – 6 largest SOEs

SOE	2022						Global Risk			
	Profitability		Liquidity		Sustainability					
	ROA	ROE	General	Reduced	A/L	A / Equity	2019	2020	2021	2022
ASA	Moderate Risk	Moderate Risk	Very High Risk	Moderate Risk	Moderate Risk	Moderate Risk	Low Risk	High Risk	Moderate Risk	High Risk
ELECTRA	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk
EMPROFAC	Moderate Risk	Moderate Risk	Low Risk	Low Risk	Moderate Risk	Moderate Risk	Moderate Risk	Moderate Risk	High Risk	Moderate Risk
ENAPOR	Moderate Risk	Moderate Risk	Very High Risk	Moderate Risk	Moderate Risk	Moderate Risk	Moderate Risk	High Risk	High Risk	High Risk
IFH	High Risk	High Risk	Very Low Risk	Very High Risk	High Risk	Very High Risk	High Risk	High Risk	High Risk	High Risk
TACV	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk

Source: UASE – Quarterly SOE Performance Report – 4Q22.

86. **The government hasn't published a consolidated fiscal risks statement.** The mission identified the authorities plan to do so by the end of 2023.

87. **There are published financial ratios for the relevant SOEs.** Annex 6.3 of the Quarterly SOE Report shows individual SOE information on assets, liabilities, equity, business volumes, value added, net balance, government shares, loans, guarantees and on-lent credit.

88. **The most relevant fiscal risks have been systematically monitored in the NFPS, and the score is a "C".** The score could change to a "B if the government starts to publish a fiscal risk statement

[29] See IMF Fiscal Risk toolkit website.
[30] This is object of a Prior Action for the 2nd DPF (Development Policy Finance) for Cabo Verde in 2022.

consolidating all debt related explicit and implicit liabilities at least every three years. This indicator cannot be compared with the previous 2016 DeMPA due to methodological changes.

DPI 6.3 - Availability of key macro and fiscal variables and DSA

89. **Key macro and fiscal variables are shared with the DNT/SOF annually, but the central government has not prepared a debt sustainability analysis (DSA) on its own.** The preparation of a DSA, which covers both public and publicly guaranteed debt, and which is updated when sizable new borrowing is programmed, is a basic requirement. The government plans to publish a DMS that should contain a section on debt sustainability analysis, but this has not been implemented.

90. **Because of the lack of a DSA preparation within the last three years, the score is a "D".** This is the same score obtained in the previous 2016 DeMPA, and for the same reason.

DPI 7 - Coordination with Monetary Policy

DPI	Score
7.1 - Separation between monetary policy and DM operations	**NA**
7.2 - Coordination with the CB through regular information sharing on current and future debt transactions and the central government's cash flows	**D**
7.3 - Limits of direct access to CB funding	**C**

DPI 7.1 - Separation between monetary policy and DM operations

91. **There is a clear separation between monetary policy and debt management instruments**. The Central Bank of Cape Verde (BCV) manages liquidity in the system via open market operations in which it issues its own instruments, namely, the Monetary Regulatory Bill (TRM, 14-day tenor) and Monetary Intervention Bill (TIM, 180 and 365-day tenor). Although open market operations contemplate both sell and repurchase legs, BCV is a net issuer, as the monetary system in Cape Verde presents a structural excess of liquidity.

92. **There is no competition between BCV and MoF instruments, as tenors and yields are different**. The return on BCV instruments has been quite stable at 0.25% p.y., while the return on 1-year BT is around 1% p.y. Moreover, as the MoF auction calendar is published in advance, BCV undertakes its own auctions on alternative dates.

93. **There is clear independent decision making as BCV does not play a role in government bills and bond auctions**. Government securities are auctioned via the electronic system of the Stock Exchange (BVCV), while the Central Bank has its own electronic auction system.

94. **The relation between the MoF and the Stock Exchange (BVCV) is regulated by the company statutes.** In the context of Cabo Verde, there is no need for a formal agreement (MoU) signed between the Central Bank and MoF, given that BCV does not act as fiscal or operational agent. This role is performed by the Stock Exchange.

95. **Considering the clear separation between DM and monetary policy operations, the minimum requirements are met, and the score could be a "C"**. However, it could be misleading since the conditionalities to assign a B or A score are related to a formal agreement between the Central Bank and the Ministry of Finance, which in the case of Cape Verde is not applicable. Therefore, the mission maintains the same interpretation of the previous 2016 DeMPA and s evaluates DPI 7.1 as not applicable.[31]

DPI 7.2 - Coordination with the CB through regular information sharing on current and future debt transactions and the central government's cash flows

96. **The DNT provided evidence that the debt service cash flow estimates for the whole Central Government is shared with the BCV in the beginning of each year, along with other treasury estimates.** The information is shared through email and can be more frequent if the central bank requests, which happens sporadically. In general, this type of information is a valuable input for the central bank's model to forecast liquidity in the monetary system and be prepared to deal with large flows, including those denominated in foreign currency.[32]

97. **As the MoF does not share with BCV information on the Central Government's cash flows on a monthly basis, the score for DPI 7.2 is a "D".** The score is the same as in the previous DeMPA conducted in 2016 under the same rationale. For a "C" score, treasury cash flows should be shared monthly with the BCV. Higher scores would require the information to be shared weekly or daily.

DPI 7.3 - Limits of direct access to CB funding

98. **The BCV Organic Law establishes clear limits for monetary financing of the government budget**. The total volume of BCV funding is capped at 5% of the previous year's government revenues, the time horizon is maximum 365 days (repayment must be done before the last day of the calendar year) and the cost is established by the rediscount rate. The regulation is provided in the BCV Organic Law (Law n. 10/VI/2002, article 2).

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[31] A C score could be misleading and penalize the sound practices in Cape Verde. Higher scores could not be attained as the methodology does not contemplate the current setup in the country.

[32] As large government cash flows in specific dates have strong impact on liquidity, it is a good practice to share this information with central banks. Examples of large cash flows: tax collection, civil servants pay day, bond maturities, bond issuances, external debt disbursements, external debt maturities.

99. **In 2021 the MoF used the BCV overdraft facility for the first time after many years**. As the fiscal impacts of the pandemic in that year were worse than expected in the budget law, the funding needs were also higher than expected. The government could have issued more securities in the domestic market to close the funding gap. However, as the Parliament did not authorize an increase in securities issuance, the MoF had to use the monetary funding from BCV.

100. **Considering the existing limits and conditions for access to monetary financing of the budget, the minimum requirements are met and the score of DPI 7.3 is C, the same as that given by the previous DeMPA conducted in 2016**. The score cannot be higher because the current framework allows the possibility to access the overdraft facility for more than three months.

4.3. Borrowing and Related Financing Activities

DPI 8 - Domestic Borrowing

Dimension	Score
8.1 - Publication of a borrowing calendar and issuance results	**A**
8.2 - Domestic market operations and clarity in rules and procedures	**C**

DPI 8.1 - Publication of a borrowing calendar and issuance results

101. **The government publishes an annual domestic auction calendar on the website of the Cape Verde Stock Exchange (*Bolsa de Valores de Cabo Verde - BVCV*).**[33] The calendar details the following information: auction dates, instrument type (OT/BT), instruments' maturities, and indicative amounts. The calendar is published at the beginning of the year before the first auction.

102. **The auction calendar is followed.** The announced amounts are indicative and there is flexibility in changing the offered amounts, canceling, or introducing a new auction, but these are exceptions according to market participants, which are satisfied with the current level of transparency on auctions' practices and procedures. The total amounts issued in 2020 and 2021 exceeded 61.4% and 49.4%, respectively, of the initially announced amounts, but those years need to be looked at as exceptions due to the COVID-19 pandemic. In 2019, the deviation was just 3.6%. Auction announcements with the final offering sizes are published at BVCV's website 2-3 days before the auction and sent through the auction system to eligible participants.

[33] See https://bvc.cv/pagina/obrigacoes-do-tesouro-ot-73; https://bvc.cv/leiloes-titulos-tesouros; https://bvc.cv/anuncios-leiloes

103. **Auctions results are published at BVCV's website on the auction day.** Auction participants also receive a notification through BVCV's auction system (Public Offering System – POS). Published results include the demand size, accepted bids and final yield rate (the average of accepted bids). The cut-off interest rate is not published. Auctions take place from 10am –10:30am, and participants receive a message with the result (accepted amount and accepted average yield) at 11 am. Comprehensive results information is published on BVCV's website in the afternoon of the auction day.

104. **Considering the comprehensiveness of the auction calendar and the timeliness of the publication of the auction calendar and results, the score is an "A"**. The score is not comparable with the previous 2016 DeMPA due to methodological changes, but there has been significant progress in this aspect since the last DeMPA exercise.

DPI 8.2 - Domestic market operations and clarity in rules and procedures

105. **The MoF uses market-based instruments and issuance mechanisms in the government securities domestic issuances.** T-bills and T-bonds are usually issued through pre-announced auctions to authorized participants registered in the local stock exchange. Retail investors (expatriates, families and the general public) can also participate in the auctions through banks with non-competitive bids. Direct bilateral placements can be undertaken but are exceptional (representing less than 10% of the total issuance amounts 2020-21). The issuance process is transparent and well regulated (see DPI 1.1), and is seen by market participants as competitive, where the government does not interfere in the price formation.

106. **Yields do not vary much throughout the year.** In 2021, T-bills were sold in almost all auctions at 1%, aligned with Central Bank short-term interest rates. The yield curve for T-bonds is flat at 3% from 2- to 10-years, and they are very rarely sold above or below par. In an environment of considerable excess liquidity, there is heavy competition in the T-Bonds auctions, but investors apparently bid close to the coupon interest rate in the absence of secondary market references. Auctions are frequently oversubscribed, and the government rarely sells smaller amounts than announced.

107. **The terms and conditions of all instruments are specified and available at BVCV's official website[34]**. Instructions Nº 1/2013 and Nº 2/2013 from the DGT provide further details on pricing calculations and issuance procedures. Decree-Law Nº 59/2019 details further features of T-Bills (BTs), and Decree-Law Nº 60/2019 does the same for T-Bonds (OTs). [35]

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[35] https://bvc.cv/pagina/bilhetes-do-tesouro-bt-74; https://bvc.cv/pagina/obrigacoes-do-tesouro-ot-73; https://bvc.cv/pagina/obrigacoes-do-tesouro-ot-73

108. **Instructions on how to participate in the auctions are found on the stock exchange's website.**[36] It includes directions for participants authorized to take part in the competitive bidding, and for small investors eligible for non-competitive participation. The auction calendar provides additional information on the auction process. Auction announcements also specify details on the auctions' timeline and auctioned instruments.

109. **The staff responsible for the domestic borrowing are able to articulate the steps required to borrow.** Since 2013, the stock exchange has acted as MoF's operational agent in the auction, performing the auction, and maintaining the settlement and custody systems, which was previously undertaken by the Central Bank. However, all the offering instructions (from announcement to results), are received by the DMO (MoF/DGT/SOF). SOF elaborates the annual auction calendar in coordination with the Treasury team and instructs BVCV to publish it on its website (and send it through its auctions system to authorized participants). A similar procedure is followed for the publication of the auctions' announcements. As for the decision-making process, SOF enters the auction system to authorize the operation, evaluate the proposals and define the cut-off yield.

110. **There is no operational primary dealers (PD) system in Cape Verde.** The Public Debt Law establishes the promotion and development of the domestic debt market as one of debt management objectives but does not specify any particular action towards the development of such a system. The authorities informed the mission team that there is an ongoing project with the African Development Bank targeting the dynamization of the domestic market, which would include the introduction of a PD system, the creation of a bond calculator and a system for repo transactions within the BVCV's administration. On BVCV's website there is generic information about market makers (eligibility, potential setup of maximum spreads and minimum ticket sizes), but there are no appointed institutions or specific criteria (obligations/rights).

111. **SOF does not meet regularly with market participants to exchange views on borrowing plans and the domestic market.** Considering the limited number of institutional investors participating in the domestic market (7 banks and one large pension fund), SOF considers it already has an adequate exchange of views with the investors and therefore has not established a regular and frequent communication channel. Periodic meetings when the annual auction calendar is published could be a good starting point.

112. **There are internal procedures manuals reflecting up-to-date operational practices followed by SOF on domestic borrowing activities.** The procedures manual covers the main activities performed by SOF, including the issuance of domestic securities (item DSOF 08). The instructions include the activity's objective, a reference to documents/legislations, IT resources applied, responsible team, procedures work-flow and detailed activities that make up the process.

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[36] https://bvc.cv/pagina/bilhetes-do-tesouro-bt-74 https://bvc.cv/pagina/obrigacoes-do-tesouro-ot-73 and http://titulostesouro.gov.cv/como-investir.html

113. **The government uses market-based instruments and competitive mechanisms to borrow in the domestic market, and the issuance process and results are transparent. However, it has yet to establish regular communication channels with market participants, which is a requirement for higher scores. Therefore, the score is a "C".** In the previous 2016 DeMPA the assigned score had been a "D" considering the absence of an Annual Borrowing Plan, which is separately evaluated in DPI 3.3 in the current methodology, which is therefore not directly comparable. Still, the mission observed improved practices and transparency relative to the past evaluation of 2016.

DPI 9 - External Borrowing

DPI	Score
9.1 - Organizational arrangements and processes for external borrowing; financial analysis of terms and conditions	D
9.2 - Availability and degree of involvement of legal advisors before signing the loan contract	A

DPI 9.1 - Organizational arrangements and processes for external borrowing; financial analysis of terms and conditions

114. **External borrowings are fully used for project financing and are made on concessional terms.** Cape Verde has never issued international bonds and is not planning to do so in the medium-term, prioritizing the use of low-cost sources of funding.

115. **Front-office activities are split between DGT/SOF and DNP, following the responsibilities defined in the MoF's Organic Law** (Decree-Law 76/2021 - see DPI 1). Upon the definition of priority projects by the Council and Ministries, ratified by budget documents, the Resources Mobilization Service (*Serviço de Mobilização de Recursos - SMR*) of DNP prospects financing alternatives for different projects within a limited group of available/traditional creditors that are known in advance.

116. **The Public Debt Law (Article 12) determines the need of SOF to establish a negotiation team.** The team must be composed of representatives from: a) debt management department (SOF/DGT); b) resources mobilization department (DNP); c) project beneficiary sector department (SMR); d) MoF's cabinet; and e) a legal specialist in the matter. SOF's internal procedures manual also details the steps to be followed in loan negotiations (DSOF 03).

117. **The staff responsible for the external borrowing can articulate (and follow) the steps required to borrow from each creditor.** Despite the fragmented institutional arrangement, DGT and DNP coordinate well the necessary steps to contracting new external debt. Good capacity as well as solid regulations and internal procedures ensure a smooth process.

118. **Financial assessments of the most beneficial or cost-effective terms and conditions for external borrowing are not undertaken in a structured and periodic way.** The limited universe of creditors that offers concessional financing facilitates the analysis of alternatives to finance prioritized projects. The authorities argue that the different alternatives are often not comparable, considering that each creditor provides funding for specific sectors. Demand for project financing is larger than available sources of funding (credit envelopes). In this context, a cost-effective analysis of the alternatives is relatively constrained, but as a minimum requirement SMR and SOF would need to keep at least a database of current offered conditions, including amortization and disbursement options, currency, and interest rates alternatives.

119. **A financial analysis that goes beyond checking the concessionality terms offered by potential creditors is missing, and the score is "D".** However, staff capacity, adequate division of responsibilities, legal and operational organization are adequate and need to be acknowledged. The development of a DMS and of an ABP can also strengthen the decision-making process. The score is the same as in the last DeMPA for the same reason, despite some methodological changes.

DPI 9.2 - Involvement of legal advisors before signing the loan contract

120. **A legal expert from DNP participates during the entire negotiation process for loans with all creditors, except for negotiations with the IBRD, where a lawyer from DGT is responsible for the task**. The participation of legal counselors in the process was recently established following the enactment of the new Public Debt Law.

121. **Besides the participation of legal experts in the negotiation, other legal entities further strengthen the legal analysis of the contracts.** The Juridical Study Center (*CEJUR – Centro de Estudos Juridicos*) of the Prime Minister's Cabinet provides comments on the loan agreement (as per the Decree-Law). The Attorney General issues a legal opinion to ensure the loan agreement's conformity with the domestic legislation, as this is commonly required by creditors. While the agreement is published upon the approval of the Council of Ministries and signed before the issuance of the legal opinion, it becomes effective (and legally binding) only after is signed off by the legal advisors.

122. **The score for this indicator is an "A" considering that legal advisors are consulted from the first stage of the negotiating process to the conclusion of the legal agreements related to the borrowing.** The score was a "D" in the 2016 DeMPA considering that at that time legal advisors were not involved before the end of the negotiation process.

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

DPI	Score
10.1 - Issuance of loan guarantees	C
10.2 - On-lending operations	D
10.3 - The use of derivatives	N/A

DPI 10.1 - Issuance of loan guarantees

123. **The current decision-making process for issuing guarantees is clear in Cabo Verde and the staff can articulate the steps along the process**. Decree-Law 42 and 48/2018 constitute the guarantee's framework and provide detailed requirements for processing guarantees (see DPIs 1.1 and 2.2) and the staff complies with the process. Most guarantees come from SOEs, and the DNT/SOF receives the requests from potential beneficiaries, analyzing the operation, elaborating a note providing a technical opinion to accept or reject the proposal.[37] The unit responsible for monitoring SOEs (UASE) provides inputs. The note includes (i) purpose and eligibility; (ii) economic and financial analysis of the guaranteed entity, assessing the business sustainability and credit strength; and indebtedness levels; and operational capacity; and liquidity; and profitability indicators such as EBITDA / ROE / ROA[38] ; (iii) limits and impact on debt, where the volume requested is checked against the annual budgetary threshold[39]; (iv) project viability analysis; (v) final decision to grant or decline the guarantee request. The decision is ratified by the Treasury Director, who has received the appropriate delegation from the Minister of Finance[40].

Table 4 - Guarantees for Municipalities and SOEs- 4Q21

Guarantee	CVE mn	USD mn
C. Municipal Porto Novo	63.2	0.6
C. Municipal Santa Catarina	4.1	0.0
C. Municipal São Vicente	179.5	1.8
C. Municipal Paul	72.3	0.7
ELECTRA	4,765.2	46.9
ENAPOR	58.0	0.6
IFH	1,248.4	12.3
NOSI	51.0	0.5
SDTIBM	582.1	5.7
CVT	2,243.4	22.1
CERMI	16.3	0.2

[37] The assessment team has had access to evidence of approved and rejected requests.
[38] EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization; ROE – Return on Equity; ROA – Return on Assets.
[39] For 2022, the limit was set to CVE 7 bn for government related entities (domestic and external) and CVE 4bn (domestic and external) for private companies.
[40] Prior to the final ratification of the DGT, the operation is published on the official gazette. The authorization can also be granted by the Minister of Finance or by the Cabinet depending on the amount as defined by the regulation.

INCV	54.7	0.5
ICV	202.3	2.0
RTC	110.0	1.1
TACV	5,826.2	57.3
NewCO	3,721.7	36.6
AdS – Águas de Santiago	774.42	7.6
Total	**19,653.7**	**193.3**
% GDP		**11%**

Source: MoF-DNT (Quarterly Debt Bulletin – Table IV.3.3) and UASE (Quarterly SOE Report- Annex 6.3)

124. **The UASE evaluates the credit strength of SOEs but there is no quantification of the risk nor the use of mitigation tools to offset that risk.** No similar credit analysis is made of the municipalities, although they account for just 1.6% of all guarantees. Monitoring consists of an annual verification of the outstanding guarantees that have been published in the Quarterly Debt Bulletin and SOE Report.[41]

125. **Procedures are established in the Decree-Law 42 and 48/2018 and the DNT/SOF procedures manual complements the legislation.** Various articles from Decree-Law 42/2018 describe how the staff should operate, defining the limits; scope (loan guarantees only); arrangement of contractual terms; eligibility; conditions; collaterals; and steps to be taken.

126. **No fees are being charged on guaranteed entities.** Although Decree-Law 42/2018 articles 22 (1), (2) commands the government to collect fees from the beneficiaries and to constitute a reserve fund to cover potential defaults, this has not been implemented. The authorities are required to regulate this provision under the second DPF (Development Policy Financing from IDA-19 – budget support).

127. **The decision-making process and steps to be followed for issuing sovereign guarantees are clear, and the staff follows the steps. The score is a "C".** Higher scores would require the staff to compute credit risk for all SOEs and municipalities. Furthermore, the staff needs to implement the recovery mechanisms that are already defined in the legislation. The WB is providing technical assistance to build capacity in those areas and these gaps are being addressed under the DPF and IDA-19's SDFP (Sustainable Development Financing Policy). The score in the previous 2016 DeMPA was a "D".[42]

DPI 10.2 - On-Lending Operations

128. **The current decision-making process for on-lending credit is not analogous to the process applied for guarantees.** Decree-Law 42 and 48/2018 are not as explicit and detailed for on-lent credit

[41] See DPI 4.1 and 6.2.

[42] Although there has been methodological changes, the improvement in this area is genuine.

when compared to guarantees. More importantly, the authorities do not evaluate credit risk for the beneficiaries before on-lending the credit.

Table 5 - On-lent Credit – 4Q21

On-lent Credit	CVE mn	USD mn
ELECTRA	13,875.1	136.5
ENAPOR	1,773.6	17.4
IFH	8,102.4	79.7
Total	**23,751.1**	**233.6**
% GDP		**14%**

Source: MoF/UASE (Quarterly SOE Report- Annex 6.3)

129. **In practice, there are three beneficiaries that receive more on-lent credit than guarantees and the government is exposed to similar risks.** In fact, the government recognizes this exposure in the Quarterly SOE Report (see DPI 6.2) where there is a special section on the largest six SOEs (Section 5.3) and they represent, which is a sound practice.

130. **The decision-making process and steps to be followed for conceding on-lent credit do not follow similar steps from guarantees and there is no analysis on the beneficiaries' ability to repay the government before the credit is on-lent. The score is a "D".** The authorities should apply an analysis similar to that of guarantees to on-lent credit and monitor the credit as guarantees and on-lent credit exposes the government to similar risks. The score is the same as in the last DeMPA in 2016 for similar reasons.

DPI 10.3 - The Use of Derivatives

131. **The DNT has not conducted any derivative transactions**. Furthermore, there is no intention to use such instruments in the coming future; therefore, the score is NR, the same as in the last 2016 DeMPA.

4.4. Flow Forecasting and Cash Balance Management

DPI 11 - Cash Flow Forecasting and Cash Balance Management

DPI	Score
11.1 - Effectiveness of forecasting the aggregate level of cash balances in government bank accounts	**B**
11.2 - 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**

DPI 11.1 - Cash Flow Forecasting

132. **Cash flow coverage in the forecasting model captures all Central Government expenditures and revenues.** The authorities mentioned there is centralized authorization execute payments through the PFM (Public Financial Management System - *SIGOF*) and evidence was provided to the assessment team. The main inputs for the forecasting cash flow model are based on past time series, the existing budget and spending expectations informed by line ministries and government agencies.

133. **A comprehensive Treasury Plan (TP) for the fiscal year is established and constantly monitored, enhancing the cash management institutional framework**. The TP follows a procedures manual defining the relevant inputs from both spending and revenues (including debt cash flow), as well as the methodology to estimate expected behavior based on time series and the stakeholders responsible for providing further information.[43]

134. **In 2021 the forecast model pointed to the risk of a negative cash balance that in fact materialized**. To avoid a situation of cash rationing, the government relied on the BCV overdraft facility, as described in DPI 7.3. Data collected does not show that in 2020 and 2021 the forecast error decreased over time. However, the fact that during this period the global economy was affected by different shocks, such as COVID-19 and global chain disruption, must be taken into consideration.

135. **There is good coordination between cash management and debt management.** Short term bills are used to close the gap between revenues and expenditures, what makes the TP a key input to develop the auction calendar, which defines the amount of government securities to be issued in the following three months.

136. **The TP is monitored monthly through the TP Monitoring Report, developed by SGR and shared with the main stakeholders, including SOF**. It is a comprehensive report that not only covers past data, but also forecasts TSA balance, runs sensitivity analysis, and highlights deviations against outturn. Moreover, forecasts are compared to actual outcomes on a monthly and year-to-date basis.

137. **Cash flow forecast for the year is broken down and shows estimates by each week up to the fiscal yearend**. The forecast is extended beyond the fiscal year once the budget is sent to the legislature

[43] Although the data is reasonably reliable and TP procedures manual establishes which stakeholder is responsible for each data (e.g. Revenues Directorate reports on tax revenues, UASE on SOE's dividends and capitalization, DNP on investment projects disbursements), it does not create incentives for decentralized units to improve data accuracy over time. For most inputs, a three-year average is used to estimate expected behavior.

and approved. Scenario analysis is conducted as well, assuming different outcomes, including a worst-case scenario.

138. **The Organic Law of the MoF foresees a Treasury Committee that has not been regulated yet**. Once this committee is established, the institutional framework on Treasury practices and cash forecasting will be strengthened even more.

139. **Considering the good practices regarding cash flow forecasting, the score is B.** It cannot be an A because cash flow projections are not further broken down by day for the following month. It contrasts with the score D in the previous DeMPA of 2016 when the current practices were not in place.

DPI 11.2 - Cash Balance Management

140. **The government has a cash target of approximately CVE 1 billion, considered to be the minimum amount necessary to pay mandatory expenditures (debt service and payroll) for one month ahead**. The instrument used to reach the target is the issuance of T-Bills, which is adjusted as needed throughout the year, in response to the TP (Treasury Plan).

141. **In general, the cash balance does not deviate significantly from the minimum amount, except when large outflows are expected**. However, in 2021 there was an unusual situation of cash rationing justified by two factors: (i) the unexpected spending related to the pandemic, and (ii) the fact that the Parliament did not authorize further issuance of government securities in a larger amount than what was originally approved in the budget.[44] As a result, in 2021 the MoF had to use the BCV overdraft for the first time in many years (see DPI 7.3 for details). Table 3 presents the cash balance.

Table 6 - Cash Balance – CVE billion

	2018	**2019**	**2020**	**2021**
Minimum Target	**1.2**	**1.2**	**1**	**1**
average	1.7	2.7	3.3	0.9
min	1.1	1.2	0.6	-1.6
max	2.5	6.6	7	2.4
Standard Deviation	0.4	1.7	2.1	1.3

Source: DGT

[44] As many other countries, Cabo Verde faces a political risk whenever the government budget needs to be adjusted along the year. This is an important constraint to cash management practices

142. **The TSA is not remunerated, although the BCV Organic Law allows the Central Bank to pay interest over the government cash balance.**[45] There is no investment policy in place either as all the government cash position must be kept at the TSA in BCV.

143. **Considering that the TSA is not remunerated, the minimum requirement is not met, and the score is a "D"**. This reflects the same score as the previous DeMPA conducted in 2016 and for the same reason. The authorities mentioned they intend to discuss the implementation of the TSA remuneration with the BCV in the next fiscal year.

4.5. Debt Recording and Operational Risk Management

DPI	Score
12.1. Debt Recording	C
12.2. Debt Payments	C

DPI 12 - Debt Administration and Data Security

144. **Initial debt recording is separated from final confirmation.** The process of recording new loans and disbursements starts after the loan agreement has been signed. The original loan agreement is sent to the SOF, additional copies are sent to the following institutions/departments: Planning Directory; sectoral Ministry involved; and the Project Implementation Unit. Once the original is received at the SOF, a copy is made, and it is sent to the External Debt section to be inserted into the existing debt recording database (currently an excel spreadsheet) by a technician. The records are then checked and verified by the senior staff in the section. Afterwards, the agreement is digitalized and saved into the Ministry's main drive within a week. Disbursements are recorded as they take place, because SOF signs all disbursement requests. SOF, therefore, receives all communications regarding disbursements. Additionally, every quarter, staff check the files against reports received from various creditors and they access the appropriate portals for IFAD, JICA, IDA, and AfDF to verify the operations.

145. **A similar process is followed for recording domestic debt issuance**. In this case, after each auction, the Stock Exchange (BVCV) sends a confirmation email to SOF detailing all the financial information with regards to the instruments that were auctioned. The information is inputted into the Excel spreadsheet by a technician at the Domestic Debt section and verified by the corresponding senior staff. This is done on the auction's date.

146. **Recording of Government guarantees follow a similar process**. Guarantees are issued by the Ministry of Finance, with technical inputs from SOF. Therefore, after issuing each guarantee, the operation

[45] Law n. 10/VI/2002, art. 29.5.

is recorded by the technical staff and verified by the senior staff at the section. The commercial bank sends the amortization profile to SOF which is then inputted into the system. On a quarterly basis, stocks and payments are confirmed with the creditor- typically a local commercial bank.[46]

147. **The debt office is currently developing its own Debt Management Information System (DMIS) and all records are kept in spreadsheets.** Currently there 264 loans and 507 securities recorded but a smaller amount is disbursing and on-the-run securities. Despite the sizable portfolio, the authorities showed evidence they can manage the debt instruments individually and they can produce periodic, detailed reports (see DPI 4). Therefore, the use of the DMIS is not applicable.[47]

148. **There is no organizational division between those introducing new loan information, or new domestic debt issuances, and those checking for its accuracy.** Although a requirement under the DeMPA assessments for higher scores, in the case of Cape Verde, because of the relatively small size of its debt management office, this is implemented.

149. **Formal procedures to guide the process for debt recording are available to staff.** The recording and checking of new loans are undertaken in less than a month, except for guarantees, which is done on a quarterly basis. These are part of Procedures Manual prepared for SOF and approved in 2018. The Manual includes all DM operations including recording of new loans, debt service payments, issuance of domestic debt instruments, and preparing a strategy and reports.

150. **The minimum requirements for debt recording are met and the score is a "C".** All external debt loans are recorded within a week of signing the loan agreement. For domestic debt, the process takes approximately a day to input all the relevant information into the excel spreadsheet. Guarantees, on the other hand, are checked and verified on a quarterly basis. Verification of data input into the system is guided by a formal, approved set of procedures. Therefore, for higher scores, there should be an organizational separation from the initial recording and final confirmation, and all guarantees' transactions should be verified within a month of being given. Due to methodological changes the score is not directly comparable with the previous assessment.

DPI 12.2 - Debt payments

151. **External debt service payments are initiated at the back office and are subject to a two-person authorization.** Payment orders for external debt are prepared on a weekly basis for the following week. These orders are calculated by the technical staff in the External Debt section. They are checked against

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[46] The authorities do not keep a separate portfolio for on-lent credit or keep subsidiary agreements between the MoF and the SOEs in the DGT. On-lent credit is reported as sovereign debt. However, the UASE report details what's guaranteed and what's on-lent credit. - See DPI 10.1 and 10.2.

[47] Since there is no DMIS, and records are kept, sub-DPI 12.1.c2's assessment waives the requirement to use the DMIS.

the creditor's bill and sent to be approved by the senior staff at the Section. After it is verified, the payment order is inputted into the SIGOF (the PFM system) and signed off by the SOF's director. The Treasury Department then checks budgetary coverage of the expenditure, and it is approved, electronically, by the Treasury Director. The BCV then executes the payment and the Swift order is copied to the DGT, where it is sent to SOF to be inputted into the Excel database. The whole process takes about two days. Furthermore, monthly, all debt service payments are verified and checked in the database.

152. **A similar process is used for domestic debt service payments.** The BVCV sends a notification email to SOF, which checks the information against the data in the Excel file. Once verified, it is inputted into SIGOF and the payment order is executed by the BCV. This process takes a day, approximately. No technical arrears have been experienced for either external or domestic debt.[48]

153. **There is no organizational division between those initiating debt service payments and those checking for its accuracy.** Much as in the case of the previous section, although a requirement under the DeMPA assessments for higher scores, in the case of Cape Verde, because of the relatively small size of its debt management office, this is not implemented.

154. **Formal procedures for guiding the payment process are available.** This process is guided by the same formal procedures approved by the Ministry of Finance in 2018. These procedures, although dated in 2018, reflect current practices. The excel database is updated after a payment notice is received from the BCV daily. Payments follow a straight-through process. The steps described above are electronic once the payment order is inputted into SIGOF.

155. **Although payment instructions are subject to a two-person validation process, they are part of the same organizational structure and the score is a "C".** For higher scores, there should be organizational separation for preparing and verifying the various payment orders.[49] Due to methodological changes the score is not directly comparable with the previous 2016 DeMPA assessment.

DPI 13 - Data Security and Business Continuity

DPI	Score
13.1 - Data access, backups and IT infrastructure	B
13.2 - Business Continuity (BC) and Disaster Recovery (DR) Plans	D

[48] Since there is no DMIS, and payments are still generated based on their records, sub-DPI 12.2.c2's assessment waives the requirement to use the DMIS.

[49] According to the methodology, organizational separation requires units answering to different reporting lines to prepare, confirm and execute debt payments. See DeMPA 2021 for details

DPI 13.1 - Data access, backups, and IT infrastructure

156. **There is restricted access to the excel database files, and the Ministry's network.** Access permissions are granted by the SOF's director when new staff join the department and are implemented by the IT department at the Ministry of Finance, following a two-layer control process. The first one is an access right granted to staff at the Ministry of Finance to enter the Ministry's network, where the DM system is housed. The second layer of controls restrict access to the DM network and thus to the DM database (Excel file). No specific form is prepared or filled but access approval needs to follow the procedures designed by the IT department, which includes the need for the head of the requesting Department to send an email, including some standard information about the person requesting access. When leaving SOF, the staff goes through a similar procedure to be excluded from access to the network. Each person is issued a password to access the main files.

157. **There are regular and weekly backups of the debt transaction stored in the Ministry's network.** All debt management records are digitalized and stored at the Ministry's network. The backups are stored at a Data Center housed outside the MoF building, which is secured and fireproof. It is called NOSI (*Núcleo Operacional Para a Sociedade de Informação*) and was created to house all Government's records. They are already building an extension and a new disaster recovery data center 200 km away from the MoF.

158. **The existing IT support includes assistance in the process of designing and building the new debt recording system.** The IT department at the MoF had already provided assistance to SOF when it built its excel database. Furthermore, in the past year, they have been at the core of the process for designing and preparing the new DMIS. They have been trained by the Portuguese IT company developing the new DMIS, in order to provide the necessary support to the SOF staff.

159. **The staff can operate remotely at this time**. The IT structure supports remote working, which was implemented during the recent COVID-19 pandemic lockdown, when staff were instructed to operate from home and not to come to the office. It was at that time that they deployed a comprehensive IT infrastructure to support remote access to the system to guarantee an up-to-date database and payments.

160. **There are no audit trails from the debt information system.** The current version in excel does not support audit trails and actions performed by the staff while accessing the system cannot be tracked. Furthermore, there is no integration between the excel database and the existing financial management information system (SIGOF).

161. **Data access, backups and the IT infrastructure meet the requirements for a "B" score.** For a higher score ("A"), an audit trail should be available to track actions by staff, backups should take place daily, and the debt recording system should be linked to the SIGOF. The score is not directly comparable with the previous 2016 DeMPA assessment due to methodological changes.

DPI 13.2 - Business Continuity (BC) and Disaster Recovery (DR) Plans

162. **There are no business continuity and disaster recovery plans available at the Ministry of Finance.** The lack of operational risk management reveals there is plenty of room for improvement in this area, which is also linked to PFM practices.

163. **A business continuity plan is not in place; therefore, the score is a "D".** A formal business continuity plan needs to be prepared and tested successfully to improve this score. It is the same score given in the last 2016 DeMPA evaluation.

DPI 14 - Debt Related Records

DPI	Score
14.1 - Completeness and timeliness of central government debt records	**D**
14.2 - Secure registry systems and debt holder	**D**

DPI 14.1 - Completeness and timeliness of central government debt records

164. **All public debt information and related transactions are recorded in the existing excel file.** The authorities have mentioned that recording of new external loans onto the spreadsheet is carried out within a week, at the most. Debt service payments and disbursements are also registered within a week. Staff at SOF validate their debt records against creditors' invoices and websites. The system also maintains up-to-date Government guarantees records. The original loans that are subsequently on-lent to SOEs are a subset of the sovereign debt and are kept in the excel files.

165. **Records kept in spreadsheets are prone to operational risk and are not as robust as a full-fledged debt management information system.** Although staff at SOF maintain up to date and complete debt records in the existing excel spreadsheet, because of the complexities in calculating accurate interest payments, the system cannot be considered 100 percent accurate. Staff has mitigated this lack of accuracy by inputting amortization profiles directly from each loan agreement into the spreadsheet. For interest payment projections, the excel spreadsheet only calculates it on an annual basis and it is used for budgetary purposes. Also, the current files would not allow the inputting complex loan agreements and instruments.

166. **Against existing shortcomings, SOF has carried out a project for the design and implementation of a new debt management system.** In 2020, after a competitive bidding process, a Portuguese company was selected to design and build a new debt management system that is expected to become operational later in the year. It is Oracle-based and is already operational. Domestic debt records have already been introduced and the staff is in the process of introducing external debt data. SOF's staff has been trained by the company on how to operate it and it is expected to facilitate modern debt management functions.

Linkages between the new system and the Ministry-wide IT system have already been designed and are in the process of being implemented.

167. **The excel spreadsheet is used to provide inputs for the annual budget and all of the debt reporting publications.** The information extracted from the system is used to produce public debt reports and reporting to Parliament. Cost and risk indicators included in the debt reports are calculated using the excel spreadsheet.

168. **Although debt records in the excel spreadsheet are deemed complete, this arrangement does not comply with modern debt management. The score is therefore a "D".** Once the new debt management system is operational, this score is bound to improve and will be reflected in future evaluations. The score in the last 2016 DeMPA evaluation was the same because at the time, the database was not updated and the old CS-DRMS system was being used.

DPI 14.2 - Secure registry systems and debt holders

169. **All Treasury securities negotiated on the market are issued in electronic form (dematerialized**). As mentioned, the *Bolsa de Valores* (Stock Exchange-BVCV) is the central custodian for Treasury's bills and bonds and conducts all auctions. All participating financial institutions have an account with the BCV, differentiating the securities held on their own behalf from those held on behalf of third parties. The BVCV uses a digital platform (POS) to conduct domestic debt auctions that is linked to SIFOX, which is another platform that links investors, the BVCV 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 on the secondary market, SIFOX advises the BCV to debit 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 an accurate and up-to-date record of the holders of government securities using a Delivery vs Payment system.

170. **Since 2013, the BVCV has been keeping the registrar of government securities issued in the domestic market, which are dematerialized.** Back up of all operations is conducted daily and is kept at the NOSI Data Centre, a secure, fire, theft and flood protected facility. 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. The last such audit that included internal controls and operational risks was conducted more than three years ago.

171. **Because of the lack of an annual audit of internal controls and operational risks, the score for this section is a "D".** In the previous 2016 DeMPA evaluation, the same score was given for the same reason.

DPI 15 - Debt Management Information Systems

DPI	Score
15.1 - The use of Debt Management Information Systems (DMIS)	**NA**

DPI 15.1 – Use of Debt Management Information Systems

172. **Based on the evidence provided, the mission assessed that the existing debt recording system did not comply with the requirements of modern debt management practices.** Although all debt records and guarantees are up to date, the use of an excel spreadsheet to maintain debt records is considered to not comply with modern standards. Furthermore, it does not provide audit trails.

173. **Reporting and cost-risk indicators are based on the data from the Excel spreadsheet.** The information extracted from the system is used to produce existing public debt reports, including cost-risk indicators.

174. **The authorities use the spreadsheet to track the debt service and to start the payment process by checking the records with the invoices received from creditors.** This is not necessary for domestic securities as the payments due are reported by the BVCV system.

175. **SOF has been benefiting from the support provided by the IT department at the MoF.** The IT department has been supporting SOF throughout the process for designing and building the new debt management system, which started two years ago. Furthermore, it has provided support for controlling access to the Ministry's network and for granting remote access to it. After the start of the pandemic, IT went house by house to upload the necessary access tools so that staff could continue their debt management related functions remotely.

176. **Based on the above information, this indicator is deemed as not applicable, and the score is "NA".** The score may change when the DMIS under development becomes operational.

Annex 1: Staff met during the DeMPA mission (Apr 2022)

Name	Organization	Position
Alberto Soares	BCA	Analyst
Ricardo Matos	BCA	Analyst
Carlos Furtado	BCV	Monetary Policy
Carlos Rocha	BCV	Monetary Policy
Antão Chantre	Caixa	Director
Antonio Moreira	Caixa	CEO
Célia Santos	Caixa	Director
Carlos de Oliveira	DGPOG	HR
Soeli Santos	DGT	Head
Gilson Pina	DNP	Head
Daniel Silva	INPS	Analyst
Indira Pereira	INPS	Director
Adilsom Semedo	SGR/DGT	Analyst
Anita Carvalho	SGR/DGT	Head
Samira Santos	SGR/DGT	Analyst
Alberto Neves Silva	SOF/DGT	Analyst
Denise Ramos	SOF/DGT	Analyst
Emanuel Moreira	SOF/DGT	Analyst
João Apolônio Furtado	SOF/DGT	Analyst
Malaquias Gomes Lopes	SOF/DGT	Head
Marco Inocêncio	SOF/DGT	Analyst
Edmilson Mendonça	Stock Exchange	-
Edney Cabral	Stock Exchange	-
Marcia Teixeira	Stock Exchange	-
Miguel Monteiro	Stock Exchange	President
Ana Tania Furtado	Audit Court	Diretora
Claudio Semedo	Audit Court	Juiz Conselheiro
João Silva	Audit Court	Head
Luis da Veiga	Audit Court	Diretor Geral
Maria Patricia Rosa	Audit Court	Diretora
Admilson Afonso	UASE	Analyst
Sandeney Fernandes	UASE	Head
Daniel Moreno	UTIC	IT - Analyst
Dedier Lima	UTIC	IT- Head
Odair Fontes	UTIC	IT - Analyst
Daniel Reyes	WB	MTI/ Senior Country Economist
Eneida Fernandes	WB	Resident Representative
Oscar Escudero	WB	SAWU1 / Senior Disaster Risk Management Specialist
Rosa Delgado	WB	MTI/ Country Economist
Sandro de Brito	WB	STC

Annex 2 – Evolution of DeMPA scores over time and Reform Implementation

This annex briefly describes the evolution of DeMPA selected scoring since the last assessment undertaken in 2016 and the implementation of reforms based on past DeMPA findings. See page 15 for a summary of performance assessment.

Some scores are not directly comparable, and the description below adjusted for different scores reflecting similar assessment (content evaluated).

Of the current 35 DPIs:

- 7 improved the score
- 1 deteriorated (3.1)
- 15 remained the same
- The remaining 12 are not directly comparable

<u>Highlights of scoring upgrades:</u>

A change in methodology: measured managerial structure (DPI 2.1 and 2.2) by itself, separate from other DPIs so as to not doubly penalize the debtor. For example, the managerial structure for debt was scored separately from whether a formal DMS was in place (DPI-3), and the managerial structure for guarantees was scored separately from the legal framework (DPI-1).

i. Recent legislation approved in 2018 helped the upgrade regarding central government legal framework (DPI 1.1).
    - Most of the legislation related to debt management is now improved; however, some provisions related to guarantees and on-lending have not been implemented, thus preventing the highest score.

ii. Debt reporting has improved substantially for the SOEs, and the government seeks to include municipal non-guaranteed debt in their publications by mid-2023.

iii. On the managerial side, the coordination between DNT and DGP has been formalized and is observed in practice.

iv. Domestic debt operations are well managed and transparent. Market participants are comfortable with the practice and procedures in the primary market.

v. External debt negotiation has the full support from legal advisors

vi. The issuance of Guarantees follows a well-defined process and is centralized. Higher scores could be achieved if recovery mechanisms were to be in place to control for credit risk. The authorities plan to tackle the guarantees recovery mechanisms in the next 12 months.

vii. The accuracy of cash flow forecasts has improved, and estimates extend to 12 months ahead and are broken down by week.

<u>Highlights of scoring downgrades:</u>

viii. Developing the DMS with good quality content is an important aspect that is missing. The SOF used to publish a DMS in the past and has stopped doing so since 2019. This is the only aspect that has deteriorated since the last DeMPA in 2016.

Areas that can improve:

Some areas have underperformed and remain to observe progress. For example:

ix. Approving and publishing the strategy (once developed). This includes the medium-term debt management strategy and the annual borrowing plan. The preparation of the DMS will help with 3 indicators (DPIs 3.1, 3.2, 3.3).
x. Audits in public debt are not undertaken (DPIs 5.1, 5.2).
xi. Producing a Debt Sustainability Analysis (DPI 6.3)
xii. Information sharing of Debt Transactions and Cash Flows with the central bank; there is no evidence of this happening (DPI 7.2).
xiii. The analysis of external debt loans should go beyond verifying the concessionality of the terms (DPI 9.1).
xiv. Cash balances are not remunerated (DPI 11.2).
xv. Debt records may improve with the development of the DMIS (DPI 14).