



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 05-May-2022 | Report No: PIDC33661



BASIC INFORMATION

A. Basic Project Data

Country Cabo Verde	Project ID P176148	Project Name Cabo Verde: Second Resilient and Equitable Recovery DPF with a Cat DDO (P176148)	Parent Project ID (if any) P174754
Region WESTERN AND CENTRAL AFRICA	Estimated Board Date Nov 08, 2022	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Cabo Verde	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

The program development objective is to support the Government’s efforts to strengthen the foundations for an equitable and sustainable private sector-led recovery.

Financing (in US\$, Millions)

SUMMARY

Total Financing	20.00
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DETAILS

Total World Bank Group Financing	20.00
World Bank Lending	20.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The shock resulting from COVID-19 produced 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 benefiting from deep structural reforms, including reforms in the SOE sector, fiscal



restraint, 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). Increased fiscal pressure has reversed the gradual reduction in public debt, raising the urgency of measures to reduce fiscal risks and increase debt transparency. The debt-to-GDP ratio declined from 128.4 percent in 2016, to 124.2 percent in 2019, but rose to 154.9 percent in 2020 due to the fallout from the COVID-19 crisis. The crisis also impacted the financial performance of an already weak SOE sector, requiring emergency fiscal support. Economic activity expanded by 7 percent in 2021, magnified by base effects. However, the Ukraine war has exacerbated inflationary pressures and reduced growth prospects in 2022, highlighting the vulnerability of the country to external shocks. Cabo Verde remains highly exposed to the negative impacts of disaster and climate-related risks. Over the last decade, economic losses from disaster and climate-related shocks have been on an upward trend, revealing the increasing exposure and vulnerability of the archipelago.

The macroeconomic policy framework is deemed adequate for the proposed operation. While the economy remains vulnerable in face of uncertainty surrounding the COVID-19 pandemic and the impact of the war in Ukraine on global food and fuel prices, the macroeconomic and structural policies the authorities are pursuing should support growth to gradually recover over the medium term. A return to fiscal consolidation and key structural reforms, particularly in the SOE sector, will support growth. The Government has a good track record in and is committed to fiscal consolidation to return to fiscal sustainability. Although the risk of debt distress is high, public debt remains sustainable. In alignment with the Government's recovery plan –Cabo Verde Ambition 2030–, this operation supports reforms to strengthen the foundation for a resilient and sustainable private sector-led recovery and a return to fiscal sustainability.

Relationship to CPF

The reform program supported by the DPF is consistent with the objectives of the Cabo Verde 2020 -2025 CPF (report number 127164-CV). Pillar A supports the CPF's third objective supporting increased fiscal and macroeconomic resilience and manage the economic impact of climate shocks. Pillar B supports the CPF's second objective to overhaul of social assistance, with a focus on productive inclusion. Finally, Pillar C also supports the CPF's third objective of improving the foundations for private sector growth. The proposed operation will advance reforms that meet the goals of the CPF, reinforcing the country's fiscal position as it seeks to return to a sustainable growth path and adjust its development model towards greater private sector participation.

C. Proposed Development Objective(s)

The program development objective is to support the Government's efforts to strengthen the foundations for an equitable and sustainable private sector-led recovery.

Key Results

- 1. Reduce Fiscal Risks and Improve Debt Transparency:** Strengthening the fiscal risk management framework will help reduce Cabo Verde's vulnerability to external shocks, thereby contributing to enhance fiscal sustainability in the medium term.
- 2. Strengthen the Resilience of Poor and Vulnerable Households, particularly women, to external shocks, including climate related:** Strengthening the shock-responsiveness of the safety net will enable it to better support households by building their resilience to cope with the impacts of external shocks, including droughts.



- 3. Enable a Sustainable Private Sector-Led Recovery:** It is expected that the tourism sector becomes more sustainable, resilient, and diversified across niches and islands, and better linked to the country's natural and cultural assets.

D. Concept Description

The proposed operation is the second in a programmatic series of two single-tranche DPFs designed to support Cabo Verde to achieve faster, equitable, and resilient growth over the medium term. The DPF series is closely aligned with the Government's priorities established in the PEDS, the Cabo Verde Ambition 2030, the ENDRR, and the 2020 NDC. The series complements other activities to address fiscal risks, including those associated with disaster and climate-related shocks, and debt transparency – notably through the PPAs SDFP, social protection, the ongoing Cat DDO and associated TA program closing in June 2022 and TA to the tourism sector. Specifically, the series supports the authorities in their efforts to recover after the COVID-19 crisis and to reposition the role of the state in the economy, by promoting private sector recovery and growth. Acknowledging the need to increase resilience to disaster and climate-related shocks to ensure the sustainability of the future Cabo Verdean growth model, this operation includes a Catastrophic Drawdown Option (Cat DDO) to support the authorities' efforts to strengthen the management of disaster and climate-related risks as well as reducing vulnerabilities in key economic sectors and provide contingent financing to help safeguarding consolidation efforts. This hybrid operation also supports measures to increase debt transparency and reduce fiscal risks while strengthening the resilience of the most vulnerable to shocks.

The series is structured around three mutually reinforcing policy areas:

- **Pillar A aims to improve debt transparency, reduce fiscal risks from SOEs, and enhance disaster risk management.** The COVID-19 crisis derailed fiscal consolidation efforts, halted SOE reforms, and significantly increased public debt. Fiscal buffers to respond to exogenous crisis were exhausted, including the previous CAT DDO operation that was triggered on April 30, 2020 (IBRD portion) and May 5, 2020 (IDA portion) to support Government's early response to the COVID-19 crisis. Current Government efforts are focused on increasing debt management and transparency as well as enhancing the institutional and technical capabilities required to ensure the full integration of contingent liabilities into the fiscal policy framework, including those associated with disaster and climate-related shocks. The reforms supported by this pillar include (i) strengthening the framework regulating the issuances of state guarantees; (ii) increasing the coverage of public debt reporting; and (iii) establishing a coordination and oversight framework for fiscal risks.
- **Pillar B seeks to strengthen the resilience of the poor and vulnerable, particularly women, to covariate shocks including from climate-related events.** The COVID-19 crisis and the Ukraine war disproportionately impacted the poorest and most vulnerable households, particularly female headed. In response to the COVID-19 crisis, the Government scaled up the existing safety net, using the social protection delivery systems already in place and provided/extended emergency cash transfers. This pillar seeks to build on this progress and continue to strengthen the social protection system by (i) strengthening the safety net to respond covariate shocks, including droughts; (ii) expanding the use of the National Emergency Fund to respond to droughts and public health-related events; and (iii) strengthening the management and use of the social registry, including ensuring feedback of data into the social registry related to support for targeted households to enable better coordination and ensure that there is no overlap in support to households.
- **Pillar C supports a sustainable and climate resilient private sector-led recovery.** The COVID-19 pandemic caused an unprecedented shock to the country's growth engines, notably the tourism sector, and created an opportunity to



pursue needed structural reforms to build forward better. This pillar builds on private sector-led reform progress in the blue economy –a sector with high growth potential– as well as in the tourism sector to attract new and resilient private sector investment. It includes reforms aiming at (i) increasing the operational performance of the electricity utility company and bringing private investment; (ii) enhancing the licensing of tourism accommodations in line with the National Disaster Risk Reduction strategy; and (iii) promoting the development of aquaculture with the updating of the institutional and licensing framework.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The prior actions supported by this operation are expected to significantly contribute to avoiding surges in chronic poverty in the short term, protect mostly women-led households, and foster poverty reduction over the medium term. Reforms under pillar 2 would contribute to prevent vulnerable household from falling into poverty, particularly women, due to climate-related shocks, and particularly droughts. Prior Action 7, which supports the power sector reforms, is expected to have positive poverty impacts through the reduction of electricity tariffs over the medium term. Prior Action 9, which support the aquaculture regulatory framework, will have a positive direct poverty impact through job creation and food security.

Environmental, Forests, and Other Natural Resource Aspects

The Government has made significant strides in developing a framework for environmental management and mainstreaming environmental sustainability in projects. The Government’s capacity for environmental management is adequate and will play a key role in maximizing the sustainability of the DFP reform program. The strengthening of capabilities of the social protection system to respond to covariate shocks, the reform in the energy sector, the enhancement of the planning and regulation for sustainable tourism, and the regulatory framework governing aquaculture are expected to have a significant positive environmental impact on climate adaptation and mitigation and support Cabo Verde in implementing its NDC. The remaining Prior Actions supported by the operation are not likely to have negative impacts on Cabo Verde’s environment, natural resources and forests.

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APPROVAL

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