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Report No: PGD269

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF SDR 21.2 MILLION
(EQUIVALENT TO US$30.0 MILLION)

TO THE

REPUBLIC OF CABO VERDE FOR THE

FIRST SUSTAINABLE AND EQUITABLE RECOVERY

DEVELOPMENT POLICY FINANCING

November 5, 2021

Macroeconomics, Trade And Investment Global Practice
Western and Central Africa Region

Republic of Cabo Verde

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of October 31, 2021)

Currency Unit = Cabo Verdean Escudos (CVE)

US$1.00 = CVE 94.70

US$1.00 = SDR 0.706

ABBREVIATIONS AND ACRONYMS

AdP	Portuguese Water Services Company (*Águas de Portugal*)	IMC	Multi-purposes Survey
AfDB	African Development Bank	IMF	International Monetary Fund
ASA	Airport Security Administration (*Aeroportos e Segurança Aérea*)	INPS	National Pension Fund (*Instituto Nacional de Previdência Social*)
AMI	Advanced Metering Infrastructure.	IPF	Investment Policy Financing
BCV	Central Bank of Cabo Verde (*Banco de Cabo Verde*)	M&E	Monitoring and Evaluation
BSG	Budget Support Group	MFIS	Ministry of Family and Social Inclusion (*Ministério da Família e Inclusão Social*)
CAD	Current Account Deficit	MSME	Micro, Small, and Medium-sized Enterprise
CASUEB	Unified Strategic Framework for the Blue Economy	NDC	Nationally Determined Contribution
CAT DDO	Catastrophe Deferred Drawdown Option	NPL	Non-performing Loan
CPF	Country Partnership Framework	PCI	Policy Coordination Instrument
CPI	Consumer Price Index	PEDS	Strategic Plan for Sustainable Development (*Plano Estratégico de Desenvolvimento Sustentável*)
CSU	Single Social Registry (*Cadastro Social Único*)	PEFA	Public Expenditure and Financial Accountability
CVA	Cabo Verde Airlines	PFM	Public Financial Management
CVE	Cabo Verdean Escudos	PNIEB	National Investment Plan for the Blue Economy
DeMPA	Debt Management Performance Assessment	POT	Tourism Zoning Plan (*Plano de Ordenamento Turístico*)
DNA	National Directorate of Environment (*Direcção Nacional do Ambiente*)	PPA	Performance and Policy Action
DGPOG	General Directorate of Planning, Budget and Management *(Direcção Geral de Planeamento, Orçamento e Gestão*)	PPG	Public and Publicly Guaranteed
DNP	National Directorate of Planning (*Direção Nacional de Planeamento*)	PPP	Purchasing Power Parity
DPF	Development Policy Financing	PROMEB	Blue Economy Promotion Program
DSA	Debt Sustainability Assessment	PRSC	Poverty Reduction Support Credit
DSSI	Debt Service Suspension Initiative	PSIA	Poverty and Social Impact Analysis

ECOWAS	Economic Community of West African States	PV	Present Value
EDP	Portuguese Electric Utilities Company (*Energias de Portugal*)	REER	Real Effective Exchange Rate
EIA	Environmental Impact Assessments	RPP	Revenue Protection Program
ELECTRA	Public Water and Electricity Company (*Empresa de Electricidade e Água*)	RSI	Cash Transfer Program (*Rendimento Social de Inclusão*)
EMPROFAC	National Pharmaceutical Products Company (*Empresa Nacional de Produtos Farmacêuticos*)	RSO	Cash Transfer to Informal Workers (*Rendimento Solidário*)
ENAPOR	Cabo Verdean Port Authority (*Empresa Nacional de Administração dos Portos de Cabo Verde*)	SDFP	Sustainable Development Finance Policy
ESA	External Stability Assessment	SDG	Sustainable Development Goal
EU	European Union	SDR	Special Drawing Rights
FDI	Foreign Direct Investment	SIGOF	Integrated Budget and Financial Management System (*Sistema Integrado de Gestão Orçamental e Financeira*)
FMIS	Financial Management Information System	SOE	State-Owned Enterprise
GDP	Gross Domestic Product	SSA	Sub-Saharan Africa
GHG	Greenhouse Gas	TA	Technical Assistance
GNI	Gross National Income	TSA	Treasury Single Account
GoCV	Government of Cabo Verde	TSO	Transmission System Operator
IBRD	International Bank for Reconstruction and Development	UASE	SOE Monitoring Unit at the Ministry of Finance (*Unidade de Acompanhamento do Setor Empresarial do Estado*)
ICT	Information and Communications Technology	US$	United States Dollar
IDA	International Development Association	VAT	Value-added Tax
IDRF	Household Income and Expenditure Survey (*Inquérito às Despesas e Receitas das Famílias*)	WB	World Bank
IFH	Real Estate and Housing Fund (*Imobiliária Fundiaria e Habitat*)	WBG	World Bank Group
IFRS	International Financial Reporting Standards	ZDTI	Integrated Tourism Development Zones *(Zonas de Desenvolvimento Turístico Integrado)*

Regional Vice President:	Ousmane Diagana
Country Director:	Nathan M. Belete
Regional Director:	Abebe Adugna Dadi
Practice Manager:	Theo David Thomas
Task Team Leader:	Jose Daniel Reyes, Cristina Navarrete Moreno

REPUBLIC OF CABO VERDE

CABO VERDE: FIRST SUSTAINABLE AND EQUITABLE RECOVERY DEVELOPMENT POLICY FINANCING (DPF)

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The proposed credit was prepared by an IDA team led by Jose Daniel Reyes (Senior Economist, EAWM1) and Cristina Navarrete Moreno (Senior Private Sector Specialist, EAWF1), under the guidance of Nathan M. Belete (Country Director, AWCF1), Abebe Adugna Dani (Regional Director, EAWDR), and Theo David Thomas (Practice Manager, EAWM1). The team consisted of Emma Mistiaen (Senior Social Protection Specialist, HAWS2), Rosa Delgado (EAWM1), Cigdem Aslan (Lead Debt Specialist, EMFMD), Rodrigo Cabral (Senior Debt Specialist, EMFMD), Philippe Ambrosi (Senior Environmental Economist, SAWE1), Veruschka Schmidt (Environmental Specialist, SAWE1), Randall Brummett (Senior Fisheries Specialist), Celine Ramstein (Climate Change Specialist, SCCAO), Thierno Bah (Senior Energy Specialist, IAWE2), Megan Meyer (Senior Energy Specialist, ILCE1), Pedro Antmann (Lead Energy Specialist, IEEGK), Djibril Ndoye (Economist, EAWPV), Sering Touray (Economist, EAWPV), Miriam Muller (Social Scientist, EAWPV), Jessie Kilembe (Young Professional, EMFMD), Sebastian Essl (Economist, EMFMD), António Baptista (Consultant, EAWF1), Timothy Irwin (Consultant, EMFMD), Cassandro Mendes (Consultant, EA2WN1), Micky Ananth (Operations Analyst, EAWM1), Theresa Bampoe (Program Assistant, EAWM1) and Maude Valembrun (Program Assistant, EAWM1). The team benefited from comments from Edouard AL-Dahdah (Program Leader, EAWDR), Farouk Mollah Banna (Sector Leader, SAWDR), Markus Kitzmuller (Lead Economist, EAWDR), Ernest Sergenti (Senior Economist, EAWM1), Eneida Fernandes (Resident Representative, AWMCV), Consolate Rusagara (Practice Manager, EAWF1), Kwawu Mensan Gaba (Practice Manager, IAWE2), and Jehan Arulpragasam (Practice Manager, HAWS2). The peer reviewers are Philip Schuler (Lead Economist, EAEM1), Barbara Cunha (Senior Economist, ELCMU) and Erik von Uexkull (Senior Economist, ELCMU).

SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P174754	Yes	1st in a series of 2

Proposed Development Objective(s)

"The program development objective is to (i) reduce fiscal risks and improve debt transparency; (ii) strengthen the resilience of poor and vulnerable households and particularly women; and (iii) enable a sustainable private sector-led recovery."

Organizations

Borrower: CABO VERDE

Implementing Agency: MINISTRY OF FINANCES

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**30.00**

DETAILS

International Development Association (IDA)	30.00
IDA Credit	30.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial

Results

Indicator Name	Baseline (2020)	Target (2023)
Result Indicator 1: Large fiscal risks are quantified and inform the preparation of the MTDS and the budget	N/A	2
Result Indicator 2: Support to SOEs (capitalization, guarantees, on-lending) above what is established in the annual budget (percent)	30	10
Result Indicator 3: Number of households benefitting from temporary income support in response to shocks through an emergency cash transfer program, disaggregated by gender (cumulative).	5,450 households, 4,578 female-headed (84%)	20,000 households, 16,000 female-headed (80%)
Result Indicator 4: Percentage of additional households identified using the social registry that are from the two poorest quintiles.	0	50%
Result Indicator 5: Improved ELECTRA's commercial operational performance: Overall system losses (percentage).	26.1%	25%[1]
Result Indicator 6: New tourism investment projects approved in ZDTIs under official Tourism Zoning Plans and new EIA approval and disclosure standards (percentage of total number of new investments in ZDTIs).	N/A	80
Result Indicator 7: Total investments generated in aquaculture (US$ million)	6	9

[1] As per current timeline, the process for privatization of ELECTRA is likely to be finalized in early 2023, hence the reductions by end 2023 are modest. However, system losses are expected to reduce to 23 percent in 2024 and 21 percent in in 2025.

IDA PROGRAM DOCUMENT FOR A PROPOSED *CREDIT* TO *REPUBLIC OF CABO VERDE*

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Development Policy Financing (DPF) supports Cabo Verde's efforts to lay the foundations for a sustainable, equitable, and greener economic recovery.** The program development objective is to: (i) reduce fiscal risks and improve debt transparency; (ii) strengthen the resilience of poor and vulnerable households and particularly women; and (iii) enable a sustainable private sector-led recovery. The financing for the operation is an International Development Association (IDA) credit in the amount of SDR 21.2 million (US$30 million equivalent) and is the first of two single-tranche DPF operations in a programmatic series, continuing support to stem the impact of the COVID-19 crisis and transformative reforms to build back better. The series is closely aligned with the priorities the Government outlined in their recovery strategy (*Cabo Verde Ambição* 2030). The series leverages previous and ongoing World Bank activities, including the State-Owned Enterprises (SOEs) Related Fiscal Risk Management Project (P160796), supporting the restructuring of the SOE sector; the Social Inclusion Project (P165267), reinforcing the social protection response to the crisis; and the Competitiveness for Tourism Development Project (P146666), providing technical assistance (TA) to strengthen the institutional capacity and regulatory framework of the sector. The series forms a central part of the World Bank Group (WBG) 2020-2025 Country Partnership Framework for Cabo Verde (CPF, 127164-CV).

2. **The impact and persistence of the pandemic 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 has 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). The main transmission channels through which the exogenous economic shock impacted the country are (i) the tourism sector, which represents 25 percent of GDP and drives around 40 percent of overall economic activity; and (ii) Foreign Direct Investment (FDI), a critical source of external finances and key driver of growth. 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 (Annex 5).

3. **Increased fiscal pressure reversed the gradual reduction in public debt raising the urgency of measures to reduce fiscal risks and increase debt transparency.** Starting in 2016, a successful fiscal consolidation program put public debt (as a share of GDP) on a declining path. The overall fiscal deficit fell from 7.6 percent of GDP in 2014, to 1.8 percent in 2019. Consequently, the debt-to-GDP ratio declined from 128.4 percent in 2016, to 124.2 percent in 2019, but rose to 155.2 percent in 2020 due to the fallout from the COVID-19 crisis. Nevertheless, public debt remains sustainable according to the Debt Sustainability Assessment (DSA) updated by the World Bank for this operation. Debt service ratios remain below relevant thresholds due to the high share of concessional debt, which is characterized by long maturities and low interest rates, even as the overall and external risk of debt distress remains high.

4. **The crisis impacted the financial performance of an already weak SOE sector, requiring emergency fiscal support, further exacerbating fiscal risks, and leading to the reversal of the privatization of Cabo Verde Airlines (CVA).** The authorities extended loan guarantees amounting to

US$54.1 million in 2020 to support financially distressed SOEs, with CVA accounting for almost half of this amount. Until July 2021, additional loan guarantees were US$34.3 million, driven by CVA (US$20.2 million). Capitalization of SOEs accounted for US$7.8 million in 2020, with NEWCO (the Special Purpose Vehicle created to absorb CVA debt before privatization) being the largest recipient with US$5.6 million. In July 2021, authorities reversed the privatization of CVA on the grounds of fiscal responsibility, following the exceptional high financial uncertainty of the company, which could trigger contingent liabilities totaling US$47 million (2.8 percent of GDP). The authorities are developing a plan to restructuring the company for a period of 18-months, starting in 2022, conducing to a re-privatization by 2025.

5. **The COVID-19 crisis reversed the progress in poverty reduction achieved since 2015.** Cabo Verde witnessed significant poverty reduction over the last decade. Using a national poverty line equivalent to US$5.5 in purchasing power parity (PPP) terms per person per day in 2015 prices, the incidence of poverty was projected to fall from 41.3 percent in 2015 to 34 percent in 2020. Extreme poverty, defined as those below the national food poverty line (PPP US$1.9 per person in 2015), was expected to drop from 3.3 percent to 2 percent during the same period. The economic impact of the crisis increased the national (extreme) poverty rate to 42 (3.7) percent in 2020. With the progressive resumption of economic growth, the national (extreme) poverty rate is projected to fall back to 38.9 (3) percent in 2022.

6. **The crisis also threatens the survival of otherwise viable firms.** Both domestic and multinational companies have been negatively impacted, particularly in the tourism sector. Economic activity is characterized by a large presence of micro, small and medium-size companies (MSMEs). There is a strong concentration of companies in commerce (44.6 percent) and hospitality (16.2 percent) – sectors vulnerable to external shocks. According to the National Statistics Institute, around 20 percent of national companies suspended their activities following the declaration of a state of emergency in March 2020. About 83 percent of firms suffered a reduction in business turnover during the second quarter of 2020, whereas 43 percent reduced their effective workforce. In the tourism sector, 77 percent of firms reported temporarily closing during the same period.

7. **Cabo Verde is also particularly exposed to climate shocks, including extreme weather events, desertification of land, persistent droughts, heavy rains, and sea-level rise.** As a result, the archipelago faces severe adaptation challenges associated with water resources availability, land degradation, coastal erosion, and flooding. Sea level is projected to rise from 0.26 m to 0.98 m over the next 60-80 years, which will increase coastal submersion, erosion, and salinity. There is more than a 20 percent chance of potentially damaging coastal flood waves occurring in the next 10 years. Shoreline erosion caused by sea level rise is already a significant problem to coastal ports and beaches. Critical infrastructure, such as seaports and roads, are at risk as well as human settlements, as 80 percent of the population live along 1,000 km long coastline. Cabo Verde recently updated its Nationally Determined Contribution (NDC) that seeks to achieve substantial mitigation benefits, estimated at 18 to 24 percent of reduction in economy-wide greenhouse gas (GHG) emissions by 2030, as well as a lasting adaptation impact in terms of food, water, and energy security.

8. **This DPF supports reforms to strengthen the foundation for an equitable and sustainable private sector-led recovery and a return to fiscal sustainability.** Tackling fiscal vulnerabilities arising from loss-making SOEs and improving debt transparency are paramount to support fiscal and debt sustainability, and the recovery of the economy. In addition, the rapid social protection response to the

crisis is an opportunity to cement reforms aimed at increasing the resilience of social safety nets, including to climate-related shocks. Finally, supporting reforms to increase private investment that mitigates the impact of climate change, while supporting economic diversification is also important to increase the resilience of the economy to external shocks. As such, this DPF is structured around three mutually reinforcing pillars:

- **Pillar A aims to improve debt transparency and reduce fiscal risks from SOEs:** The reform program includes measures to (i) strengthen fiscal risk management, including the adoption of a framework to issue state guarantees and (ii) reduce fiscal risks by improving the quality, frequency, and coverage of public debt reporting, including from SOEs.

- **Pillar B seeks to strengthen the resilience of poor and vulnerable households to shocks, particularly women and including climate-related shocks.** This pillar builds on the COVID-19 response program and continues to strengthen the social protection system by (i) supporting the continued use of safety nets to respond to COVID-19 in the short-term and further strengthening the shock-responsiveness of the safety net system in the medium-term and (ii) strengthening the usability of the social registry, enabling broader usage for targeted service delivery.

- **Pillar C supports a sustainable private sector-led recovery:** This pillar promotes socially and environmentally responsible private investment for a more resilient recovery by (i) supporting reforms of the electricity sector to attract private investment to lower the cost of services, strengthen energy independence, and reduce GHG emissions; (ii) promoting harmonized, streamlined and more predictable regulations for sustainable private sector investment in the tourism sector; and (iii) supporting the sustainable development of aquaculture, as a core climate adaptation measure for the fisheries sector.

9. **The macroeconomic policy framework is deemed adequate for the proposed operation.** The Government acted swiftly to mitigate the health and economic impacts of the COVID-19 crisis. The World Bank, International Monetary Fund (IMF), and other development partners provided support to bridge the financing gap in 2020. Participation in the Debt Service Suspension Initiative (DSSI) supported the fiscal response to the crisis. Cabo Verde is one of the countries in Africa with the highest vaccination rates. As of October 2021, around 80 percent of the eligible population has been vaccinated with a least one dose while 50 percent is fully vaccinated. The country is on track to vaccinate all workers in the tourism sector and entry-point professionals by December 2021. Real GDP growth is projected to recover gradually in 2021 and average 5.1 percent between 2021 and 2023, driven by a progressive resumption of tourism, capital flows, and structural reforms. The Government is committed to the implementation of fiscal consolidation, including resuming SOE reforms. The change in the political party holding the Presidency in 2021 is unlikely to change policy direction but it will likely increase scrutiny of the SOE agenda. International reserves are expected to remain at a comfortable level over the medium term. Public debt is expected to return to a declining path and remain sustainable, although the risk of debt distress remains high. The macroeconomic framework is expected to be anchored in a program agreed with the IMF in the first quarter of 2022. A zero ceiling on non-concessional debt and improvements in the monitoring of fiscal risks from SOEs form the basis for the Performance Policy Actions (PPAs) agreed with the Government under IDA’s Sustainable Development Finance Policy (SDFP).

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

10. **Prior to the COVID-19 crisis, Cabo Verde experienced robust economic growth driven by a thriving tourism sector and deep structural reforms.** Between 2016 and 2019, growth averaged 4.7 percent (3.4 in per capita terms). Favorable global conditions coupled with important structural reforms, mainly impacting the SOE sector, supported growth. On the demand side, growth was driven by private investment and consumption (Table 1). On the supply side, growth was driven by tourism activities supported by robust economic conditions in Europe and growth in domestic non-tradable services.[2] The privatization efforts of the Government helped support investor and consumer confidence. Sustained and robust economic growth led to a decline in the unemployment rate to 11.3 percent in 2019, the lowest of the decade. However, high public debt levels, the result of support to loss-making SOEs, and an ineffective expansionary fiscal policy in the aftermath of the 2008 Global Financial Crisis threatened the macro framework. Public debt went from 58.2 percent of GDP in 2009 to 126 percent in 2015. [3]

11. **The impact and persistence of the COVID-19 crisis has posed unprecedented social and economic challenges.** The exogenous shock has negatively impacted Cabo Verde through two main transmission channels. First, the tourism sector, which represents 25 percent of GDP and drives around 40 percent of overall economic activity, suffered from worldwide travel restrictions. Second, the delay or cancelation of planned investment projects due to global uncertainty reduced FDI, a critical source of external finance and a key driver of growth. With a diaspora outnumbering the resident population, remittances provided a cushion to the crisis. Recognizing the large economic threat posed by the crisis, and despite very limited policy buffers available, the authorities quickly implemented decisive measures to contain and mitigate the health and economic impacts of the pandemic, including declaring a state of emergency for the first time in Cabo Verde's history, boosting cash transfers, granting temporary tax exemptions, deferring tax payments, and creating credits and guarantees to small businesses (see Annex 5).

12. **Consequently, GDP contracted by 14.8 percent in 2020 (15.7 percent in per-capita terms), the largest contraction on record and the second largest in SSA.** The sharp deceleration was driven by the shutdown of the tourism sector for nine months and the associated negative spillovers in upstream sectors. Overall, the services sector contracted by 19.2 percent while industrial output declined by 2 percent. Net exports were a drag on growth, with a reduction of exports of goods and services of 58.4 percent. In the first quarter of 2021, real GDP contracted by 11 percent driven mainly by the continued weak performance of the accommodations sectors and restaurant, transport and business services. In the sector quarter of 2021, real GDP grew by 30.8 percent, driven by the gradual reactivation of the tourism sectors. The sectors of accommodation and restaurants, transport, and construction led growth with 177,

[2] Tourism arrivals to Cabo Verde went from 381,000 in 2011 to 819,000 in 2019. The sector directly accounts for 25 percent of GDP, generating 23 percent of formal jobs, and accounting for 55 percent of overall exports of goods and services. Including indirect effects, the tourism sector represents around 40 percent of GDP.

[3] Between 2009 and 2015, real GDP growth averaged 1.1 percent (-0.2 percent in per capita terms). This period was marked by a sharp decline in FDI, which was only partly compensated for by an expansionary fiscal policy, which included increased public investment and augmented support to loss making SOEs. Returns on investments declined, highlighting weaknesses in the quality of some investments undertaken after the financial crisis.

142, and 67 percent, respectively. The crisis reversed the progress in poverty reduction achieved since 2015.

Table 1: Contribution to GDP Growth (Percentage Points)

	2016	2017	2018	2019	2020e	2021p	2022p	2023p
GDP Growth	**4.7**	**3.7**	**4.5**	**5.7**	**-14.8**	**4.0**	**5.2**	**6.1**
Demand Side								
Consumption								
Public	-1.1	1.3	0.4	0.8	0.1	0.4	0.2	0.2
Private	1.6	4.6	1.0	3.8	-7.3	2.5	3.3	3.9
Investment								
Public	-1.8	1.1	-0.6	0.2	-0.8	6.6	-5.7	-0.5
Private	8.4	3.4	2.2	-2.7	7.5	-6.0	7.7	2.3
Exports	1.9	3.2	5.2	4.2	-28.6	4.8	7.8	5.9
Imports	4.3	9.9	3.7	0.4	-14.3	4.3	8.1	5.7
Supply Side								
Agriculture	-0.4	-1.3	-1.6	-0.5	-0.4	0.0	0.1	0.1
Industry	0.5	2.3	1.6	1.6	-0.4	0.8	1.1	1.3
Services	4.6	2.7	4.5	4.6	-14.0	3.2	4.0	4.7

Source: Cabo Verdean authorities and WBG estimates and projections (August 2021).

13. **Low inflation and improved monetary conditions in the Euro Area facilitated an accommodative monetary policy stance in 2020.** 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. In response to the COVID-19 crisis, the Government implemented a monetary stimulus package, which increased bank liquidity and permitted debt repayment holidays. The measures included a reduction of the reference rate from 1.5 to 0.25 percent, the lending facility rate from 3 to 0.5 percent, and the standing deposit facility rate from 0.1 to 0.05 percent. Additionally, reserve requirements were reduced from 13 percent to 10 percent, and the rediscount rate from 5.5 to 1 percent. A new US$450 million credit line to banks was created, with 0.75 percent interest rate.

14. **Lower services exports weaken the external position, with the Current Account Deficit (CAD) increasing from 0.4 percent of GDP in 2019 to 16.5 percent in 2020.** At the end of 2019, international reserves stood at 6.9 months of prospective imports of goods and services, well above the level of 3.6 months recommended by the IMF 2019 External Stability Assessment (ESA). As such, they have helped support the accommodative monetary policy response to the COVID-19 shock. The sharp increase in the CAD in 2020 reflects lower services exports. Tourism arrivals declined by 70 percent in 2020. International reserves in 2020 are estimated to account for 7.8 months of prospective imports. The CAD improved in the first semester of 2021, reflecting the reduction in the trade and services deficits.

Table 2: Key Macroeconomic and Financial Indicators

	2016	2017	2018	2019	2020e	2021p	2022p	2023p
Real economy and prices								
GDP (nominal - CVE billion)	165.8	173.1	183.7	195.2	164.9	171.5	180.4	191.4
GDP growth (%)	4.7	3.7	4.5	5.7	-14.8	4.0	5.2	6.1
Inflation (deflator, %)	-0.2	0.7	1.5	0.6	1.0	1.2	1.4	1.5
Inflation (CPI average, %)	-1.4	0.8	1.3	1.1	0.6	1.0	1.5	1.5
Government financial operations (percent of GDP, unless stated otherwise)								
Revenue	26.6	28.6	28.2	29.4	26.6	30.8	30.3	29.5
Expenditures	29.6	31.6	30.9	31.2	35.4	44.5	35.6	33.2
Primary balance	-0.5	-0.4	-0.1	0.8	-5.9	-11.1	-2.4	-1.0
Overall balance	-3.0	-3.0	-2.7	-1.8	-8.8	-13.7	-5.4	-3.7
Total public debt	128.4	125.9	124.7	124.2	155.2	158.8	151.9	139.6
Domestic public debt	32.7	32.2	33.3	33.6	43.3	45.6	45.4	44.9
External public debt	95.7	93.7	91.4	90.6	111.9	113.2	106.5	94.7
External sector (percent of GDP, unless stated otherwise)								
Current Account Balance	-3.9	-7.8	-5.2	-0.4	-16.5	-13.5	-7.5	-3.7
Imports, Goods and Services (annual percentage change)	17.1	15.1	8.7	0.8	-22.5	7.9	13.1	8.6
Exports, Goods and Services (annual percentage change)	9.3	8.7	15.9	8.7	-58.4	20.2	28.1	17.6
Net FDI	7.1	5.4	4.7	4.2	4.2	4.1	4.2	4.2
Gross Reserves (months of imports)	6.1	5.5	5.6	6.9	7.8	6.4	6.2	5.9
Selected Monetary Accounts								
Credit to the economy (annual percentage change)	2.4	7.0	3.1	3.7	-1.9	6.9	8.6	6.5
Broad Money (annual percentage change)	5.5	6.5	1.4	8.4	7.1	4.9	7.2	7.9
Emigrant deposits/total deposits (%)	37.7	36.8	36.7	34.6	34.4	34.4	34.4	34.4
Memorandum items								
GDP (nominal – MM. of Euros)	1,663	1,570	1,666	1,770	1,495	1,555	1,636	1,736

Source: Cabo Verdean authorities and WBG estimates and projections (August 2021).

15. **To put public debt on a sustainable path, in 2016 the authorities initiated a revenue-driven fiscal consolidation program, which was halted in 2020.** Driven by a substantial increase in revenues and containment of expenditures, the primary balance improved steadily turning from a deficit of 0.5 percent of GDP in 2016 to a surplus of 0.8 percent in 2019.[4] Consequently, the overall fiscal deficit declined from 3 percent of GDP in 2016 to 1.8 percent of GDP in 2019. Total fiscal financing needs, including on-lending

[4] Expansionary fiscal policy in the aftermath of the 2009 financial global crisis led to growing fiscal financing needs and a ballooning in public debt. With a small fiscal multiplier, a largely ineffective counter-cyclical public investment program led to an increase in the overall fiscal deficit from 1.6 percent of GDP in 2008 to 12.4 percent in 2012, returning to a 3 percent by 2016. Weak central government fiscal performance, including current transfers to SOEs, was compounded by increasing below-the-line financial support to loss-making SOEs, notably to the Cabo Verde Airlines (CVA) and the social housing program. Growing fiscal financing needs and the provision of guarantees to SOEs fueled a rapid accumulation of PPG debt, which climbed from 57 percent of GDP in 2008 to peak at 128.4 percent of GDP in 2016.

to SOEs and recapitalization, fell from 5.6 percent of GDP in 2016 to 3.7 percent of GDP in 2018– before picking up in 2019 on the back of one-off support to the privatization of CVA. The fiscal consolidation plan included an ambitious plan to gradually disengage the state from SOEs, which resulted in the partial privatization of CVA and the concession for the provision of inter-island maritime services in 2019. Further progress on the SOE reform agenda, including the complete disinvestment from CVA and the privatization of the power utility company, was halted in 2020. The SOE sector remains the most significant source of fiscal risks. At the end of 2019, total liabilities from the six largest SOEs (Public Water and Electricity Company (*Empresa de Electricidade e Água,* ELECTRA), Real Estate and Housing Fund (*Imobiliária Fundiaria e Habitat,* IFH), NEWCO, National Pharmaceutical Products Company (*Empresa Nacional de Produtos Farmacêuticos,* EMPROFAC), Airport Security Administration (*Aeroportos e Segurança Aérea,* ASA), and Cabo Verdean Port Authority (*Empresa Nacional de Administração dos Portos de Cabo Verde,* ENAPOR) amounted to 36.8 percent of GDP, of which 6.7 percent of GDP is guaranteed by the Government.

16. **Driven by the contraction of the economy, fiscal revenue declined by 23.6 percent in nominal terms in 2020, reaching 26.6 percent of GDP.** Fiscal revenues had increased steadily since 2016, reaching 29.4 percent of GDP in 2019, owing to an increase in tax revenue by 2 percent of GDP. The improvement in tax revenue collection reflected the harmonization of value-added tax (VAT) rates at 15 percent across all sectors, the introduction of a new tax framework for micro and small enterprises, and new taxes on tourism and ecological related activities. Tax revenue declined to 19.3 percent of GDP in 2020, primarily reflecting a reduction in revenue from the tourism sector. All sources of taxes contracted but the largest decrease was taxes on goods and services, which declined from 10.6 percent of GDP in 2019 to 9.2 percent in 2020. The moratorium on tax payments granted to individuals and firms contributed to the poor performance of tax revenues. Non-tax revenue also contracted by 34.5 percent, reaching 3.8 percent of GDP, driven mostly by a loss in income in the SOE sector, particularly from the SOE in charge of the management of airports. Grants accounted for 3.2 percent of GDP in 2020.

17. **To respond to the urgent needs brought upon by the pandemic, and in-line with a responsible fiscal stance, the Government increased current expenditure and reduced capital investment in 2020, keeping total public expenditure broadly stable in nominal terms.** As a share of GDP, public expenditure increased from 31.2 percent of GDP in 2019 to 35.4 percent in 2020. Current spending increased by 5.3 percentage points (PPs), reaching 32.6 percent of GDP. This reflects additional spending for public health services, disease prevention and control, and support for hard-hit sectors. In addition, the increase in current spending also reflects the phased implementation of the Career and Salary Plan for several streams of the Public Administration, the increase in the number of pensioners, and payment of arrears. Capital expenditure declined by 39.5 percent, reaching 2.8 percent of GDP. As a result, total expenditures in nominal terms declined by 4.3 percent in 2020.

Table 3: Key Fiscal Indicators (% of GDP)

	2016	2017	2018	2019	2020e	2021p	2022p	2023p
Total Revenues	26.6	28.6	28.2	29.4	26.6	30.8	30.3	29.5
Tax revenues	19.5	20.7	22.1	21.5	19.3	19.9	22.2	22.7
Tax on income and profit	6.1	6.5	6.7	6.5	5.9	5.6	6.5	6.7
Tax on Goods and Services	9.0	9.7	10.8	10.6	9.2	9.6	10.4	10.7
Tax on trade	4.1	4.2	4.2	4.1	4.0	4.2	4.9	5.2
Other tax	0.3	0.3	0.4	0.3	0.3	0.5	0.4	0.0
Non-Tax revenues	4.4	4.2	4.7	4.9	3.8	7.0	6.0	5.9
Grants	2.7	3.7	1.4	3.2	3.2	3.0	2.0	1.0
Total Expenditure	29.6	31.6	30.9	31.2	35.4	44.5	35.6	33.2
Current expenditure	26.3	25.9	26.4	27.3	32.6	35.8	31.3	29.4
Compensation to employees	11.1	10.9	10.6	10.6	12.9	14.0	13.1	13.4
Goods and services	4.6	4.0	3.9	4.1	6.1	7.0	5.5	6.3
Interest payments	2.5	2.6	2.6	2.6	2.9	2.6	2.9	2.6
Subsidies	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.1
Current transfers	3.0	3.5	3.4	3.1	3.3	4.6	3.5	2.0
Social benefits	3.1	3.2	3.4	3.7	5.0	5.2	4.3	4.0
Other expenses	1.9	1.6	2.5	3.1	2.3	2.1	1.7	1.0
Net acquisition of nonfinancial assets	3.4	5.7	4.4	3.9	2.8	8.3	4.4	3.9
Primary fiscal balance	-0.5	-0.4	-0.1	0.8	-5.9	-11.1	-2.4	-1.0
Overall fiscal balance	-3.0	-3.0	-2.7	-1.8	-8.8	-13.7	-5.4	-3.7
Net other liabilities	-2.5	-0.4	-1.0	-3.3	-2.6	0.2	-0.2	-0.2
On-lending	-2.5	0.2	1.2	-1.1	-2.4	0.1	-0.2	-0.2
Capitalization	-0.9	-0.7	-2.2	-2.2	-0.8	-0.3	-1.3	0.0
Financing Needs	5.6	3.3	3.7	5.1	11.4	13.5	5.6	3.9
Total financing[1]	5.6	4.2	2.9	4.3	11.4	13.5	5.6	3.9
Net domestic financing	2.9	0.2	1.4	0.7	3.5	5.0	3.0	3.0
Net external financing	2.7	4.0	1.5	3.6	7.9	8.5	2.6	0.9
Net errors and omissions	0.0	0.8	-0.8	-0.8	0.0	0.0	0.0	0.0
Public Debt	128.4	125.9	124.7	124.1	155.0	158.8	151.9	139.6
External debt	95.7	93.7	91.4	90.6	111.7	113.2	106.5	94.7
Domestic debt	32.7	32.2	33.3	33.6	43.3	45.6	45.4	44.9

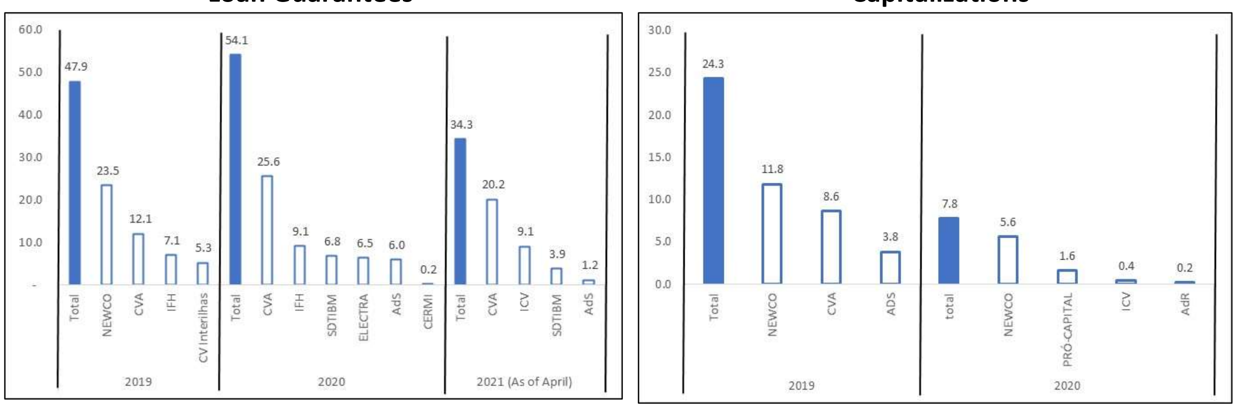
Source: Cabo Verdean authorities and WBG estimates and projections (August 2021).
1 Including on-lending and capitalization

18. **The crisis negatively impacted the financial performance of an already weak SOE sector, which required emergency fiscal support and led to the reversal of the privatization of CVA.** The authorities extended loan guarantees amounting to US$54.1 million in 2020 to support financially distressed SOEs, with CVA accounting for almost half of the amount of loan guarantees (US$25.6 million). Until April 2021, additional loan guarantees accounted for US$34.3 million, mostly driven by CVA (US$20.2 million). Capitalization to SOEs accounted for US$7.8 million in 2020, with NEWCO (the Special Purpose Vehicle

created to absorb CVA debt before privatization) being the largest recipient with US$5.6 million. The exceptional negative impact of the pandemic on the aviation sector led to the reversal of the privatization of CVA in July 2021 (Box 1). The increased exposure to contingent liabilities in 2020 added to already high fiscal risks. In 2019, SOEs' liabilities to entities outside the public sector amounted to 22.2 percent of GDP, of which 3.9 percent of GDP was explicitly government guaranteed. Even before the pandemic, the finances of many of the SOEs were poor. Notably, the electricity utility Electra had negative equity, had made a loss in each of the past four years, and could continue in business only with government support.[5]

Figure 1. Financial Support to SOEs (Millions of US$)

Loan Guarantees | **Capitalizations**



Source: Cabo Verde's Ministry of Finance.

Box 1. The Reversal of the Privatization of CVA.

With the goal of reducing the fiscal burden and increase service delivery and connectivity, the Government sold 51 percent of the CVA's shares to *Loftleidir Icelandic*, a subsidiary of *Icelandair*, in March 2019. The choice of the investor aimed at providing CVA with experienced management capacity based on an Air Hub business model capable of leveraging the strategic location of Cabo Verde into an international platform for business and tourism. The restructuring of the company before privatization involved a retrenchment program that concerned 207 people and the creation of a Special Purpose Vehicle entirely owned by the Government to absorb CVA's debt, estimated at around US$100 million. In December 2019, an additional 10 percent of CVA shares were sold, 7.5 percent to the diaspora (44 people) and 2.5 percent to the workers (91 employees). At the beginning of 2020 authorities had advanced conversations with a private investor to sell the 39 percent of shares of CVA, but the COVID-19 pandemic made impossible the completion of the deal. As of July 2021, the Government had 49 percent of CVA shares.

CVA's poor financial performance after privatization, exacerbated by the impact of the COVID-19 crisis in the aviation sector, led to an accumulation of debt of US$47.3 million (2.8 percent of GDP) and the accrual of arrears of US$17.8 million (1 percent of GDP). While operational revenue increased after privatization, the company

[5] Attempts to reduce losses of Electra Sul through the implementation of Revenue Protection Program (RPP), which included the incorporation of Advanced Metering Infrastructure (AMI) to large consumers to secure the revenues from sales to that "high value" segment, have been unsuccessful due to poor management and weak governance of the utility. Based on international experience, the privatization of Electra should result in better commercial management and ultimately to lower losses, particularly commercial losses, in line with the objectives of the recently approved Master Plan for the Power Sector (2018 – 2030).

reported losses (EBITDA) of US$66.1 million and US$38.3 million in 2019 and 2020, respectively. The lion share of debt is fully guaranteed by the Government (US$47.3 million). CVA was grounded in March 2020 because of the COVID-19 crisis. In March 2021, the Government and the investor agreed on a revised business plan to relaunch the airline. The plan included (i) a reduction in operational costs (fleet reduction from three to two airplanes, renegotiation of leasing costs, and renegotiation of arrears); (ii) the modification of the board of directors; and (iii) financial contribution in the form of capitalization from the investor (US$30 million) and in the form of additional loan guarantees from the Government (US$20 million). Difficulties in the implementation of the business plan made impossible the restart of CVA operations.

Table B.1. CVA Stock of Debt and Arreas as of Sept. 2021

	USD millions	% GDP
Public Guaranteed Debt	47.3	2.8
Non-Guaranteed Debt	0.7	0.0
Arrears	17.8	1.0
Total	**65.8**	**3.9**

Note: The revised business plan approved in March 2021 included a negotiated repayment plan for arrears with main creditors, with some reduction in debt. Because there is not information about the payment plan, we report the full amount of outstanding arrears.

In July 2021 the Government reversed the partial privatization of CVA on public interest grounds of fiscal responsibility, to manage risks that could trigger the loan guarantees and require further fiscal support. The authorities' announced the plan to restructure CVA and continue downsizing its operations (workers, routes, and planes) in 2022 and prepare the company for re-privatization by 2024-2025. The short-term fiscal and debt impacts of the re-nationalization of CVA are summarized below:

Debt: The rating of the sustainability of Cabo Verde's debt does not change because of the reversal of the privatization of CVA as the external guaranteed debt held by SOEs is already in the DSA baseline. Because the lion's share of CVA debt is publicly guaranteed the decision to nationalize the Airline does not further increase the stock of public and publicly-guaranteed (PPG) debt in the DSA. The restructuring of the company in 2022 is expected to include debt restructuring, which should reduce debt outstanding and increase maturity dates.

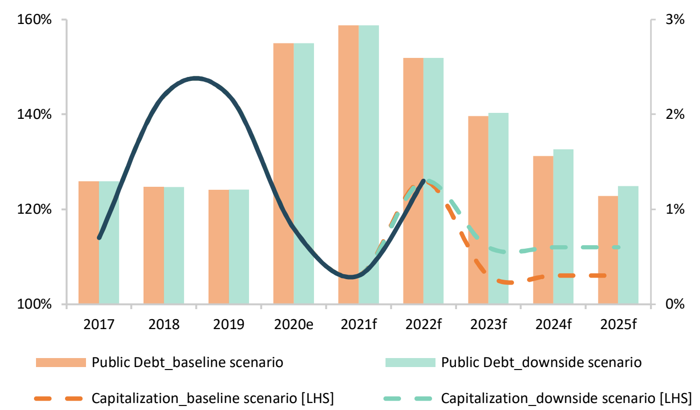
Financing needs in 2021: The company is fully funded from July to December 2021. As a result of borrowing in March 2021, for US$19 million, to finance the restart of operations, envisioned for July, the company had available cash reserves of US$6 million in August 2021. This amount is enough to cover the expected losses of having an inactive company until December, estimated at US$3.75 million.

Financing needs for 2022: The estimated needs are US$17,6 million (1 percent of GDP). This includes restoring the operating license, training crews, and starting operations under an Aircraft, Crew, Maintenance, Insurance (ACMI) leasing agreement. The main financing needs are (i) the payment of arrears that are critical to start the operation (US$8.7 million); (ii) CAPEX (US$4.4 million); and (iii) debt servicing obligation of (US$4.5 million). Authorities plan to finance this requirement by a combination of direct capitalization and guarantees for domestic loans. The financing needs are included in the baseline in the fiscal framework for this operation.

Financing needs for 2023-2025: The authorities have proposed a business plan scenario in which CVA breaks even in 2023 and, therefore, no fiscal support would be needed. The World Bank team developed an alternative downside scenario in which annual CVA financing needs are kept at 1 percent of GDP over the period 2023-2025 and are financed through capitalization and guarantees. In such a scenario, the baseline projected reduction in

PPG debt would be marginally lower than in the DSA baseline scenario. PPG debt would reach 125 percent of GDP in 2025 under the downside scenario instead of 122.8 percent of GDP in the baseline.

Figure B.1.: Central Government: Total Capitalization to SOEs and PPG debt (Percentage of GDP)



Source: World Bank Calculations, October 2021

19. **As a result of the reduction in fiscal revenue, both the fiscal deficit and financing needs increased substantially in 2020.** The overall deficit (including grants) increased from 1.8 percent in 2019 to 8.8 percent in 2020. Consequently, fiscal financing needs for 2020 increased from a budgeted amount of US$88 million (4 percent of GDP) before the crisis, to US$202 million (11 percent of GDP) after the crisis. Extra financing needs were covered by concessional credits of US$101 million provided by the IMF, the World Bank, and the African Development Bank (AfDB). Grants amounting to US$36 million were provided by the European Union (EU), Luxemburg, and Portugal. The remaining financing gap was covered by government securities market and resources freed by the DSSI (US$14.1 million). World Bank operations were restructured to free up a combined US$4.5 million. The overall deficit continued to deteriorate in the first semester of 2021, reflecting the continued negative spillovers of the pandemic in the economy. As of end June 2021, the overall and primary balances recorded a deficit of 4.6 and 3.2 percent of GDP, respectively. The deterioration in public accounts was mainly driven by a 6.1 percent fall in tax revenue.

Table 4: COVID-19 Additional Fiscal Financing Needs and Sources

	Pre-COVID-19 2020 (as of April)		2020e		2020 COVID-19 Gap		2021	
	US$ millions	Percent of GDP	US$ millions	Percent of GDP	US$ millions	Percent of GDP	US$ millions	Percent of GDP
Total Revenue & Grants	730.0	32.5	453.2	26.6	-276.8	-5.9	563.6	30.8
Tax Revenue	514.4	22.9	328.8	19.3	-185.6	-3.6	364.2	19.9
Nontax revenue	152.7	6.8	64.7	3.8	-88.0	-3.0	128.1	7.0
Grants	62.9	2.8	54.5	3.2	-8.4	0.4	54.9	3.0
Total Expenditure	768.2	34.2	603.1	35.4	-165.1	1.2	814.3	44.5
Overall balance (incl. grants)	-38.2	-1.7	-149.9	-8.8	-111.7	-7.1	-250.7	-13.7
Net other Liabilities	-49.4	-2.2	-18.7	-1.1	30.7	1.1	5.5	0.3
onlending to SOEs for investment purposes	-22.5	-1.0	-13.6	-0.8	8.8	0.2	-5.5	-0.3
Financing needs	**87.6**	**3.9**	**168.7**	**9.9**	**81.1**	**6.0**	**245.2**	**13.4**
Financing sources	**87.6**	**3.9**	**168.7**	**9.9**	**81.1**	**6.0**	**245.2**	**13.4**
Domestic Financing (net)	9.0	0.4	51.1	3.0	42.1	2.6	91.5	5.0
External Concessional Financing (net)	80.9	3.6	103.9	6.1	23.1	2.5	142.8	7.8
Budget support (disbursement)	33.7	1.5	100.8	5.9	67.1	4.4	86.4	2.3
IMF (RCF 2020, SDR 2021)			32.3	1.9	32.3	1.9	33.8	1.8
WB DPF*	15.0	0.7	25.0	1.5	10.0	0.8	30.0	1.6
WB CAT-DDO			10.0	0.6	10.0	0.6		
African Development Bank	18.7	0.8	33.5	2.0	14.8	1.1	22.6	1.2
Project and Program loans (disbursement)	47.2	2.1	49.0	2.9	1.8	0.8	82.0	4.5
of which WB COVID-19 Emergency Response Project			5.0	0.3	5.0	0.3		
Loans to on lend to SOEs (disbursement)			13.6	*0.8*			5.5	*0.3*
Amortization			59.5	*3.4*			31.1	*1.7*
Debt Service Suspension Initiative			13.6	0.8	13.6	0.8	11.0	0.6

* DPF P171080 with CRW allocation in August 2020

Source: Cabo Verde Authorities, World Bank, And IMF Staff estimates as of August 31, 2021

20. **As a result of the crisis, recent gains on reducing the public debt burden were reversed in 2020.** Public debt (as a share of GDP) had been on a declining path since 2017, reaching 124.2 percent in 2019 even as Cabo Verde remained one of the most heavily indebted countries in Africa.[6] This trend was driven primarily by the acceleration in growth, favorable exchange rate movements, and fiscal restraint. The increase in concessional external borrowing and domestic lending in 2020 increased public debt to 155.2 percent of GDP. Approximately 73 percent of central government debt is denominated in foreign currency, of which two-thirds is in Euros, limiting exchange rate risks. Because of its concessional nature, public debt is characterized by low interest rates and long maturity profiles. The average interest rates on domestic and foreign debt are 1.5 percent and 1 percent, respectively, while average maturities are 17.4 years and 25.7 years.

21. **The financial system is relatively developed but remains vulnerable, most notably because of high levels of non-performing loans (NPL).** Asset quality, which deteriorated due to extensive exposures to a downturn in the tourism real estate sector, remains a concern. In 2020, NPLs in the banking system remained elevated at 9.6 percent of total loans, much higher than the averages for SSA countries (6.2 percent) and lower-middle income countries (4.2 percent). Regulatory measures are underway to facilitate the resolution of NPLs which in the past was hindered by long judicial delays and shallow markets for distressed assets.[7] Profitability (as measured by return on equity) improved in recent years, but

[6] Total public debt includes central government external and domestic debt and external debt contracted by the central government on behalf of SOEs. It also includes external debt contracted directly by SOEs that carry a central government guarantee. Publicly guaranteed domestic debt and non-guaranteed SOE debt is excluded.

[7] These measures include the implementation of an asset quality review of the largest banks, standardized procedures across banks, and mandated banks to adopt stringent International Financial Reporting Standards (IFRS) compliant definitions and developed a credit impairment index to encourage transparency on NPLs (IMF, 2019).

remains low from weak bank balance sheets and high operating costs. Nevertheless, NPL provisions remain relatively strong at about 65 percent. Furthermore, commercial banks, mostly foreign owned, maintain high capital adequacy ratios at 19.4 percent in 2020, well above the Basel II minimum capital requirement of 8 percent and the regulatory minimum of 10 percent in Cabo Verde. Liquidity is relatively high, particularly in the smaller banks and the new entrants, and relies heavily on emigrant deposits.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

22. **Real GDP is projected to start recovering gradually in 2021 and grow at an average rate of 5.1 percent between 2021 and 2023. Gross National Income (GNI) per capita is projected to return to the 2019 pre-crisis level by 2024.** Growth is projected to be 4 percent in 2021 supported by the gradual resumption of tourism flows, particularly, in the last quarter of the year. The Government has made good progress on the COVID-19 vaccination program with the goal to vaccinate all workers in the tourism sector and entry-point professionals by December 2021. As of October 2021, 80 percent of eligible population has been vaccinated with a least one dose while 50 percent is fully vaccinated. Necessary doses to vaccinate the entire eligible population are secured. Vaccination of people between 12 and 17 years old is expected to start in November 2021. Additionally, the United Kingdom (UK) removed the country from the red list in October 2021, indicating that UK tourists do not have to quarantine after returning from Cabo Verde. These developments are expected to have a positive impact on the recovery of tourism in 2021. The economy has already started to show signs of recovery, with real GDP growing by 30.8 percent (y-o-y) in Q2 2021, after an 11 percent (y-o-y) contraction in Q1. Over the medium term, the resumption of tourism and capital flows, and the restarting of structural reforms will drive growth. Private consumption and investment in tourism, energy and Information and Communications Technology (ICT) linked to planned SOE reforms will sustain growth. As the Government refocuses its role in the economy towards regulation and policy aspects, private investment will be mobilized to expand and modernize the operation of several important SOEs through public-private partnerships (PPPs), direct sale and concession arrangements. Export of services will continue to be the leading contributor to growth.

23. **Inflation is expected to remain subdued at 1 percent in 2021 and move closer to the EU average over the medium term.** The negative output gap will keep inflation under control in 2021. In the medium term, the return to fiscal consolidation and the strong nominal anchor provided by the peg with the Euro will keep inflation contained. Monetary policy will continue to focus on improving transmission channels, including the low turnover in the interbank market, excess liquidity in the banking system, and limited development of the government securities market. The authorities also plan to resume the recapitalization plan of the Central Bank, which started in 2019 but was halted in 2020 because of the crisis.

24. **As the tourism sector will start gradually reactivating in the second half of 2021, the CAD is expected to improve to 13.5 percent of GDP in 2021, from a 16.5 percent deficit in 2020, and continue improving over the medium term.** The CAD is projected to start declining in 2021 underpinned by the increase in tourism receipts towards the latter part of the year. External financing needs are projected to be met primarily by official foreign borrowing and FDI (Table 5), reflecting higher public debt amortization outflows, increased reliance on domestic sources of financing, and fiscal consolidation. Despite the COVID-19 crisis, the Government signed several investment establishment agreements in 2020 for projects in the tourism sector, amounting to US$1,250 million, which will contribute to finance the CAD over the medium

term. International reserves are expected to remain robust at an average of 6.2 months of prospective imports over the medium term.

Table 5: Balance of Payments Financing Requirements and Sources

	2016	2017	2018	2019e	2020e	2021p	2022p	2023p
Financing Requirements	**5.2**	**10.7**	**5.3**	**1.9**	**22.6**	**15.2**	**13.0**	**7.3**
Current Account Deficit	3.9	7.9	6.6	0.4	16.5	13.5	7.5	3.7
Amortization	1.6	1.8	1.9	2.2	3.4	1.7	5.5	3.6
Errors and omission	-0.2	1.0	-3.2	-0.7	2.7	0.0	0.0	0.0
Financing Sources	**5.2**	**10.7**	**5.3**	**1.9**	**22.6**	**15.2**	**13.0**	**7.3**
Capital Account Balance	0.8	0.9	0.8	0.5	1.0	0.3	0.3	0.5
FDI inflows (net)	7.1	5.6	4.7	4.2	4.2	4.1	4.2	4.2
Portfolio inflows (net)	-2.5	-2.3	-2.2	-0.2	0.0	-0.2	-0.3	-0.4
Net Govt Foreign Borrowing	2.7	3.6	8.5	4.4	5.1	8.7	2.4	0.7
Net All Other Flows	2.6	2.3	-5.9	0.5	7.3	-3.2	5.3	2.2
Change in reserves (-means accumulation)	-5.4	0.7	-0.5	-7.4	5.0	5.4	1.0	0.0

Source: Bank of Cabo Verde, IMF and WBG estimates and projections (August 2021).

25. **The authorities are committed to returning to fiscal consolidation over the medium term and to placing 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 in the aftermath of the crisis. Given the public expenditure structural rigidity, fiscal consolidation will be mainly revenue-driven and stem from increased tax collection. This will result from 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 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 overall fiscal deficit is projected to reach 13.7 percent of GDP in 2021 and decrease to 3.7 percent by 2023. The Government is targeting a primary deficit of 1 percent of GDP by 2023. Public debt is expected to reach 158.8 percent of GDP in 2021 and decline to 139.6 percent by 2023. The authorities are also developing a debt relief proposal to discuss with main creditors, aimed at opening fiscal space to support a sustainable and inclusive recovery from the COVID-19 crisis.

26. **The Government aims at maintaining a high level of total revenue of around 30 percent of GDP over the medium term, with a progressive increase in tax revenue in lieu of grants**. The Government remains committed to continue enhancing domestic revenues, including through measures to: (i) streamline fiscal and customs benefits as part of efforts to reduce tax expenditures; (ii) revamp the micro and small enterprises framework to reduce evasion; and (iii) increase the excise tax rates for tobacco and alcohol. The Government is also strengthening the tax and customs units to improve tax collection efficiency and fight tax evasion. This includes developing a data-matching platform to detect tax fraud, reinforcing tax arrears recovery, and strengthening technical skills and capacity of the units. The adoption

of the Economic Community of West African States (ECOWAS) Common External Tariff is projected to increase trade tax revenue over the medium term. Tax revenue is forecasted to increase from 19.3 percent of GDP in 2020 to 20 percent in 2021 and 22.7 percent in 2023. In parallel, grants should decline from 3.2 percent of GDP in 2020 to 1 percent in 2023.

27. **Total expenditures are projected to gradually decline back to their pre-crisis levels by 2023.** Current expenditures are expected to increase from 32.6 percent of GDP in 2020 to 35.8 percent in 2021 reflecting the continuation of emergency subsidies and transfers enacted since 2020. Afterwards, current expenditure is projected to fall to 29.4 percent of GDP in 2023. Capital expenditure is projected to increase from 2.8 percent of GDP in 2020 to 8.3 percent in 2021 to accelerate projects delayed in 2020 in the areas of transportation, water and sanitation, and ICT. Over the medium term, capital expenditure is projected to remain around 4 percent of GDP as new investment projects are subject to stricter selection criteria consistent with the use of the new public investment management system. Overall, total expenditure will account for 44.5 percent of GDP in 2021 and decline to 33.2 percent in 2023.

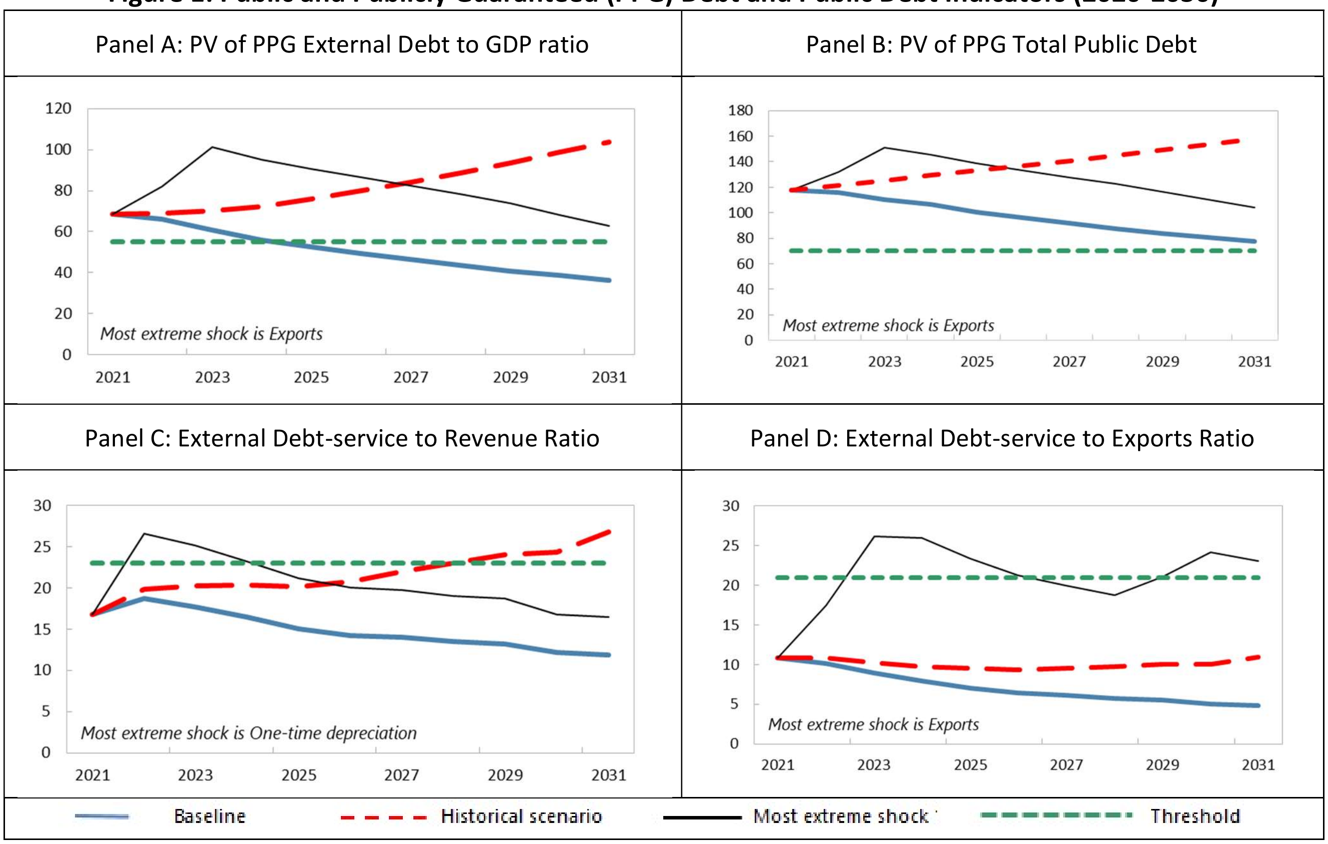
28. **Despite the fiscal setbacks brought upon by the pandemic, and continued fiscal risks associated with CVA following the reversal of the partial privatization, measures undertaken before the crisis to reduce net financing needs stemming from loss-making SOEs will contribute to a return to fiscal consolidation**. Authorities seek to restart the reform agenda as soon as macroeconomic conditions improve with the restructuring and privatization of key SOEs, including the airport management company and the electricity utility company. These transactions are expected to be completed in 2022. Support to the SOE sector will be reduced over the medium term. On-lending to SOEs for investment purposes is expected to fall to 0.2 percent of GDP by 2023. However, capitalization to SOE will increase in 2022 to 1.3 percent of GDP, driven by financing needs from CVA.[8] Overall fiscal financing needs in 2021 are projected to be US$247 million (13.5 percent of GDP), which are expected to be filled by continuing the current level of domestic financing, the extension of the DSSI, budget support operations, including the recent IMF SDR allocation, and an increase in project and program loans disbursements as the Government increases public investment.

29. **The interim World Bank DSA update, conducted in August 2021 for this operation, concluded that the risk of external and total debt distress is high, but 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 extension of the COVID-19 crisis resulted in higher debt burden indicator paths. The present value (PV) of PPG external debt-to-GDP ratio breaches its threshold under the baseline scenario until 2026 (Figure 1, panel A). The PV of total public debt-to-GDP ratio is projected to remain above its respective threshold under the baseline over the entire projection period, yet on a downward path (Figure 1, panel B). Both external liquidity indicators are projected to remain below their respective thresholds under the baseline but breach their respective thresholds under the most extreme stress scenarios (Figure 1, panels C and D). Relatively more benign paths of liquidity indicators reflect the country reliance on concessional external borrowing, which is characterized by long maturity profiles and low interest rates. PPG external and overall debt are assessed as sustainable, supported by the downward trend of PPG external and overall debt, as well as manageable debt services indicators. The reversal of the

[8] According to the business plan for CVA developed by the government, financing needs of CVA in 2022 amount to US$17.6 million and will be financed by direct capitalization and domestic financing.

privatization of CVA does not modify the DSA rating as publicly guaranteed loans were already included in the baseline. However, higher CVA financing needs over the medium term could increase public debt. Shock scenarios highlight the sensitivity of debt burden indicators to external shocks.[9] Debt risks are compounded by the existence of non-guaranteed domestic debt contracted by SOEs, which is not included in the DSA baseline. Downside risks to the assessment include a more severe or prolonged impact of the COVID-19 shock and contingent liabilities from SOEs. To support the declining path in the ratio of PPG external and public debt-to-GDP in the aftermath of the pandemic requires a refocus on sustained fiscal consolidation, growth-enhancing structural reforms, notably in the SOE sector, and continuous prudent borrowing policies.

Figure 1: Public and Publicly Guaranteed (PPG) Debt and Public Debt Indicators (2020-2030)



Source: WBG estimates and projections (August 2021).
1/ Most extreme shocks are those stress tests that yield the highest ratio before 2031. The "baseline" forecasts refer to a business-as-usual case without reform. The "historical" scenario assumes macroeconomic variables grow at their 10-year historical average.

30. **The outlook is highly uncertain with both downside and upside risks.** Uncertainties regarding the duration of the pandemic (including the rise of new variants of the virus) and the speed of global recovery, particularly in Europe, cloud medium-term prospects. These factors could delay further the resumption of tourism, thereby impacting economic growth and deteriorating further the fiscal and

[9] The contingent liability stress test was adjusted to reflect additional vulnerability from non-guaranteed debt given the reversal of the privatization of CVA. The standard value for non-guaranteed debt was increased from 2 percent of GDP to 23.4 percent of GDP. The shock is applied in the short-term (second year of projections).

external positions. A downside scenario considering a surge in new COVID-19 cases that lasts until the end of 2021 and additional fiscal support of 1 percent of GDP to CVA in 2023 indicates that growth would reach only 2.5 percent in 2021 (table 6). Exports of service would remain depressed further worsening the external current account balance, to 13.7 percent of GDP. The increase in public debt would be steeper, reaching 159.2 percent of GDP. Under this scenario, stronger adjustment efforts world be required in the medium term to return to a downward trajectory for public debt. Domestic, political and social pressures against further 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. The macro framework will be anchored in an IMF program, expected to be in place in early 2022. Better than expected economic growth in the second quarter of 2021 may increase growth prospects for the year, should the recovery of the tourism sector be sustained. The country remains significantly exposed to natural disaster shocks that could further weight on external and fiscal balances.

Table 6: Selected Economic Indicators under Baseline and Downside Scenarios

	2019e	2020e	2021p	2022p	2023p	2021p	2022p	2023p
			Current Baseline			Downside		
Real GDP	5.7	-14.8	4.0	5.2	6.1	2.5	5.0	6.0
Real GDP per capita (annual % change)	4.5	-15.7	2.9	4.1	5.2	2.5	3.2	4.6
Consumer prices (annual average)	1.1	0.6	1.0	1.5	1.5	1.1	1.4	1.4
Total Revenue and Grants	29.4	26.6	30.8	30.3	29.5	30.3	29.8	29.0
Tax Revenue	21.5	19.3	19.9	22.2	22.7	19.4	21.7	22.2
Total Expenditure	31.2	35.4	44.5	35.6	33.2	44.8	36.6	34.1
Budget balance (including grants)	-1.8	-8.8	-13.7	-5.4	-3.7	-14.5	-6.8	-5.1
Current account balance	-0.4	-16.5	-13.5	-7.5	-3.7	-13.7	-7.9	-4.2
Public debt (external and domestic)	124.2	155.2	158.8	151.9	139.6	159.2	152.5	140.1
External Debt	91.4	111.9	113.2	106.5	94.7	114.1	107.2	95.0

Source: WBG estimates and projections (August 2021).

31. **The macroeconomic policy framework is adequate for the proposed operation.** The medium-term growth outlook is broadly positive, as the EU is expected to bounce back in 2021 and global travel restrictions relaxed by the end of the year, allowing a progressive resumption of sustained tourism and capital flows. Growth in the second quarter of 2021 was 30.8 percent, reflecting partly a low base effect. Growth will gradually recover in 2021 and average 5.7 percent over the medium term supported by the continuation of structural reforms, which would improve growth-supporting service delivery and provide a better-leveled playing field for investors. Furthermore, monetary policy is expected to continue to be effective at supporting price stability and the exchange rate peg. The real effective exchange rate (REER) is in line with macroeconomic fundamentals. The Government has a good track record and is committed to fiscal consolidation to return to fiscal sustainability in the aftermath of the crisis. Although the risk of debt distress is high, public debt remains sustainable. International reserves are expected to remain at a comfortable level over the medium term.

2.3. IMF RELATIONS

32. **The 18-months Policy Coordination Instrument (PCI) expired in March 2021 having supported strong performance amid the COVID-19 crisis. The authorities have requested a new program, which is expected to be in placed in the first quarter of 2022.** The PCI, approved in July 2019, aimed to enhance macroeconomic stability, supporting authorities' medium-term objectives for fiscal and debt sustainability. Performance under the PCI was satisfactory throughout the program period despite challenges generated by the pandemic. All quantitative targets and non-quantitative continuous targets were met. All, but two reform targets were observed, most of them ahead of the program schedule. To address the urgent balance of payment needs created by the crisis, the IMF Board approved a Rapid Credit Facility to Cabo Verde in the amount of US$32 million (100 percent of quota) in April 2020. The 2021 SDR allocation of US$22.7 was disbursed in September 2021. The World Bank has been working closely with the IMF and the authorities to respond to the crisis in the short term and to strengthen the legislative framework for debt and budget management over the long term. Additionally, the IMF and the World Bank teams are coordinating in key areas such as debt management, the DSSI, SOE sector reforms, and overall macroeconomic stability.

3. GOVERNMENT PROGRAM

33. **The Cabo Verde Strategic Plan for Sustainable Development (*Plano Estratégico de Desenvolvimento Sustentável,* PEDS), released in 2017, aimed to position the country as a "Hub in the mid-Atlantic".** The key objectives include: (1) transforming the country into a maritime and air transport hub providing services to freighters, cruise and other ships as well as connecting the islands and neighboring countries; (2) ensuring economic stability and sustainability; (3) ensuring social inclusion; and (4) strengthening sovereignty. The strategy highlighted the need for a major shift in the country's development model, addressing macroeconomic stability, fiscal risks in the SOEs sector and from natural disasters, and broadening Cabo Verde's economic base. The latter is expected to be achieved through strengthening the linkages of the prosperous tourism sector with the rest of the economy.

34. **In response to COVID-19 pandemic, the Government took resolute measures to preserve lives and livelihoods (Annex 5) and, in October 2020, launched a recovery plan –Cabo Verde Ambition 2030– with the main goals of achieving sustainable development and increasing resilience to shocks.** Building on the PEDS, Cabo Verde Ambition 2030 delineates strategic guidelines, programs, and partnerships to reestablish health safety confidence, recover and build back better the tourism sector and businesses, and operationalize the concept of a 'Hub in the mid-Atlantic'. To ensure continuation towards the path of sustainable development, the plan identifies as main goals the energy transition to renewables, economic diversification, developing sustainable tourism, investing in the blue economy, digital economy and innovation, and improving the health system. It also highlights the need to further expand emergency cash transfers, to further strengthen the shock-responsiveness of the safety net, and expand the coverage of the social registry.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

35. **The Sustainable and Equitable Recovery DPF series supports the Government's efforts aimed at strengthening policies for a sustainable, equitable, and greener economic recovery..** The DPF series is

closely aligned with the Government's priorities established in the PEDS, the Cabo Verde Ambition 2030, and the 2020 NDC. The series complements other activities to address fiscal risks and debt transparency –notably through the PPAs SDFP, social protection, 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 and mitigates the impact of climate change (Box 2). In parallel, the DPF series supports measures to increase debt transparency and reduce fiscal risks while strengthening the resilience of the most vulnerable to shocks.

Box 2: Advancing Climate Action through the Policy Reforms Supported by the DPF

Cabo Verde is particularly exposed to climate shocks, including extreme weather events, desertification, and sea-level rise. These climate impacts are expected to become more prevalent as climate change intensifies and the country faces severe adaptation challenges. Floods pose the most significant and recurring risk (nearly 30 percent of the country's population are exposed to flash floods) while on average, around US$2 million of income is expected to be lost due to agricultural drought. The sea level is projected to rise from 0.26 m to 0.98 m over the next 60-80 years, which will increase coastal submersion, erosion, and salinity. Shoreline erosion caused by sea level rise is already a significant problem to coastal ports, roads, and beaches. Mounting pressures on coastal and marine resources put the sustainability of marine fisheries at risk and impacts their capacity to recover and regenerate. Cabo Verde's marine fisheries are considered to be under very high ecological risk from climate change, and among those most vulnerable in Africa: they rank in the top quintile of the 35 coastal and insular African countries in terms of risk, with significant impact of the catch potential.

The country updated in 2020 its NDC. It seeks to achieve substantial mitigation benefits, estimated at 18 to 24 percent reduction in economy-wide greenhouse gas (GHG) emissions below business-as-usual by 2030, as well as a lasting adaptation impact in terms of food, water, and energy security.

The DPF supports reforms that will help Cabo Verde advance climate action, both through mitigation and adaptation, in line with the following NDC contribution areas:

- **Disaster-Risk**: Strengthening the responsiveness of the social protection system in case of crises and shocks, including climate hazards (Prior Action 4);
- **Mitigation**: Reducing commercial losses in electricity service, which will contribute to smoothen electricity demand and reduce GHG emissions (Prior Action 5);
- **Spatial Planning**: Implementing an overarching regulatory framework that seeks, among other things, to promote environment protection and climate adaptation in tourism investments (Prior Action 6);
- **Blue economy**: Supporting the first regulatory framework for developing aquaculture, which will provide a buffer to mitigate the volatility that climate change is imposing on marine fisheries (Prior Action 7).

36. The series is structured around three mutually reinforcing policy areas:

- **Pillar A aims to improve debt transparency and reduce fiscal risks from SOEs.** The COVID-19 crisis derailed fiscal consolidation efforts, halted SOE reforms, and significantly increased public debt in 2020. Financial support to the SOE sector increased in 2020 and 2021 in the form of loan guarantees (US$84 million or 5 percent of GDP), and capitalizations (US$32.1 million or 2 percent of GDP). On-lending to SOEs for investment purposes reached 2.4 percent of GDP. The reforms supported by the series are expected to improve debt transparency and mitigate fiscal risks exposure. Overall, the program includes measures to (i) strengthen fiscal risk management, including the adoption of framework to regulate the issuances of state guarantees; and (ii) reduce fiscal risks by improving the quality, frequency, and coverage of public debt reporting, including from SOEs.

- **Pillar B seeks to strengthen the resilience of poor and vulnerable households to shocks, particularly women and including climate-related shocks.** The COVID-19 crisis disproportionally impacted the poorest and most vulnerable households, particularly female headed households. In response, the Government scaled up the existing safety net, using the social protection delivery systems already in place and provided emergency cash transfers to additional households. This pillar seeks to build on this progress and continue to strengthen the social protection system by (i) supporting the continued use of the safety net to respond to COVID-19 in the short-term and further strengthening the shock-responsiveness of the safety net system in the medium-term; and (ii) strengthening the usability of the social registry (by expanding the social registry to cover a larger share of the population) and ensuring its broader usage (i.e., in the aftermath of climate hazards, beyond the COVID-19 crisis). These reforms contribute towards promoting a more equitable and resilient economic recovery from the pandemic by enabling better targeted social protection programs and more efficient, timely, and pro-poor expenditure.

- **Pillar C supports a sustainable 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. In the medium term, it is essential for the country to take a more focused and efficient approach to sustainability while deepening investments that support economic diversification and growth. 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 sustainable private sector investment. It will do so by: (i) supporting reforms of the electricity sector to improve its operational and financial performance, including tackling energy losses and rationalizing demand to enhance efficiency; (ii) promoting a harmonized, streamlined, and more predictable regulation for sustainable private sector investment in the tourism sector; and (iii) supporting the sustainable development of aquaculture, as a core adaptation measure for the fishery sector.

37. **The design of the DPF series reflects the Government's commitments as well as underlying capacity constraints aggravated by the COVID-19 crisis.** The prior actions and triggers, while demanding, are selective to minimize demands on the Government's limited administrative resources and focus on the areas expected to deliver the greatest development impact. Proposed policy actions are thoroughly grounded in recent analytical work (Annex 6) and extensive policy dialogue. The operation employs a two-year programmatic structure to align with the gradualism of the reform process and leverages ongoing WBG projects and complementary TA discussed in Section 4.3.

38. **The proposed DPF series draws on several lessons learned from the implementation of the programmatic Poverty Reduction Support Credit (PRSC 8 and 9 /P127411 and P147015) and the previous DPF series (P165631 and P171080).** The completion report of the PRSC series highlighted that policy reforms supported by TA were more likely to succeed. It also underscored the need to align the ambition of any DPF support with the Government's capacity to deliver on the reforms. Furthermore, it highlighted the importance of acknowledging the political economy challenges associated to sensitive SOE-related

reforms. Additionally, experience from the previous DPF series indicates that greater impact can be achieved by concentrating prior actions in areas where there are ongoing World Bank investments, TA operations, and/or development partners activities. The proposed series aims therefore to build on ongoing momentum and the support of policy champions to put the country back on a sustainable growth path, while making space for structural reforms.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar A: Reduce Fiscal Risks and Improve Debt Transparency

39. **This pillar aims at strengthening fiscal risk management and debt transparency to contribute to the long-term fiscal sustainability of Cabo Verde.** With a high debt level and high risk of debt distress, stronger fiscal risk management is critical to mitigate the materialization of contingent liabilities, which could put at risk the sustainability of the recovery process. Improved debt governance, anchored in a sound debt management strategy, and debt transparency, through effective reporting, will help ensure proper management of the public debt portfolio and accountability to all stakeholders. Additionally, continued scrutiny of existing and new fiscal risks from the SOE sector will help the Government anticipate the potential burden on public finances, reduce macroeconomic and fiscal vulnerabilities, and allow more flexibility in the use of fiscal policy.

Prior Action #1: To improve public debt transparency and strengthen fiscal risk management, the Recipient has issued a Regulatory Decree No. 5/2021, dated October 29, 2021, mandating (i) the quarterly publication of the debt bulletin; (ii) the publication of the medium-term debt management strategy; and (iii) the inclusion of a fiscal risk statement in the Budget Report.

Prior Action #2: To manage fiscal risks from the SOE sector, the Recipient has issued a Ministerial Resolution No. 48/2021, dated October 15, 2021, mandating (i) the quarterly publication of the SOE sector bulletin; and (ii) the inclusion of a fiscal risk assessment in the quarterly and annual SOE sector bulletins.

Policy Trigger #1: To further strengthen fiscal risk management, the Recipient has issued a ministerial resolution providing rules and processes for the evaluation and issuance of State guarantees.

Policy Trigger #2: To further increase debt transparency, the Recipient has issued a ministerial resolution to broaden the coverage of public debt in the annual debt report to include the nonfinancial public sector.

Background

40. **Fiscal vulnerabilities and risks accumulated prior to the COVID-19 pandemic, and exacerbated by the crisis, may undermine Cabo Verde's efforts to restore fiscal sustainability and bring back debt (as a share of GDP) to a declining trajectory in the aftermath of the pandemic.** Reducing exposure to fiscal risks through improved monitoring, management, and increased transparency of the debt portfolio, outstanding loan guarantees, and non-guaranteed debt of SOEs is central to ensure macroeconomic

sustainability. The ability to scrutinize and monitor the evolution of key sources of risks will strengthened governance, improve accountability, and enhance debt and fiscal risk management practices. It will also improve the quality of information to allow authorities to better engage with creditors, investors and other stakeholders on debt issues.

41. **Given how fiscal risks are correlated and interconnected, a worsening economy might negatively impact the financial performance of the SOE sector.** SOEs must continue delivering public services while maintaining financial health despite the external shock. Increasing financing needs combined with the potential inability to generate profits might lead to SOEs to default on their liabilities. This situation, in turn, might demand government support to inject capital to avoid exacerbating the risks to stakeholders, including the financial sector. Such an outcome would limit the government's fiscal flexibility to undertake social and infrastructure spending to support the recovery of the economy and add to the already high level of public debt.

42. **The current fiscal risk management framework is inadequate to address the mounting macro-fiscal pressures brought upon by the crisis.** The main weakness of the fiscal risks' discussion in the 2021 budget report was the lack of a quantification of the fiscal risks to which the country is exposed. The report also lacked a description of the measures that the authorities could adopt to manage the fiscal risk exposure. The Government also issues a significant number of loans and PPP guarantees to SOEs and municipalities without an institutionalized framework for informed decision-making based on proper risk assessments. Furthermore, no risk management tools (e.g., charging risk-based guarantee fees, issuing partial guarantees, limits on borrowing) are used to reduce contingent liabilities. The lack of a fiscal risk management framework leads to moral hazard both from the SOEs and the financial sector, which have heavily relied on government support in the past. The SOE report prepared by the SOS unit (*Unidade de Acompanhamento do Setor Empresarial do Estado*, UASE) at the Ministry of Finance contains statistics on guaranteed and non-guaranteed liabilities of SOEs, but the qualitative credit scores of the largest SOEs do not constitute proper credit risk assessments. In summary, the weak fiscal risk management deprives policy makers of critical analyses on how fiscal shocks could impact fiscal outcomes

43. **Although the Government has made progress in monitoring and reporting on public debt and contingent liabilities, mainly from SOEs, there are several areas where the monitoring and reporting of risks could be improved.** The 2020 annual contingent liabilities and SOE reports, published in 2021, include consolidated information on the financial performance of the largest SOEs and their liabilities but are dated (only 2019 data) and do not provide detailed information in terms and conditions of debt.[10] The annual and quarterly public debt reports provide detailed information on debt stock and flows, but lack reporting on risk indicators, as recommended by sound debt management practices.[11] In addition to stocks and flows, sound debt reporting requires specific indicators on interest-rate, foreign-exchange, and refinancing risks. Such information is not only critical for the government's own management of public debt, but also to provide transparency to creditors, investors, and other stakeholders.

[10] The annual budget report includes a short section on fiscal risks. The Treasury reports the amounts of the government's debt guarantees on a quarterly basis. UASE, the SOE-monitoring unit, publishes reports on SOE finances that, among other things, state the SOEs' total liabilities.
[11] As stated in the IMF-World Bank 2014 Revised Guidelines for Public Debt Management and in the WB Debt Management Performance Assessment (DeMPA) methodology.

Prior Actions and Policy Triggers

44. **The proposed DPF series strengthens the governance framework for fiscal risk management.** Prior Action 1 makes mandatory the publication of policy guidance on the main fiscal risks: debt management strategy and fiscal risk statement. The former will be published at the Ministry of Finance website whereas the latter will be in the budget report, which is published as an annex to the budget law. This improved legal framework will have the following benefits: First, it highlights the Government's intention to strengthen fiscal risk management by increased accountability to all stakeholders (e.g., the national assembly, the public, international organizations, credit rating agencies, creditors). Second, it embeds an analysis of fiscal risks into the budget preparation to consider various risk scenarios and ensures that fiscal risks receive the same level of scrutiny as other budget expenditures. Third, it reduces moral hazard relate to implicit contingent liabilities. Fourth, it builds technical capacity at the Ministry of Finance in assessing and monitoring risks.

45. **Over the medium term, the Government intends to build a management framework for the evaluation, issuance, and monitoring of state guarantees and anchor it in the secondary legislation.** Policy Trigger 1 supports this action as an important step for the Government to increase credibility and accountability of managing macroeconomic, fiscal, and financial risks. Additionally, the framework will improve fiscal policy implementation in the recovery of the economy as it provides objective criteria to conduct proper assessment of the credit risk stemming from additional guarantees. The guarantee framework will define the method for assessing and managing credit risk stemming from guarantee beneficiaries. The results of such analyses will provide policymakers the inputs they need to prioritize the guarantee requests and develop tools to manage the associated risk.

46. **The operation also reinforces the governance framework to enhance debt transparency and improve fiscal risk monitoring by increasing the scope, quality, and frequency of SOE sector information.** Prior Action 2 supports the publication of quarterly SOE sector bulletins with the inclusion of the realized balance sheet information of all the SOEs, and the estimated size of the contingent liabilities for the six largest SOEs (ELECTRA, IFH, CVA, ASA, ENAPOR, EMPROFAC) within three months of the end of the quarter. Additionally, it supports the inclusion of risk measures in the annual and quarterly SOE sector bulletins, adding detailed information on the guaranteed debt portfolio, including loan by loan data with terms and conditions in addition to stock and guarantee beneficiary.

47. **Broadening the coverage of public debt beyond budgetary central government to include the nonfinancial public sector will bring the country closer to international standards.** Policy Trigger 2 aims at supporting the publication of an estimate of the consolidated debt of nonfinancial public sector in the annual debt report. This action seeks to fill information gaps about contingent liabilities, including debts and other liabilities, held by local governments, SOEs, and the pension-related liability of the National Pension Fund (*Instituto Nacional de Previdência Social,* INPS).

Expected Results

48. **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.** The authorities' efforts to identify the main sources of fiscal risks and assessing their likelihood of

materializing will allow the development of appropriate strategies to preempt risks and prepare for their eventual impact on the government's budget. The result indicator to measure progress in the reform area is the deviation between debt issuance and annual borrowing plans. It is expected that this indicator will be below 20 percent by 2023. The preparedness for the materialization of contingent liabilities will help mitigating the need for sharp adjustments in the revenue and expenditure policies and reinforce the credibility of the macroeconomic framework, including the sustainability of public debt. Additionally, improved debt transparency of the SOE sector will provide the Government with the capacity, information, and analysis to annually report on the implementation of the medium-term debt management strategy and contingent liabilities from SOEs by comparing actual achievements to the targets expressed in the strategy. This is crucial to close the loop for sound governance and accountability arrangements for debt management. Hence, it is expected that by 2023 four quarterly SOE reports are published annually.

Pillar B: Strengthen the Resilience of Poor and Vulnerable Households, particularly those headed by Women

49. **This pillar supports the resilience of poor and vulnerable households, particularly those headed by women, by making the social protection system more shock responsive**. Adaptive social protection, including shock-responsive safety nets help build the resilience of poor and vulnerable households by investing in their capacity to prepare for, cope with, and adapt to shocks: protecting their wellbeing and ensuring that they do not fall into poverty or become trapped in poverty as a result of these shocks. The reforms aim at strengthening the shock-responsiveness of the social protection system, building on the existing social protection system, and responding to the COVID-19 shock, while broadening its use (i.e., addressing also climate hazards, like floods and droughts). Ultimately, they will help improve policy coordination and better target social programs.

Strengthening the shock-responsiveness of the social safety net

Prior Action #3: To support the poorest and most vulnerable population to cope with the protracted economic impact of the COVID-19 crisis, the Recipient has issued Resolution No. 14/2021, dated February 9, 2021, expanding the Social Inclusion Income for Emergency (RSI/E) to households from the poorest quintile not yet covered and all households in the second poorest quintile with children under the age of 15.

Policy Trigger #3: To improve the institutional coordination to respond to future shocks, including climate related; the Recipient has issued a decree laying out the framework for a shock-responsive safety net, indicating its features, implementation processes, roles and responsibilities, and delivery systems, ensuring the effective inclusion of women.

Background

50. **The Government anchored its main cash transfer program (*Rendimento Social de Inclusão* -RSI) in law 41/2020 and established key building blocks and delivery systems for the implementation of the program**. A comprehensive targeting mechanism and an automatic payment mechanism were put in place. There is a robust and transparent system in place for targeting beneficiaries for the RSI, which

ensures that only the most vulnerable households are targeted, using a proxy-means test formula to rank households according to their estimated welfare status. The implementing ministry (Ministry of Family and Social Inclusion, *Ministério da Família e Inclusão Social* – MFIS) also uses a comprehensive project manual for implementation that provides a systematic and step-by-step approach to implementation.[12] The pilot RSI started in 2017 and was expanded from 700 to 4,500 households in 2020 in response to the COVID-19 crisis. As of October 2021, the program supports a total of around 4,700 households with regular cash transfers for a period of 24 months (after which their status is reassessed to determine if they remain on the program). Around 84 percent of the household representatives who receive the RSI are women. These households were identified using the social registry and are all part of the poorest quintile of the population.[13]

51. **In response to the COVID-19 crisis, the Government launched the emergency cash transfer program (*Rendimento Social de Inclusão Emergencial* - RSIE) in June 2020, but a large proportion of the most vulnerable population, particularly women, remained without support.** In March 2020, the Government approved a set of measures supporting households particularly affected by the COVID-19 crisis, including the establishment of the RSIE.[14] Given the risk of long-term negative impact and to avoid worsening human capital conditions of some of the most affected households, the Government started providing cash transfers to households from the poorest quintile with children under the age of 15.[15] As of December 2020, 5,450 households had received support from the RSIE, however, despite these efforts, less than 58 percent of households belonging to the poorest quintile and no households from the second poorest quintile received emergency cash transfer support.

52. **The existing social protection delivery systems were essential to enable the Government's rapid response to COVID-19, but also demonstrated its limitations and the need to anchor a shock-responsive safety net in law**. To date, the Government has focused on putting in place the regular RSI and its delivery systems for safety net support, but limited focus has been given on ensuring that the safety net is shock responsive. During the COVID-19 policy response, through the implementation of the RSIE, authorities responded quickly. However, in addition to the risk posed by COVID-19, the country is also exposed to other types of shocks, such as floods and droughts, further threatening livelihoods and food security.[16] Hence, there is a need to establish a shock-responsive safety net, clearly spelling out the processes,

[12] Since inception of the program, the MFIS has also managed a grievance redress mechanism (GRM) system where beneficiaries have been able to submit complaints through the municipal offices or directly to the central team in the MFIS. Before the enrollment of any household into the RSI, a toll-free hotline was put in place, enabling potential beneficiaries to get answers to questions and queries on the social registry and the RSI. The PIU has also put in place a comprehensive and multi-channel GRM. The GRM is managed by the Project Implementation Unit (PIU) for all World Bank financed projects in Cabo Verde in collaboration with all the relevant stakeholders under the various projects, at the central and local levels.

[13] To help RSI households become more self-sufficient, the MFIS has also developed a family support intervention to identify additional needs of the households and potential additional support from complementary services in the municipalities. A productive inclusion intervention is also being rolled out as part of the World Bank financed Social Inclusion Project for a sub-set of the RSI to promote opportunities for income generation, professional training, entrepreneurship and income-earning occupation.

[14] Resolution 58/2020, approved on March 30, 2020.

[15] These households were all selected using the social registry and according the estimate poverty level, using a proxy-means test. Households from the poorest quintile that did not already receive support from the regular RSI, with children under the age of 15 were prioritized. Payments were made using bank accounts or through post offices.

[16] Floods pose the most significant and recurring risk to Cabo Verde. Almost a third of the country's population is exposed to flash floods (*http://documents1.worldbank.org/curated/en/523961573390033686/pdf/Disaster-Risk-Profile-Cabo-Verde.pdf*) which occurred most recently in September 2020.

procedures, roles and responsibilities for its implementation. This would facilitate better planning and response in future and form a critical part of strengthening the shock-responsiveness of the safety net.

Prior Actions and Policy Triggers

53. **The DPF series includes a reform agenda to strengthen the shock-responsiveness of the safety net system by supporting the continued use of the safety net to respond to the COVID-19 crisis.** Due to the protracted impact of the crisis, particularly among the women-headed and the poorest households, Prior Action 3 supports the expansion of the RSIE to include (i) all households in the social registry from the poorest quintile not yet covered and (ii) all households in the social registry in the second poorest quintile with children under the age of 15. By September 2021, the total number of households covered is 21,048. These families will receive temporary cash transfers for a period of six months to alleviate the negative impact of COVID-19.[17] Female-headed households would represent 80 percent of those households. The expansion of the RSIE will be effective until February 2022 when all the RSIE beneficiaries will have received support for a total period of six months.

54. **Further, to ensure that the safety net is better able to respond to various types of shocks in the medium-term, a clear framework will be laid out and anchored in law.** Policy Trigger 3 will support the issuance of a decree laying out the framework for a shock-responsive safety net, indicating its features, implementation processes, roles, responsibilities, and delivery systems. The policy trigger will also allow a better articulation of the role of a shock-responsive safety net in the medium-term. This reform area will particularly benefit women, since 74 percent of households in the social registry are female-headed households, from which the future beneficiaries of a shock-responsive safety net would be selected.

Expected Results

55. **Strengthen the shock-responsiveness of the safety net will enable it to better support households by building their resilience to cope with the impacts of shocks, such as natural disasters, economic crises, and pandemics**. Shock-responsive cash transfers are triggered by covariate climate shocks like droughts and floods and aim at providing early cash support to an expanded number of affected households –particularly women headed households– and communities with the occurrence of a climatic shock. In Cabo Verde, more than half of all households are female headed (55 percent) and those households tend to be larger and have more dependents. Similarly, female headed households are more concentrated at the bottom of the welfare distribution and households at the lower end of the welfare distribution have more female members (3.6 female household members in the poorest quintile compared to 1.75 in the richest quintile). Thus, the extension of the RSIE is expected to have a disproportionate positive impact female headed households. These can also be leveraged to respond to other major shocks, such as the COVID-19 pandemic, and to protect those households that are normally non-poor, preventing them from falling into poverty because of the shock. In addition, shock-responsive and regular cash transfers can help build poor and vulnerable households' and communities' resilience to climate change through facilitating diversification of livelihoods, encouraging savings, avoiding negative coping strategies and managing transitions to alternative income-generating activities. It is expected that

[17] The expansion of the RSIE costs around US$5 million and is being financed through an additional financing for the Social Inclusion Project (P175945), which received an additional financing of US$10 million from the IDA Crisis Response Window in January 2021.

by 2023 around 20,000 households benefit from temporary income support in response to shocks through emergency RSIs, 80 percent of which are expected to be women-led households.

Strengthening the social registry

Prior Action #4: To improve the usability and the crisis response capabilities of the social protection system, the Recipient's Ministry of Family and Social Inclusion has issued Directive No. 34/2021, dated April 15, 2021, requiring municipalities to register informal workers, identified through the COVID-19 Emergency Cash Transfer Program for Informal Workers (RSO), into the Single Social Registry (*Cadastro Social Único,* CSU).

Policy Trigger #4: To broaden the use of the social registry, to improve the efficiency of targeting the poor and most vulnerable and the coordination of social programs, the Recipient has issued (i) a resolution instructing at least two additional programs to use the social registry for targeted service delivery; and (ii) a resolution requesting programs using the social registry to provide feedback data.

Background

56. **Social registries play an important role in improving coordination and targeting of service delivery to the poorest and most vulnerable, including as a response to shocks**. Socioeconomic data collected through a social registry enables estimation of the welfare of a household. This information, combined with geospatial data of these households can be used for better targeting of services to the poorest and most vulnerable, including those particularly vulnerable to climate-related risks. In addition, when multiple programs use a common social registry, they can play an important role in helping to coordinate efforts to reach intended populations, thereby facilitating synergies across programs aiming to deliver complementary benefits and services to common groups. Additionally, the social registry helps authorities to develop necessary social policies and programs by providing accurate data on population vulnerabilities and needs.

57. **With support from the World Bank and other development partners, the Government established a social registry and anchored it in law in 2018**. As of August 2021, the registry contains comprehensive data of over 75,000 households (over 300,000 people; 49 percent of Cabo Verde's population) from across the country and ranks them according to their estimated welfare status (using a proxy-means test).[18] The system is already contributing to improved targeting and coordination of social protection interventions since it is being used to target the RSI, the RSIE, energy subsidies among others, and helps the MFIS to coordinate other social protection programs and responses. Around ten programs use the CSU but the use of the system differs across programs and the coverage of these programs also differ substantially.

[18] The MFIS is using a comprehensive manual for the registration of households in the social registry. For the registration of households in the social registry, community associations and civil society organizations were involved to help with the outreach and communication at community level. Every two years the data in the social registry will be updated to ensure adequate and up to date information. The MFIS is currently undertaking the first such data update process from early 2021. At any time, any household who is not already registered in the social registry can register on-demand at the municipal office. In addition, technical officers visit communities on a regular basis, including for collecting missing information of households already registered. In that process, households who have not been registered, but who want to, can also register through these officers.

58. **Through its National Strategy for Disaster Risk Reduction 2018-2030, and as re-emphasized in the NDC, the Government is also committed to expanding livelihood protection policies to respond to climate shocks.** The social registry is envisioned as the main policy tool to target support to the most vulnerable to recover from damages associated with extreme weather events[19]. As an example, in 2018, the social registry was used to target families affected by the drought and the bad agricultural year under the Emergency program for agriculture (PEMSMAA).

59. **Despite the critical role that the social registry played in enabling a swift response to the COVID-19 crisis, the need to broaden its coverage to improve the effectiveness of the policy response to future shocks became evident.** In addition to the implementation and the RSIE, the COVID-19 social protection response package included an emergency cash transfer to informal workers (*Rendimento Solidário,* RSO) who were seriously affected by the containment measures put in place. Because women are the majority among informal workers, domestic employees, and in the labor force in the tourism sector; they were disproportionally affected as the crisis reduced considerably the demand for these services. [20] The Government used the existing social registry and social protection delivery systems to channel support, but a temporary registration solution was put in place for informal workers who were not covered in the social registry. Around 20,000 informal workers were registered through a temporary solution (with more limited data than what is normally collected for the social registry).[21] Some municipalities started the process of incorporating these workers into the social registry and 3,000 of the 20,000 households that received the RSO benefit have already been registered formally into the social registry. To broaden the use of the registry and enable the Government to better respond to future shocks, through targeted support to the most affected population, the Government is committed to increase the coverage of the social registry, starting by including the already pre-registered informal workers that received the RSO into the social registry.

Prior Actions and Policy Triggers

60. **The proposed DPF series reinforces the social registry by broadening its coverage and usability.** Prior Action 4 supports the issuance of an administrative resolution to municipalities to proceed to register the informal workers who received the RSO (of which majority are women) into the social registry, collecting additional information required for the social registry. This reform will improve the usability and the crisis response capabilities of the social protection system, including climate events.

61. **Further, the reform area supports broader use of the social registry, contributing to better targeting and increased fiscal efficiency.** Policy trigger 4 entails a resolution instructing at least two social

[19] Cabo Verde 2020 Update to the first Nationally Determined Contribution (NDC) Praia, February 2021, page 43, bullet 6.

[20] The share of female heads of households employed in sectors such as trade and small family businesses which are more likely to be informal is larger on average. For instance, 20.6 percent of female heads of households are engaged in the trade sector compared to 15.5 percent among all heads of households in Cabo Verde. Similarly, female heads of households (particularly those who are poor) are more engaged in family businesses- 9.2 percent of female heads of households (and up to 11.7 percent of poor female heads of households) are engaged in self-employed businesses compared to 5.8 percent of household heads nationally.

[21] The temporary registration for the RSO benefit only included basic information from informal workers, including their name, ID, sector in which they work (of which over 30 percent were reported to be informal vendors, over 12 percent domestic workers and over 10 percent in construction). The registration in the social registry requires more extensive data, including information on key indicators to enable estimation of their welfare (using the proxy-means test).

programs to use the updated social registry data for targeted service delivery. This action would broaden the use of the social registry and improve the efficiency of targeting services to the poor and most vulnerable. Broadening the social registry would also ensure that poor and vulnerable households are included and covered by social services that use the registry. The reform is expected to improve targeting across the sector, contributing to improving the fiscal efficiency as a result of better coordination and better targeted programs. Finally, the reform will promote that social programs using the social registry, provide feedback data on the beneficiaries enrolled in the different programs. In this way, the social registry will keep track of the households already receiving social benefits with the aim of minimizing duplication of benefits and a better coordination between programs.

Expected Results

62. **As a result of the reform area, it is expected that Cabo Verde has a more shock-responsive social registry, strengthening its usability to respond to different types of climate related and other types of external shocks**. The investment in the social registry would raise the adaptation and mitigation potential of the social safety nets since it underpins the ability of programs to expand coverage to more households in response to shocks, including climate related shocks. It would also support a broader use of the data, ensuring that at least two more programs start using the updated data from the social registry. The reform would particularly benefit women, since 74 percent of households in the social registry are female-headed households and around 67 percent of the RSO beneficiaries are women. Out of the additional households identified using the social registry, it is expected that at least 50 percent are from the two poorest quintiles.

Pillar C: Enable a Sustainable Private Sector-Led Recovery

63. **This pillar seeks to maximize the sustainability of the recovery and diversification reforms.** It supports reforms promoting sustainable private sector investment in key sectors –electricity, tourism, and fisheries– to accelerate recovery and unlock economic diversification and growth. The reforms will result in the attraction of an environmentally sustainable investment, promoting the efficient use of natural resources, low environmental footprint, and contributing to climate action. Specifically, reforms under this pillar will: (i) address commercial losses, thereby rationalizing energy generation and reducing GHG emissions (given the carbon intensity of the grid) due to lower consumption of formerly underbilled consumers[22]; (ii) provide a framework for investment in tourism that takes sustainability into account while stimulating diversification outside of the all-inclusive hotels segment; and (iii) support the development of aquaculture, as a core adaptation measure for the fishery sector.

[22] Technical losses in Cabo Verde are already low due to good condition of network infrastructure and thus the project is not expected to result in significant improvements in technical losses, but mainly in commercial losses, which is the main issue in Cabo Verde. Based on international experience, the reduction in commercial losses is expected to have a two-fold impact: (1) an increase in revenues for ELECTRA without any reduction in demand due to consumers who are regularized and continue their previous levels of consumption; and (2) a decrease in demand due to consumers who were previously using electricity at no financial cost that begin receiving a price signal and reduce their consumption according to their ability to pay. In this case, a conservative assumption is made that 60 percent of the reduction in commercial losses will result in an increase in revenue for ELECTRA with no impact on demand and therefore no impact on average cost of generation and GHG emissions (category 1 above); the remaining 40 percent of the commercial loss reductions result in a reduction in consumption (category 2), which has a direct impact on average cost of generation and GHG emissions. Average cost of generation and GHG emission reductions are calculated assuming that the 40 percent reduction in demand reduces more expensive oil-fired generation, as this is the type of generation on the margin in each island.

Enable private investment in the electricity sector

Prior Action #5: To promote private investment, improve operational performance, and reduce GHG emissions in the electricity sector; the Recipient has approved the restructuring and public divesture of the electricity utility company through the Decree-Law No. 52/2021, dated July 21, 2021.

Policy Trigger #5: To implement the energy sector restructuring, the Recipient has enacted a legal decree to incorporate new generation and distribution companies.

Background

64. **The high dependence on imported oil products for power generation has a negative impact on the environment.** The current generation matrix uses approximately 80 percent of fossil fuels. Given Cabo Verde's geographic location, solar, and wind energy resources are opportunities to tilt power generation to renewables technologies over the medium term. The development of a long-term master plan, supported by the previous DPF operation (P171080), was a foundational step for modifying the power generation mix towards cheaper and cleaner sources. The plan seeks to achieve targets set in Government's policy of 30 percent of power generation coming from renewable energy sources by 2025, reaching 54 percent by 2030.

65. **Cabo Verde's electricity sector is dominated by ELECTRA, the vertically integrated electricity and water public utility company.** ELECTRA is responsible for power generation, transmission, and distribution. In 2020, ELECTRA produced 419.2 GWh of electricity with an installed capacity of 154 MW (of which 6.5 MW of solar and 0.9 MW and wind). ELECTRA's operational performance is weak and characterized by high system losses, well above global and regional averages. National losses (technical and commercial) amounted to 26.1 percent of production in 2020 (up from 24.8 percent in 2019 due to the impact of the COVID-19 crisis), reaching 36 percent in the largest island of Santiago. As condition of network infrastructure is good, this is a clear indication of very high and increasing commercial losses, through meter tampering and bypassing, direct clandestine connections to the grid and other circumstances that create large amounts of consumption that is not metered and billed

66. **High electricity tariffs limit energy affordability for households, impacting the competitiveness of the private sector, and are a contributing factor to the high level of electricity fraud.** At approximately 95 percent, access to electricity in Cabo Verde is among the highest in SSA. However, electricity prices are also amongst the highest. Residential tariffs average US$0.26/kWh over the past four years but have fluctuated as high as US$0.36/kWh in March 2019 for higher-consuming residential users (>60kWh/month). The ongoing implementation of a Revenue Protection Program (RPP), which aims at installing smart meters and securing the revenues from the largest customers, will contribute to reducing commercial losses and energy prices. The implementation of the RPP, based on incorporation of Advanced Metering Infrastructure (AMI) to all customers with monthly consumption exceeding 800 kWh targeting, has not delivered expected results. Main reason explaining this circumstance is failure by ELECTRA's management to define and put in place the operational procedures to detect and correct abnormal situations in consumption using the powerful functionalities of AMI.

67. **ELECTRA's financial performance is weak, despite cost reflective tariffs at an efficient level of losses, mainly due to high commercial losses and non-payment from public entities.** The 2020 audited financial statements indicate that the utility's net result was a loss of US$5.3 million and retained losses of US$114 million, resulting in negative equity of US$53 million. Tariff allows for cost recovery but are capped at the recovery of an efficient level of losses, not the actual high losses faced by the utility. [23] To improve its financial situation and improve service delivery, ELECTRA must therefore reduce commercial losses to improve its financial performance through increases in its sales and a revenues and reduction in its cost of energy purchases.

68. **ELECTRA's level of indebtedness (12.5 percent of GDP) is also a significant source of fiscal risk as it holds the largest stock of government guaranteed debt.** ELECTRA was privatized in 1999, but the privatization was marred by disagreements over the respective obligations of the parties, and the Government repurchased the utility in 2006.[24] However, ELECTRA's current organizational structure has not been conducive to an efficient management of the utility.[25] In September 2016, the Government indicated its intention to privatize the company to improve the financial situation of the utility and reduce fiscal risks linked to contingent liabilities.

Prior Actions and Policy Triggers

69. **The DPF series support the restructuring of the energy sector.** Prior Action 5 supports the approval of the electricity sector Decree-Law 52/2021, which establishes the restructuring and public divesture of the electricity utility company. This reform is a priority due to ELECTRA's direct and indirect impact on other sectors and comes as part of the Government's broader privatization agenda. The Decree Law codifies the government's action plan for restructuring of the electricity sector by vertically unbundling ELECTRA and creating one generation company and one distribution utility to own and operate its assets in the respective segments of the electricity supply chain, with the objective to improve efficiency in operations. The law specifies that a minimum of 75 percent of the shares of each of these companies will be privately held, and that shares will be sold through competitive tenders. The distribution company will have a concession contract with Government, which will include, among other contents, a performance based regulatory regime specifying the allowance of losses in tariff revenues for the initial tariff period following handover to private owner. This regime will provide strong monetary incentives for the private concessionaire to achieve and eventually exceed Government's loss reduction targets, to be set based on international best practice. The Government will also create a state-owned Transmission System Operator (TSO), which will make possible to strengthen systematic power sector planning and to implement its policy to tilt the power generation matrix towards cheaper and cleaner renewable energy resources The World Bank has provided advisory services support to prepare the privatization action plan under the SOE Related Fiscal Management Project (P160796), and intends to also support implementation of the privatization through transaction advisory services under the Renewable

[23] As of February 2020, the regulatory cap for recovery of losses (commercial and technical combined) is 23.33 percent.

[24] Most of Electra shares were sold to the Portuguese utility Consortium EDP/AdP in 1999. Despite significant initial gains in efficiency and coverage under EDP/AdP management, privatization was marred by disagreements over the respective obligations of the parties, particularly regarding tariff adjustments, which were unavoidable given the increase in oil prices. In 2006, EDP/AdP pulled back and the government bought back their shares in ELECTRA.

[25] In 2014, ELECTRA went through an organization restructuring, splitting the company between a holding, which owns assets, and two operating entities, ELECTRA NORTE and ELECTRA SUL. The new management structure of the company has not been conducive to an efficient management of the utility, in particular due to a dilution of leadership capacity.

Energy and Improved Utility Performance Project (P170236), currently under preparation.

70. **Further, the DPF supports the implementation of the reform program in the electricity sector.** Policy trigger 5 will support the incorporation of the future distribution and power generation companies –a key action to unbundle the utility company, attract private investment, and improve operational performance through commercial loss reductions and other actions.

71. **The reform program builds on reforms supported under the previous DPF series.** Under the First SOE Reform and Fiscal Management DPF (P165631), the Government initiated reforms to improve the commercial performance of ELECTRA, including a new performance-based management contract with the utility, incorporating adequate targets, results indicators and incentives to increase efficiency in operations. While the contract was successfully put in place, the indicator related to loss reduction was not met due to poor performance of ELECTRA in this area, and it became apparent that a broader reform of the electricity sector would be needed to achieve the desired efficiency improvements. The Second SOE Reform and Fiscal Management DPF (P171080) focused on (i) issuance of a law establishing a social tariff and (ii) the approval of the Power Sector Master Plan (2018-2040). These two actions supported the implementation the current power sector reforms by (i) protecting low-income households through a subsidized lifeline electricity consumption; and (ii) lowering generation costs by identifying the least-cost plan to meet expected demand going forward, including the inclusion of a significant amount of private-sector financed renewable energy installed capacity.

Expected Results

72. **Improving the commercial performance of a restructured and privatized electricity utility will contribute to reducing commercial losses, which will in turn lower the overall cost of electricity generation, reduce GHG emissions, and strengthen energy independence.** The expected improvement in operational efficiency and management of the utility by a private entity is expected to result in a substantial reduction of electricity system losses, which would decline from 26.1 percent in 2020 to 25 percent in 2023 and reach 23 percent in 2024.[26] Evidence suggests that the impact of the reduction in commercial losses is split between higher sales for the utility (by regularizing customers) and reduced demand (by providing a price signal for electricity consumption). This implies lower generation which, in power systems strongly relying on thermal generation such as Cabo Verde's, will result in reduced CO2 emissions. Similarly, reducing losses will improve the utility's financial performance through higher sales and a reduction in the costs of energy purchases. Once losses fall below the threshold allowed by the regulator, a reduction in end-user tariffs is anticipated, providing a benefit to economic competitiveness and poverty reduction.

[26] As per current timeline of the privatization process, handover of management of operations of distribution company to new shareholders is likely to happen early 2023. Experience in similar situations shows it takes some 6-8 months for new management team to change how operations are conducted in key business areas, as this in general includes organizational restructuring, process reengineering and outsourcing of some activities, replacement of staff not meeting qualification requirements, incorporation of supporting tools, etc. This implies improvements in values of key performance indicators (KPIs) in the first year (including losses) will be limited. However, once the new approaches for operations reach "steady state" significant improvements in KPIs are achieved in short periods. It's reasonable to assume that losses of Disco will be reduced by at least 2 percentage points in 2024 and a similar figure will be achieved in 2025.

Enhancing sustainable tourism planning and regulation to support diversification.

Prior Action #6: To promote environmentally sustainable investments in the tourism sector, the Recipient has approved Decree-Law No. 87/2020, dated December 18, 2020, regulating the process to approve construction projects in Integrated Tourism Development Zones (*Zonas de Desenvolvimento Turístico Integrado*, ZDTIs) and the relevant licensing process.

Policy Trigger #6: To harmonize and streamline the tourism regulatory framework and anchor it on environmental and social sustainability criteria, the Recipient has adopted a legislative package that includes updated regulatory decrees on classification criteria and licensing requirements for tourism accommodations and all tourism service providers.

Background

73. **The COVID-19 pandemic has created an unparalleled shock for tourism. The authorities are looking to seize the current conjuncture to pursue needed structural reforms to build forward better.** Following the closure of Cabo Verde's international borders in March 2020 and the partial reopening in October 2020, arrivals fell from 819,308 in 2019 to 207,125 in 2020. The slowdown continued into early 2021 as first quarter figures show a decrease of 93.6 percent in arrivals with respect to the same period in 2020. The second quarter of 2021 showed a slight uptick reflecting the progressive reopening, but still only about 12 percent of the levels in the same period in 2019. Most hotels, including major all-inclusive resorts, announced temporary closings and transient layoffs under a special regime enacted by the Government in 2020. Service sectors linked to tourism such as restaurants, transport, and entertainment, are suffering particularly from the combined impact of missing tourists and mandatory curfew restrictions that have been phased in and out across islands. In response to the crisis, the authorities enacted immediate response measures to support MSMEs, including publicly backed liquidity credit lines, a credit moratorium regime for businesses and households, the temporary lay-off program, and training and sanitary certification programs for tourism operators. As a part of Cabo Verde Ambition 2030, the Government seeks to accelerate medium-term reforms to promote sustainable tourism and diversification across more niches and islands, including protecting and leveraging existing natural and cultural assets.

74. **The sustainable development of tourism requires robust planning and public services, particularly with regards to land zoning and public decision making on private investments**. Currently, there are 27 public ZDTIs across islands that were identified as high potential for attracting private investment. While most of these zones are still undeveloped due to the lack of infrastructure and accessibility constraints, the first developments in Sal and Boavista islands (where tourism flows are heavily concentrated) highlighted the social and environmental challenges caused by the lack of proper detailed land planning and licensing. The initial plot concessions to private developers inside the ZDTIs were sizeable (usually for large all-inclusive resorts) and were not accompanied by proper public infrastructure for housing, water and sanitation, energy and environmental safeguards. To tackle these issues, the authorities have recently updated the national legal framework, notably: (i) a revamped ZDTI framework Law in 2018 (Law 35/IX/2018) to require that each zone has a legally binding Tourism Zoning Plan (*Plano de Ordenamento Turístico,* POT); (ii) an update to the decree-law on guidelines for territorial and urban planning (Decree-Law 4/2018), which streamlined the different layers of territorial planning

instruments, including the POT, and introduced requirements to incorporate the use of disaster and climate-related risk aspects; and (iii) a revamped decree-law governing the Environmental Impact Assessment (EIA) (Decree-Law 27/2020), which provided a key comprehensive upgrade on the types of evaluations and projects classifications as well enforcement mechanisms (the previous EIA Law was from 2006). Yet, despite this revised legal framework, the approval process for private developers remains unclear and lengthy and thus limiting the effectiveness of the overarching legal framework.

75. **The update of the regulatory framework for the tourism sector represents another key challenge to tackle in the post COVID-19 recovery context**. The current legal framework governing tourism hospitality and service operators is fractioned and outdated. Legal provisions for the establishment, management, and operation of hotels and lodgings units are obsolete (some dating back to 1994) and spread out across different decrees, creating confusion and lack of predictability for investors and promotors. Similarly, the general guidelines regarding the accreditation of tourism service providers – including travel and tour operators, event and cultural service providers, guide certification, transport service providers– are not streamlined and updated, creating challenges for effective oversight and enforcement. In the context of the Ambition 2030 strategy, the authorities have drafted a new Tourism Operational Plan (TOP, 2021-2026) based on the seven island tourism masterplans developed between 2018-2019 (funded through the Competitiveness for Tourism Development Project, P146666), which seeks to accelerate the transformation of the sector towards a more balanced, sustainable and geographically and socially inclusive approach. The governance subprogram of the TOP pledges to update and streamline the tourist sector's regulatory framework, including updating the key umbrella decrees and tackling regulatory gaps and opportunities in areas such as community-based tourism, online accommodations rentals (though platforms such as AirBnB and VRBO), nautical tourism, and rural eco-lodging, among others.

Prior Actions and Policy Triggers

76. **The DPF series support the implementation procedures and requirements for the revamped framework-law governing ZDTIs.** Prior Action 6 supports the decree-law establishing due process and timelines for approval of investment projects inside the ZDTIs, ensuring the necessary environmental and social assessments, in addition to the transparency and predictability of the project approval cycle. The process-flow noted in the decree regulates the review, within a given timeframe, by all relevant public agencies, including the investment promotion agency (Cabo Verde *TradeInvest*), the Office for Management of Special Tourism Zones, the National Institute for the Management of the Territory (INGT), the General Directorate of Environment (DGA), and the local Municipalities. These line agencies (particularly INGT and DGA) will ensure the application of the recently updated national legal guidelines. Prior Action 6 is contributing to the effective implementation of an overarching regulatory framework that seeks, among other things, to promote environment protection and climate adaptation in tourism investments. The new decree law will ensure that investment projects inside the ZDTIs follow recently updated national legal guidelines, notably the 2018 Decree-Law on updated guidelines for territorial and urban planning and its requirement for use of disaster and climate-related risk information for territorial planning. This is fully aligned with the Spatial Planning Action Area of Cabo Verde's recent NDC, which acknowledges the environmental and climate-vulnerability impacts of inadequate planning and development and emphasizes the need to strengthen the implementation of the country's plans and

policies that lay out the basis for an effective and rational implementation of land planning strategies and integration of climate change.

77. **To enable a more equitable, sustainable, and diversified development of the tourism sector, the DPF series will also support the overhauling of critical elements in the legal and regulatory framework**. Hotel and lodging establishments are particularly important for their ability to generate jobs and have positive spillover effects on the development of other auxiliary activities. Policy Trigger 6 will support a new single harmonized decree-law upgrading guidelines for tourism accommodations to the current best practice on the different tiers of quality and sustainability criteria, while at the same stimulating the development of new niche offerings, such as rural and community-based family lodging and online accommodation. Further, a new decree-law on tourism service providers will provide key updated licensing requirements for a safe and high-quality tourism experience to key operators (travel agencies, tour guides, tourism transport providers, among others), involving local communities and cultural assets, and safeguarding a quality level of service essential to establish Cabo Verde's brand image. These reforms are embedded into a broader WBG effort to enhance the tourism sector's regulatory and governance framework, diversify, and increase the local spillover effects of tourism growth.

Expected Results

78. **As a result of the reforms, it is expected that the tourism sector becomes more sustainable, diversified across niches and islands, and better linked to the natural and cultural assets of the country.** New and existing projects will be in full compliance with the new provisions of the national decrees on tourism zoning and legal framework decrees, inclusive of adequate environmental safeguards. These measures will enable a streamlined and sustainable investment framework, which will catalyze projects in untapped ZDTIs on islands outside Sal and Boavista. The revamped regulatory framework will also support other tourism segments outside all-inclusive hotels, such as culture, nature, nautical, diving, and trekking. It is expected that the three new tourism investment projects will be approved by 2023 under the revamped legal framework for ZDTIs and with officially approved EIA Studies. These projects should account for 80 percent of total new tourism investments in ZDTIs.

Support the sustainable development of the fishery sector to attract investment

Prior Action #7: To attract sustainable and environmentally responsible private sector investment in fisheries, the Recipient has approved Decree-Law No. 15/2021, dated February 9, 2021, regulating aquaculture.

Policy Trigger #7: To promote a sustainable development and growth of the blue economy and the sustainable use of marine and coastal resources, the Recipient has approved Maritime Spatial Plans for at least two islands.

Background

79. **Cabo Verde's new development strategy, *Ambition 2030*, recognizes the importance of actively developing the aquaculture sector to support diversification, increasing the value added of exports, and addressing the unsustainable exploitation of some fish stocks.** Similarly, the Unified Strategic Framework for the Blue Economy (*CASUEB*) gives central space to aquaculture (both mariculture, including offshore,

and aquaculture, including in reservoirs) to operationalize the Government's Blue Economy vision. The need to provide a suitable framework for the development of the sector is also aligned with the Sustainable Development Goals (SDG 14). Additionally, the 2015 NDC and it 2020 update recognize the development of aquaculture as a climate change adaptation option to mitigate the volatility in marine fisheries productivity. These documents also emphasize the need to put in place a regulatory framework to manage the environmental impacts of aquaculture and provide clarity for investors. Cabo Verde's marine fisheries are considered under very high ecological risk from climate change, and among those most vulnerable in Africa (World Bank 2019).[27] The development of aquaculture is one option to mitigate this negative impact from climate change on marine fisheries, by diversifying the source of fish for consumption as well as reducing the pressure on marine resources. For these reasons, the NDC recognizes the development of aquaculture as a climate adaptation option and encourages the development of sustainable aquaculture.

80. **Aquaculture activities, including shrimp farming, have recently started and are demonstrating positive results**. With its favorable and stable climate throughout the year, Cabo Verde has the endowments for the sustainable development of aquaculture, which would lessen the dependence on maritime fishing and create synergies with industrial fishing, the development of which is strongly limited by the supply of baits. To support the development of aquaculture and the associated mobilization of private investment, progress is needed in the following areas: (i) scientific and technological capabilities (for more efficient production, adapted to local conditions and more suitable species); (ii) zoning (to delimit the most promising areas for aqua-/mari-culture and protect these areas in the context of spatial planning); and (iii) an improved strategic and regulatory environment (to build a regulatory framework to support the development of the activity in line with best international standards, avoid the informality of the piloting stage, and ensure more safety and quality in the production chain). The last two areas are directly supported by the proposed DPF series. The first area will benefit from World Bank TA, combining support from the *Aquabusiness Advisory Platform* (P175786) and the (pipeline) *Sustainable and Resilient Economic development project in Cabo Verde* (P176981).

Prior Actions and Policy Triggers

81. **The DPF series supports the first regulatory framework for aquaculture in Cabo Verde to attract sustainable private investment while adapting to climate change**. Prior Action 7 supports the aquaculture decree-law that will cover in detail the various aspects of starting and operating an aquaculture-related business, including establishment authorizations, licensing, authorized species, hygiene and safety, and environmental aspects (both on pollution and biodiversity considerations). The decree-law will be critical to prevent the problem of pollution that may be caused by aquaculture as well as providing a diversification option away from artisanal and coastal fisheries. The regulation will also provide clear procedures for the establishment and operation of aquaculture production units, thus providing legal certainty to stakeholders. Regarding the holding, breeding, or cultivation of species, a system of authorization and licensing will be established, based on the verification of certain assumptions that exclude the risk of circumvention, dissemination, and proliferation of species that may threaten ecosystems and biodiversity. By supporting the adoption of the first regulatory framework for aquaculture

[27] *Climate Change and Marine Fisheries in Africa: Assessing Vulnerability and Strengthening Adaptation Capacity*.

in the country to attract sustainable private investment in the sector, the Prior Action can thus be considered to directly contribute to climate change adaptation.

82. **The DPF series will also support the development of Maritime Spatial Plans, which are critical instruments to integrate key sectors and identify most appropriate productive areas**. Policy Trigger 7 will support the development of Maritime Spatial Plans as a meaningful and necessary step in the rational development of coastal and marine resources. The preparation of these plans entails the elaboration of a shared vision of blue development that reconciles and addresses trade-offs among stakeholders and sectors. The preparation of the plans will consider the demand and pressure from different activities (cities and human settlements, tourism, aquaculture, ports, agriculture, marine protected areas, etc.) together with the characteristics of sites (e.g., water availability, natural hazards, etc.). In the case of aquaculture, this means ensuring that appropriate conditions of water and electricity supply are met, and favorable sites are protected in relation to the development of urbanization, within the framework of adapted territorial planning tools.

Expected Results

83. **As a result of the reforms, more sustainable private investment into aquaculture is expected.** With the adoption of the first regulatory framework on aquaculture, considered as a high potential and yet unexploited niche in the country, and the subsequent successful zoning of sites, an increase in sustainable investments flows into aquaculture is expected. The target is to increase the investment in aquaculture from US$6 million in 2020 to US$9 million in 2023.

84. **The analytical underpinning of each Prior Action is presented in Annex 6.**

4.3. LINK TO CPF, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY

85. **The programmatic DPF series is aligned with the second and third pillar of the WBG COVID-19 Response Approach paper.** The second pillar of the DPF seeks to increase the resilience of poor and vulnerable households, mostly women, by investing in their capacity to prepare for, cope with, and adapt to shocks, thereby reducing the likelihood they become trapped in poverty as a result of the impact of economic shocks. These reforms implement the second pillar of the WBG COVID-19 Response Approach Paper that pursues improve delivery systems for expanded coverage, better delivery, and greater resilience for future shocks. The third pillar of the DPF supports a sustainable recovery by supporting reforms needed to channel private resources at large scale to diversify the economy. As such, it implements the third pillar of the WBG COVID-19 Response Approach Paper that seeks to ensure sustainable business growth and job creation.

86. **The reform program supported by the DPF is consistent with the objectives of the Cabo Verde 2020 -2025 CPF.** The WBG CPF (report number 127164-CV), approved by the board in November 2019, builds on the findings of the Systemic Country Diagnostic produced in 2018. 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.

87. **This operation builds upon the achievements of several World Bank IPF and TA projects, underpinned by the World Bank's approach to respond to the COVID-19 crisis.** These include: (i) the SOE Related Fiscal Management Project (P160796) that supports the restructuring of the electricity utility company (ELECTRA), as well as reforms to strengthen the legal and policy framework and institutional capacity for SOE oversight, monitoring and reporting; (ii) the Competitiveness for Tourism Development (P161248) that provides TA to strengthen the institutional capacity and regulatory framework to increase private investment; (iii) the Social Inclusion Project (P165267) that support the Government efforts to build an effective social protection system that promotes social and productive inclusion and its additional financing (P175946) that supports regular and emergency cash transfer to the poorest and most vulnerable affected by the COVID-19 crisis; (iv) the recently completed Recovery and Reform of the Electricity Sector Project (P115464) which supported increased electricity generation and reducing electricity losses; (v) the programmatic Advisory Services and Analytics (ASA) for private sector development, trade, and investment climate that provides TA to improve the enabling environment for private investment; and (vi) the Disaster Risk Management Policy Financing with Catastrophe Deferred Drawdown Option (CAT DDO) DPF (P160628) which is designed to improve the country's ability to respond to disasters. Other important operations include Debt Management Capacity Support TA (P156632), and support on Transfer Pricing and Tax Expenditures (P160168). Finally, this operation is also expected to be complemented by the (on-going) Programmatic *Aquabusiness Advisory Platform* (P175786), supporting best practices for economic and environmental sustainability in aquaculture, and the pipeline *Sustainable, Resilient, and Inclusive Growth development in Cabo Verde* (P176981), supporting the recovery and diversification of tourism flows, particularly towards emerging island destinations and beyond the "sun & sea" anchor segment.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

88. **The design of the DPF series is informed by the PEDS and the Cabo Verde Ambition 2030, completed in 2020, and benefitted from wide-scale consultations.** This consultation was conducted on several levels, including with line Ministries, public agencies, private sector representatives, and other key stakeholders. The World Bank team participated in the Cabo Verde Ambition 2030 discussion meetings related to fiscal policy and private sector development, where the criticality of the reforms supported by the operation were debated with the stakeholders.

89. **The World Bank has been working closely with the main development partners leveraging its role in coordinating the five-member Budget Support Group (BSG), which includes the EU, the AfDB, Luxembourg, and Portugal.** The BSG provides a framework for semi-annual joint reviews of the Government's development program. The joint missions enhance donor coordination and harmonization of DPF support for greater impact. Besides coordinating the BSG, the World Bank leads the technical discussion around the macroeconomic framework. The reform program supported by this DPF series was discussed with partners to ensure complementary in planned interventions, notably in the areas of macro and debt management, energy, social protection, and COVID-19 policy response. The World Bank has coordinated closely with the IMF during the series preparation, including through participation in decision meetings of both institutions, joint debt management missions, and joint discussion with government on

policy priorities for returning to macro-fiscal sustainability and structural reforms in the aftermath of the crisis.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

90. **The COVID-19 crisis erased the progress in poverty reduction achieved since 2015 and exacerbated income inequality.** Before the pandemic, the national moderate poverty rate (based on the national poverty line equivalent to PPP US$5.4 per person per day) was expected to reach 26 percent (38 percent in rural areas) in 2020. After the crisis, national poverty is estimated to had increased to 45 percent (52 percent in rural areas). Although poverty is largely a rural phenomenon in Cabo Verde, the impact of the crisis disproportionally affected people living in cities with a projected increase in urban poverty to 41 percent (from 28 percent in 2015). Growth incidence analysis shows that the income level of the lowest decile has fallen by at least half, while the income level of the highest decile dropped by 10 to 15 percent. Moreover, income for the bottom forty percent of the population is estimated to have decreased by 31 percent, compared to 14 percent for the rest of population. Consequently, the Gini coefficient is estimated to have increased from 0.423 in 2019 to 0.479 in 2020.

91. **Poverty increased disproportionally for households connected to the tourism, hospitality and transportation sectors.** The sudden stop in international travel in 2020 led to income losses for households employed in the tourism and transport value chains and is likely to result in a contraction in consumption levels, driving them into poverty. World Bank simulations estimate that the crisis increased the poverty rate of households employed in the hospitality sector to 52 percent, compared to 10 percent before the COVID-19 shock.

92. **The COVID-19 crisis also affected women disproportionally.** Women lost their livelihoods faster because they are overrepresented in the tourism sector and the pandemic has intensified women's unpaid care and domestic workloads. Women also make up a large proportion of those working in the informal sector, characterized by low pay and poor working conditions, including a lack of basic worker protections like paid sick and family leave. Domestic workers are also at risk. While the need for caregiving and cleaning services has increased, lockdowns and quarantine measures made it difficult to maintain pre-pandemic working arrangements, resulting in a loss of income and employment among this largely female workforce.

93. **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 medium term.** The DPF focus on reducing fiscal risk and increasing debt transparency contributes to establishing an enabling environment for prudent fiscal management and sustained economic growth. Strengthening the resilience of the poor to economic shocks will contribute to prevent vulnerable households, particularly women-led, from falling into poverty as a result of the shock in the short term and contribute to a more efficient and responsive social protection system to protect them over the medium term. Enabling a private sector led and sustainable recovery is also expected to support sustainable growth and job creation, which will be beneficial for the poor over the medium-term. The expected poverty impacts of the prior actions are reported in Annex 4. To assess the

likely impact on the electricity, fisheries, and tourism reform a Poverty and Social Impact Analysis (PSIA) was completed in May 2021. The PSIA made use of the latest household income and consumption expenditure survey (*Inquérito às Despesas e Receitas das Famílias* -IDRF 2015) and the annual multi-purposes surveys (IMC).

94. **Prior Actions 3 and 4, would contribute to poverty reduction, particularly amongst women, in the short and medium term including as a response to shocks.** The reform program is expected to not only ensure that the purchasing power of targeted poor households is maintained but also to contribute towards protecting the livelihoods and strengthening the resilience of poor and vulnerable households, particularly women. These reform areas would prevent households from resorting to negative coping mechanisms and, therefore, avoiding worsening human capital development. The extension and expansion of the emergency cash transfers (Prior Action 3) would have a short-term positive impact on poverty. Extreme poverty is expected to reach 7.9 percent with the RSIE which is lower than in the counterfactual scenario of 11.3 percent without RSIE. The expansion of the social registry (Prior Action 4) would increase the efficiency of targeting of social programs with a direct positive impact on poverty and make the social register more suitable to be used for future rapid expansion of the safety net as a response to shocks. Shock-responsive safety nets providing temporary income support, enables households to protect and insure against risks, while reducing the cost of coping ex-post. Without receiving rapid economic relief, affected households may resort to negative coping strategies that could have serious long-term human capital impacts. The reforms would particularly benefit women, since 74 percent of households in the social registry (from which the RSIE beneficiaries are selected) are female-headed households and around 67 percent of the RSO beneficiaries (who will be included in the social registry) are women. In addition, women constitute a large portion of the extreme poor of which 43 percent are households where a single mother is the only breadwinner.

95. **Prior Action 5, which supports the power sector reforms, is expected to have positive poverty impacts through the reduction of tariffs over the medium term.** The privatization of the utility company will improve the financial situation of ELECTRA by reducing large commercial losses. As tariffs are cost reflective, it is expected that the reduction in losses is passed through tariffs over the medium, which would reduce the cost of electricity, particularly for poor households. Over the short term, however, the restructuring of ELECTRA will include a retrenchment, which may have moderately negative poverty impacts on non-poor households. Workforce rightsizing is likely to have adverse distributional and social impacts in the short run, though the overall poverty impact is expected to be mitigated since compensation measures will be instituted, comprising severance packages for retrenched workers. Lessons learned from the retrenchment of CVA staff will be implemented, particularly the improvement of the communication flow between the Government and employees, the early established of a grievance redress mechanism, and the implementation of job assistance programs to re-enter the labor market.

96. **94. Prior Action 6, which supports streamlined and sustainable investment in the ZDTIs, is expected to induce more job creation in the tourism value chain, supporting poverty reduction across more islands.** There is robust empirical evidence showing lower relative poverty levels in islands which have received the bulk of tourism investments in the last two decades (Sal and Boa Vista). The spillover effect of these investments has created positive net gains in the local service HORECA (hotel, restaurant, café) supply chains, and also localized gains in ancillary product supply chains such as fisheries (e.g. in Sal island), creating economic opportunities for low-income households which have been more exposed to

the COVID-19 shock. The reform is expected to leverage investments across more ZDTIs, outside of the main hubs of Sal and Boa Vista and beyond the current all-inclusive resort dominant segment, thus expanding economic opportunities across more islands and attracting investments in other tourism business models with higher local product sourcing potential. Female workers will benefit from more investment to a higher degree since they are overrepresented in the tourism labor force. The reform is also expected to support the sustainability and the environmental aspects of investments in ZTDIs by regulating and mandating due process and review by all stakeholders, ensuring that local resources are protected. However, new investments could lead to greater demand from local products and a related increase in the price of consumption products, thereby negatively affecting the affordability of the consumption basket.

97. **Prior Action 7, which support the aquaculture regulatory framework, will have a positive direct poverty impact through job creation and food security.** Aquaculture has been shown to have a high economic return in terms of water use relative to other food systems, particularly in the context of dry lands such as that of Cabo Verde. Considering the global trend towards culture instead of capture, as well as the stagnation or reduction of economic opportunities in the over-exploited coastal capture fisheries, aquaculture may provide an important source of diversification and complementarity. Women, who dominate seafood value chains, are particularly dependent on a reliable supply of product that capture fisheries may struggle to produce in the medium long term. In this context, new and sustainable investments in aquaculture are expected to bring important private sector investments and job creation. While still a nascent sector, the designation of new zones is expected to be oriented by the early experiences of one inshore shrimp production farm and an upcoming FDI-driven and export-oriented offshore tuna farming project in Sal and Sao Vicente. The offshore or coastal aquaculture areas will be determined by technical criteria, including non-interference with existing prime artisanal fisheries areas. In addition to providing employment opportunities and income generation to local communities, the provision of a regulatory framework for aquaculture is expected to provide new reliable and affordable supply of food products. Finally, impacts on small scale fishermen are expected to be limited to some navigational inconvenience as fishing boats need to share space with offshore cage installations. Actual fishing success and local biodiversity are expected to increase, driven by nutrient outfalls and the animals and plants that grow on submerged structure. Additionally, some jobs are also likely to move from small scale fishermen capture to culture because culture is safer, more profitable and a more modern industry than fishing. This transition has been happening in countries that have expanded aquaculture in the past.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

98. **The Government has made significant strides in developing a framework for environmental management and mainstreaming environmental sustainability in projects**. Article 30 of the environmental protection law no. 86/IV/93 imposes EIA on all projects and Article 33 imposes environmental licensing. The Cabo Verdean regulatory framework does not include scoping, but the Environmental Information System provides guidance on the structure of the EIA, and law no.14/1997 determines the content of an EIA report. Finally, law no. 27/2020 (repealing 29/2006) establishes the activities subject to EIA and the procedures for implementation. The National Directorate of Environment (*Direcção Nacional do Ambiente,* DNA) in the Ministry of Agriculture and Environment is institutionally tasked with reviewing and clearing EIA documents. The DNA has been improving in its capacity to enforce and monitor implementation of EIA recommendations.

99. **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 tourism investments supported by the operation (Prior Action 6) might impact water demand (and availability), energy demand (and sourcing), and waste generation, among others. The by-laws under consideration regulate the process flow and deadlines for project approval, including the DNA. The overall guidance on environmental safeguards is included (i) in the ZDTI framework law and (ii) the overall EIA law updated in March 2020. Finally, environmental risks from aquaculture investment (Prior Action 7) are primarily linked to water pollution and species contamination. The proposed law considers environmental issues and refers to the overall impact assessment regulations (see next paragraph). In addition, specific TA will be provided on the preparation and review of environmental assessment instruments.

100. **The strengthening of the capabilities of the social protection system to respond to crises, 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 investment in the social registry (Prior Action 4) would raise the climate adaptation potential of the social safety nets since it underpins the ability of programs to expand coverage of households in response to climate-related shocks. The power sector reform plan (Prior Action 5) would tackle commercial losses in electricity generation and also rationalize electricity demand and reduce GHG emissions. Support to the effective implementation of the planning and regulation for sustainable tourism (Prior Action 6) would promote environment protection and climate adaptation, by requiring among others the use of disaster and climate-related risk information for territorial planning. Finally, the regulatory framework for Aquaculture (Prior Action 7) is also likely to support climate adaptation, as recognized in the country's NDC, noting that aquaculture will provide a buffer to mitigate the volatility that climate change could impose on marine fisheries.

101. **The remaining Policy Actions supported by the operation are not likely to have negative impacts on Cabo Verde's environment, natural resources and forests.** They do not support direct investment in environmentally impactful areas and do not involve policy actions with significant environmental consequences.

5.3. Public Finance Management (PFM), DISBURSEMENT AND AUDITING ASPECTS

102. **The proposed credit will be disbursed following the standard IDA procedures for DPF operations**: The proposed operation would consist of a single tranche of US$30 million equivalent to be made available upon effectiveness and disbursed based on a withdrawal application. The credit will follow the World Bank's disbursement procedures for DPF. Once the credit becomes effective and provided IDA is satisfied with the country's macroeconomic framework and with the program being carried out by the Recipient, the credit will be deposited at the Central Bank of Cabo Verde (*Banco de Cabo Verde,* BCV) into an account that forms part of the country's official foreign-exchange reserves. The recipient shall ensure that upon the deposit of the credit into said account an equivalent amount in Cabo Verdean Escudos (CVE) is credited in the Recipient's budget management system in a manner acceptable to IDA. The Recipient will report to IDA on the amounts deposited in the foreign-currency account and credited to the budget-management system. If the proceeds of the credit are used for the ineligible purposes, as defined in the General Conditions (as revised on July 14, 2017), IDA will require the Recipient to refund an amount equal

to the amount of said payment to IDA promptly upon notice from IDA. Amounts refunded to the World Bank upon request shall be cancelled.

103. **The significant strengths in Cabo Verde Public Financial Management (PFM) system have been maintained and reinforced to date.** Strong progresses documented in the Public Expenditure and Financial Accountability (PEFA) report with respect to the comprehensiveness and transparency of the budget, policy-based budgeting, and internal controls, as well as accounting and reporting has been maintained in 2021. The authorities continue to make significant efforts in devolving some budget responsibilities to line ministries. Generals Directorate of Planning, Budget and Management *(Direcção Geral de Planeamento, Orçamento e Gestão,* DGPOG) have been installed in sectoral ministries to support the decentralization of PFM and manage the control aspects necessary for proper execution of the budget. The Financial Management Information System (FMIS) has been revamped through the introduction of Integrated Budget and Financial Management System (*Sistema Integrado de Gestão Orçamental e Financeira*), SIGOF. This has given the authorities a strong management tool and has the potential to speed up budget execution, develop accountability mechanisms and boost the quality of reporting. In addition to the law detailing the rules and procedures for budget execution, SIGOF has its own set of controls in place contributing to better expenditures commitment control. As a result, no expenditure can be made in the system if it is not budgeted for and treasury cash available. The secondary controllers also play an important role as authorizers within the expenditure processing system (i.e., acting as an internal control function). Internal audit is done by the General Inspectorate of Finance (IGF), a unit under the Ministry of Finance organizational structure. A risk- based approach has been adopted and ex-post reviews of transactions are regularly performed.

104. **The Government's budget is now publicly available on the Ministry's website, as are quarterly budget-execution reports.** The merger of the Ministries of finance and planning and the introduction of program-based budgeting enhanced the linkage between the national plans and strategies and the budget, which is being continually reinforced. Significant progress has also been made over the last few years in implementing a Treasury Single Account (TSA). Several bank accounts have been closed, and payment systems have been modernized through near-full automation. Cash and debt management have also been reinforced.

105. **The national budget credibility that has been weakened by the COVID-19 crisis should be improved to strengthen alignment between actual spending and the government's development agenda.** Minimizing the budget execution deviations, increasing the transparency in the in-year reallocation of funds and effective enforcement of the recommendations of the auditor general highlighted in the PEFA assessment are areas requiring strengthening.

106. **The Foreign exchange control environment:** The review of the 2019 and 2020 audited financial statements of the BCV in the absence of recent IMF Safeguard Assessment report revealed that there is an acceptable foreign exchange control environment. The financial statements are prepared in accordance with Internal Financial Reporting Standards (IFRS), an internal audit function is in place and a new BCV organic law was drafted with the aim of strengthening the operational independence of the central bank. The BCV financial statements are annually audited by external auditors and the report published on the external website. The external auditor issued an unqualified opinion on both the 2019 and 2020 financial statements. According to the external auditor, the accompanying financial statements present fairly and

appropriately, in all material respects, the financial position of the BCV on December 31, 2020 and its financial performance and cash flows for the year then ended in accordance with the accounting principles applicable to the BCV. However, the auditor has highlighted capital losses leading to negative equity. The auditor has recommended that the Government provide to the BCV the amount necessary to correct the deficit. However, the Government has not provided a specific timeline for the provision of those funds and plan to resume the recapitalization process after the COVID 19 crisis.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

107. **The National Directorate of Planning (*Direção Nacional de Planeamento,* DNP) at the Ministry of Finance will be responsible for the overall implementation of the proposed operation and for reporting on its progress.** The World Bank will review the prior conditions for effectiveness and disbursement. It will be the responsibility of the DNP to present this information in a timely manner and in a format satisfactory to the World Bank.

108. **The monitoring and evaluation (M&E) system remains the same as in previous DPF operations.** M&E activities will be anchored in the attached Policy matrix (Annex 1). Since the previous DPF series, the World Bank team has worked in close collaboration with the Government and its budget support partners to ensure adequate M&E of development interventions. The Government has invested substantially in developing an electronic platform for monitoring results of government spending. However, the system is currently only partially operational. A key weakness is inadequate data systems that should generate and update results information. The collection, quality control and sharing of administrative data across government agencies is problematic and household surveys are not designed to track the results of government programs. The new national strategy for the development of statistics and the revised law on statistics are designed to address key weaknesses and provide a strong foundation for improvement and sharing of survey and administrative data. The National Institute of Statistics will play a central role in coordinating the statistical system and ensure quality and independence of data systems and sharing these with users to respond to key monitoring and policy analysis demand. The team's assessment is that the country's M&E system is sufficiently robust for the purpose of this operation.

109. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

110. **The overall risk rating for the DPF series is substantial.** This reflects a range of macroeconomic, sectoral, and implementation capacity risks, all of which could compromise the success of the proposed operation. The risk ratings in Table 6 follow the four-point rating scale from low (L), to medium (M), substantial (S), and high (H). The following sections describe risks that are considered high and substantial, after proper mitigation measures have been put in place.

111. **Macroeconomic risks are high and depend primarily on the duration of the COVID-19 crisis and the speed of recovery of the tourism sector.** The risks are compounded by the delay in fiscal consolidation and SOE reforms due to the crisis, including the reversal of the privatization of CVA that could demand fiscal support over the medium term and affect the projected reduction in public debt. While the long-term future of CVA is uncertain, the re-nationalization of the company was based on public interest concerns related to fiscal considerations due to the poor performance of the Airline after privatization, which were compounded by the pandemic. A lower economic growth in 2021 could cause further reversals of the gains in fiscal and debt sustainability achieved in recent years. Financial support to the SOE sector could also increase significantly, leading to a further deterioration in the fiscal deficit and delaying the projected decline in public debt. The change in the political party holding the presidency in 2021 could delay further SOE reforms as more scrutiny on the privatization process is expected. External and natural shocks remain an important source of risks, which could increase fiscal pressures and result in fiscal slippages in 2022. The impact of such scenario would be compounded as fiscal buffers to respond to the crisis have been exhausted, including with the disbursement of the CAT DDO DPF (P160628) in 2020. However, the Government has shown a strong commitment to achieving fiscal consolidation targets and is making a considerable effort to strengthen its oversight of SOEs. These efforts are supported by World Bank SOEs Related Fiscal Risk Management Project (P160796). These actions are to be complemented by the implementation of a comprehensive strategy for managing fiscal risks and for improved debt transparency, with the support of the World Bank and the IMF. Authorities are committed to restructure and re-privatize CVA over the medium term.

112. **Risks related to the implementation capacity of sector strategies and policies are substantial.** Cabo Verde has made important strides in raising the capacity of the public service. However, significant deficiencies exist in some areas. Achieving the objectives supported by this operation will require strict fiscal discipline and sustained implementation of complex reforms. In the past, limited technical capacity and insufficient proactivity have allowed key SOEs to set the pace for reforms, but the establishment of a relatively strong SOE unit has proved effective in supporting recent achievements. Furthermore, the design of the proposed operation seeks to mitigate capacity risks by: (i) concentrating on policy reforms that have benefitted from or are the subject of ongoing policy dialogue with the WBG; (ii) supporting policy reforms that leverage other WBG operations; and (iii) providing TA either directly or jointly with other development partners in selected areas. The Government also continues to benefit from capacity-building support provided by other development partners. Finally, the proposed operation is highly selective in its design to avoid overwhelming the government's administrative capacity constraints and limited ability to absorb resources.

113. **Institutional capacity risks are high.** The Government in power since April 2016 has shown its commitment to the DPF-supported reform agenda. However, the effectiveness of this commitment and

the government's ability to manage political and institutional pressures going forward are not assured. The reforms undertaken by the Government may be politically sensitive. Overall, the history of SOE reforms in Cabo Verde is long and complex and previous reforms have been derailed by inaction or powerful interest groups. The reversal of the privatization of CVA showed the difficult to sustain reforms in the context of the COVID-19 crisis. Political interference also remains a substantial risk to the success of this operation as it may undermine government willingness to sustain reforms. To mitigate this risk, the World Bank is supporting reforms which, while difficult, benefit clearly from strong champions in the current administration and a strong momentum. Significant technical support has already been provided by the World Bank and other partners to inform the reform agenda with strong involvement of the national counterparts. The Government has also adopted a consultative approach to build consensus around the reforms being pursued.

Table 6: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Moderate
2. Macroeconomic	High
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Low
9. Other	
Overall	Substantial

ANNEX 1: POLICY AND RESULTS MATRIX

Policy Actions and Triggers		Results Indicator		
Prior Actions under DPF 1	**Triggers for DPF 2 (indicative)**	**Indicator**	**Baseline (2020)**	**Target (2023)**
Pillar A: Reduce Fiscal Risks and Improve Debt Transparency.				
Prior Action #1: To improve public debt transparency and strengthen fiscal risk management, the Recipient has issued a Regulatory Decree No. 5/2021, dated October 29, 2021, mandating (i) the quarterly publication of the debt bulletin; (ii) the publication of the medium-term debt management strategy; and (iii) the inclusion of a fiscal risk statement in the Budget Report.	**Trigger #1:** To further strengthen fiscal risk management, the Recipient has issued a ministerial resolution providing rules and processes for the evaluation and issuance of State guarantees.	**Result Indicator #1:** Large fiscal risks are quantified and inform the preparation of the MTDS and the budget	N/A	2
Prior Action #2: To manage fiscal risks from the SOE sector, the Recipient has issued a Ministerial Resolution No. 48/2021, dated October 15, 2021, mandating (i) the quarterly publication of the SOE sector bulletin; and (ii) the inclusion of a fiscal risk assessment in the quarterly and annual SOE sector bulletins.	**Trigger #2:** To further increase debt transparency, the Recipient has issued a ministerial resolution to broaden the coverage of public debt in the annual debt report to include the nonfinancial public sector.	**Result Indicator #2:** Support to SOEs (capitalization, guarantees, on-lending) above what is established in the annual budget (percent)	30	10
Pillar B: Strengthen the Resilience of Poor and Vulnerable Households, particularly Women.				
Prior Action #3: To support the poorest and most vulnerable population to cope with the protracted economic impact of the COVID-19 crisis, the Recipient has issued Resolution No. 14/2021, dated February 9, 2021, expanding the Social Inclusion Income for Emergency (RSI/E) to households from the poorest quintile not yet covered and all households in the second poorest quintile with children under the age of 15.	**Trigger #3:** To improve the institutional coordination to respond to future shocks, including climate related; the Recipient has issued a decree laying out the framework for a shock-responsive safety net, indicating its features, implementation processes, roles and responsibilities, and delivery systems, ensuring the effective inclusion of women.	**Result Indicator #3:** Number of households benefitting from temporary income support in response to shocks through emergency cash transfer programs, disaggregated by gender (cumulative).	5,450 households 4,578 female-headed (84%)	20,000 households 16,000 female-headed (80%)
Prior Action #4: To improve the usability and the crisis response capabilities of the social protection system, the Recipient's Ministry of Family and Social Inclusion has issued Directive No. 34/2021, dated April 15, 2021, requiring municipalities to register informal workers, identified through the COVID-19 Emergency Cash Transfer Program for Informal	**Trigger #4:** To broaden the use of the social registry, to improve the efficiency of targeting the poor and most vulnerable and the coordination of social programs, the Recipient has issued (i) a resolution instructing at least two additional programs to use the social registry for targeted service delivery; and (ii) a resolution requesting	**Result Indicator #4:** Percentage of additional households identified using the social registry that are from the two poorest	0	50%

Policy Actions and Triggers		Results Indicator		
Prior Actions under DPF 1	**Triggers for DPF 2 (indicative)**	**Indicator**	**Baseline (2020)**	**Target (2023)**
Workers (RSO), into the Single Social Registry (*Cadastro Social Único,* CSU.	programs using the social registry provide feedback data.	quintiles.		
Pillar C: Enable a Sustainable Private Sector-Led Recovery				
Prior Action #5: To promote private investment, improve operational performance, and reduce GHG emissions in the electricity sector; the Recipient has approved the restructuring and public divesture of the electricity utility company through the Decree-Law No. 52/2021, dated July 21, 2021.	**Trigger #5:** To implement the energy sector restructuring, the Recipient has enacted a legal decree to incorporate new generation and distribution companies.	**Result Indicator #5:** Improved ELECTRA's commercial operational performance: Overall system losses.	26.1%	25%
Prior action #6: To promote environmentally sustainable investments in the tourism sector, the Recipient has approved Decree-Law No. 87/2020, dated December 18, 2020, regulating the process to approve construction projects in Integrated Tourism Development Zones (*Zonas de Desenvolvimento Turístico Integrado*, ZDTIs) and the relevant licensing process.	**Trigger #6:** To harmonize and streamline the tourism regulatory framework and anchor it on environmental and social sustainability criteria, the Recipient has adopted a legislative package that includes updated regulatory decrees on classification criteria and licensing requirements for tourism accommodations and all tourism service providers.	**Result Indicator #6:** New tourism investment projects approved in ZDTIs under official POTs and new EIA approval and disclosure standards (percentage of total number of new investments in ZDTIs).	N/A	80
Prior action #7: To attract sustainable and environmentally responsible private sector investment in fisheries, the Recipient has approved Decree-Law No. 15/2021, dated February 9, 2021, regulating aquaculture.	**Trigger #7:** To promote a sustainable development and growth of the blue economy and the sustainable use of marine and coastal resources, the Recipient has approved Maritime Spatial Plans for at least two islands.	**Result Indicator #7:** Total investments generated in aquaculture (US$ million)	6	9

ANNEX 2: FUNDS RELATIONS ANNEX

Cabo Verde—Assessment Letter for the World Bank and the African Development Bank September 9, 2021

The assessment of economic and financial developments as well as medium-term outlook presented below are based on the last IMF country report which was endorsed by the Board on March 26, 2021 and staff assessment of subsequent developments. The authorities have signaled interest in a new program under the Policy Coordination Instrument (PCI) and program negotiations are expected to take place toward the end of 2021.

1. **The Cabo Verde economy was severely impacted by the COVID-19 pandemic.** The number of COVID-19 cases continues to increase, but the vaccination program is gaining traction with about 67 percent of the adult population having received one dose. Real GDP growth contracted by 14.8 percent in 2020 due to the global economic downturn, travel restrictions and other COVID-19 containment measures that halted activity in the tourism and transportation sectors, and significantly affected other sectors. These factors continue to impact growth in 2021, which contracted by 11 percent (y/y) in the first quarter. At the same time, weak domestic demand, low international energy prices, and increased domestic food supply contributed to a decline in inflation to -0.9 percent at end-2020. However, inflation picked up during the first half of 2021 and increased by 1.5 percent (Dec/June) due to higher food, clothing and transportation costs. The current account deficit widened to 15.9 percent of GDP in 2020 reflecting the collapse in tourism, despite a decline in imports associated with the COVID-19 slowdown in economic activity. Remittances remained stable, while the financial account deteriorated. Notwithstanding a decline, gross international reserves remained at comfortable levels (€582.4 million or 7.1 months of imports) at end-2020. During the first half of 2021, gross international reserves declined further to €517.7 million (about 6.1 months of imports). The authorities have been pursuing an ambitious vaccination program, with about 67 percent of the adult population having received one dose.

2. **Despite the economic impact of COVID-19 the financial sector remained stable, adequately capitalized and liquid.** Banks remain generally liquid and financial stability indicators were broadly satisfactory at end-March 2021. In particular, regulatory capital to risk weighted assets (CAR) was well-above the regulatory minimum of 12 percent. However, non-performing loans (NPLs) remained elevated at 9.5 percent of total loans. Credit to the economy expanded by 4.8 percent at end-December 2020, reflecting the impact of COVID-19 relief measures, including the use of the special financing facility, government guaranteed loans, and the impact of the credit moratorium.

3. **The overall fiscal position deteriorated substantially in 2020 due to the impact of the COVID-19 pandemic.** In particular, the overall fiscal deficit increased to 9.1 percent of GDP (from 1.8 percent in 2019). Large financing needs (9.4 percent of GDP), combined with the decline in nominal GDP, contributed to a substantial increase in public debt, which rose from 125 percent of GDP in 2019 to 156 percent in 2020, about 15 percent of GDP more than projected at the third review of the PCI[1]. This deterioration was largely driven by a sharp decline in government revenues, which fell by

[1] At the time of the last PCI review in March 2021, data for 2020 was still preliminary. The authorities provided updated information that reflected new data and some stock flow adjustments. Upcoming IMF missions will review these trends with the authorities in preparation for a new Debt Sustainability Analysis (DSA).

23.8 percent as a result of (i) liquidity constraints for taxpayers, mostly associated with the recession; (ii) a decline in imports; (iii) a worsening balance sheet for SOEs, which were not in a position to pay dividends as initially expected; (iv) loss of property income due to delays in the privatization program and (v) the moratorium on tax payments, which ended in December 2020, three months later than initially planned. Overall spending pressures were well-contained, with total expenditures declining by 3.6 percent in 2020 due to a drop in capital outlays. This more than offset the additional spending in health, education and social sectors (1.6 percent of GDP) introduced to address the impact of the pandemic.

4. **Budget execution continues to face challenges in 2021 and the fiscal position is expected to remain unchanged due to the lingering effects of the pandemic.** In 2021 the primary balance (6.2 percent of GDP) and overall deficit (9.1 percent of GDP) would remain at the 2020 level. The previously planned consolidation of about 1.0 percent of GDP will not be achieved due to further increases in COVID-19 related spending and lower tax revenue. The additional COVID-19 expenditures and lower tax collections reflecting continued economic weakness will offset the expected revenue gains from implementation of a 5 percent tariff on imports previously exempted from customs duties, and ongoing tax administrations reforms, including greater use of inspections, audits, and improved risk management. The wider deficit will be financed in part by drawing down on SDR holdings (about 0.5 percent of GDP) associated with the recent SDR allocation. In 2022, the primary deficit is projected to narrow to 2.4 percent of GDP as revenue performance strengthens and expenditures remain contained. The projected pickup in growth combined with the introduction of the ECOWAS Common External Tariff in 2022; the streamlining of tax exemptions; and enhanced controls at customs are expected to boost revenue collection. Expenditures are projected to start reverting to pre-pandemic levels in 2022 due to a fall in capital outlays to 4.7 percent of GDP (from 6.4 percent of GDP in 2021) and the phasing out of one-off spending related to the elections and COVID-19.

5. **The latest DSA assessed Cabo Verde's risk of debt distress as high, though public debt was assessed as sustainable.** The last joint World Bank/IMF Debt Sustainability Analysis (DSA) conducted during the second review of the PCI showed that the risk of external and total debt distress was high. The results also showed that public debt is sustainable, thanks to manageable debt service costs associated with a large degree of concessionality. This debt sustainability assessment which will be updated to reflect more recent developments as part of the next engagement and is, subject to significant downside risks from a more severe or prolonged impact of the pandemic, contingent liabilities associated with SOEs, as well as possible shocks to growth and exports. Cabo Verde is receiving debt relief under the G-20 DSSI initiative (about US$ 15.5 million in 2020).

6. **The monetary policy stance is appropriate and consistent with the objective of protecting the peg and price stability.** Monetary policy has been accommodative in recent years, in the absence of pressures on prices and reserves. In response to the pandemic, the central bank lowered the policy rate by 125 basis points (to 0.25 percent) and the overnight deposit rate by 5 basis points (to 0.05 percent). It also reduced reserve requirements from 13 to 10 percent, and set up of a long-term financing facility for banks. Implementation of these measures led to a reduction in banks' lending rates and supported credit expansion. These measures have been extended to end-December 2021.

7. **The external sector assessment prepared at the time of the last PCI review suggests that Cabo Verde's external position in 2020 was substantially stronger than suggested by fundamentals and desirable policy settings, pointing to substantial undervaluation.** While the negative net international investment position is a source of vulnerability, risks are partly contained by the structure of Cabo Verde's external liabilities which are dominated by foreign direct investment and long-term maturity debt. Reserve adequacy is assessed as satisfactory based on the IMF LIC/MIC framework that indicates an optimal reserve level of about 3.3 months of imports, compared with the current level and projected level (about 6 months of imports) over the medium term. However, fragilities arising from the economy's undiversified production base, as well as its vulnerability to exogenous shocks, suggest that a higher level of reserves than implied by the IMF MIC/LIC framework may be adequate.

8. **The economic outlook is subject to substantial uncertainty.** An upturn in economic activity for 2021 and over the medium term will require favorable developments in the global economy; the resumption and gradual increase of tourism and capital flows to Cabo Verde; a robust program of vaccination procurement and distribution; the execution of large externally-financed infrastructure projects delayed by the pandemic, and the acceleration of structural reforms to restructure SOEs and to ease access to finance, particularly for small and medium-sized enterprises. Real GDP growth is projected at 4 percent for 2021 reflecting the base effect from the deep recession in 2020 and is projected at about 6 percent over the medium term. The fiscal position is projected to strengthen over the medium term, with the primary balance progressively improving to a surplus in 2024 and reaching 1.2 percent of GDP by 2026. The medium-term fiscal position is weaker than projected at the time of the last PCI review due to the more sustained impact of the pandemic. Price pressures are expected to remain low, with inflation below 2 percent, in line with the euro area average; the current account deficit is projected to narrow to 13 percent of GDP in 2021, and to improve further to 2.3 percent of GDP by 2026, while gross international reserves supported by the increased SDR allocation are projected at about 6 months of prospective imports of goods and services over the medium term.

9. **Risks to the outlook remain elevated.** A prolonged pandemic with a significant economic impact remains the most important downside risk. Weather-related shocks, possible lack of momentum in structural reforms and fiscal consolidation efforts after the pandemic are also downside risks. The main upside risk is a faster resumption of tourism and capital flows.

10. **Engagement with the IMF.** The third and final review under the PCI was successfully completed on March 26, 2021. All quantitative and non-quantitative continuous targets were met; and all, but two reform targets (RTs) under the PCI were observed. The delayed reforms involved the streamlining of exemptions on VAT and excises, along with the creation of a functional central registry of mobile collateral,. The IMF supported Cabo Verde's response to the pandemic through the Rapid Credit Facility (RCF) in an amount of SDR 23.7 million (100 percent of quota); and Cabo Verde received an SDR allocation of 22.7 million (95.8 percent of quota) on August 23, 2021. The authorities' have signaled interest in a new PCI. A staff visit to discuss the 2022 budget is planned for September 20-24, and negotiations for the new arrangement and Article IV Consultation are likely to take place towards the end of 2021.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

Ministério das Finanças
Gabinete do Ministro das Finanças

Mr. David Robert Malpass
President of the World Bank Group
Washington, DC

N. Ref: 553 /GVPMMFFE/2021
Praia, September 20th, 2021

Subject: Policy Development Letter - "First Sustainable and Equitable Recovery Development Policy Financing (DPF)"

Excellency,

In the course of implementing the Strategic Plan for Sustainable Development (PEDS) 2017-2021, Cape Verde has made great strides in completing reforms, with considerable gains at the economic, social, and at the management level of public finances. The results of this trajectory have placed social and macroeconomic indicators at historically high levels.

Economic growth averaged 5 percent during 2016–19, reaching 5.7 percent in 2019 with low and stable inflation. The growth dynamics was supported by the tourism (tourist arrivals increased from 644,429 in 2016 to 819,308 in 2019), transport, construction, and other services sectors. The Government's fiscal position improved significantly, with the overall fiscal deficit dropped to below 3 percent of GDP until 2019 due primarily to enhanced domestic revenue mobilization, partly thanks to tax and administrative reforms, and expenditure restraint policies. Fiscal consolidation, combined with sustained real GDP growth, helped reduce the public debt-to-GDP ratio from 127.8 percent in 2016 to 124 percent in 2019. The external position also strengthened, with the current account deficit moving from 5.1 percent of GDP in 2016 to 0.4 percent of GDP in 2019, boosting international reserves from €541 million in 2016 to €663.4 million in 2019.

Before the pandemic crisis, the Government was also pursuing efforts to improve the investment climate, facilitating access to finance for Micro Small and Medium Enterprises (MSME) companies, and increasing the productivity and the competitiveness of the economy. For such the Government created a financial eco-system to address and overcome market failures, for successful MSME funding. The three institutions created (Proempresa, ProCapital and Progarante) manage programes of technical assistance, venture capital and partial guarantee scheme to ease access to finance for the MSME. The said institutions complement each other to offer a holistic solution to MSME, which are agents of growth and job creation. This financial ecosystem institution has gained consistency and adherence, having eased access to lines of credit with disbursement of over CVE 1 billion by the end of 2019.

The Government also improved the efficiency and rigorous management of the SOE's sector and accelerated the implementation of privatizations, concessions, and public-private partnerships. The State-owned Enterprise (SOE) has recovered significantly from negative net results in 2015 to positive net results before the pandemic crisis. There has been a clear improvement in the management of public finances, with the public deficit at below 3% in 2019 with a clear decreasing trend in the public debt to GDP ratio, aiming according to our previous projection to reach 100% until 2024, as agreed with IMF, under the PCI.

Furthermore, Cape Verde has consolidated Tourism as the engine of economic growth. Tourism's direct contribution to GDP reached 22% in 2019. Despite its importance, as shown during this pandemic situation, tourism needs to be diversified with a larger number of operators, a more diverse set of tourists and greater linkages to the economy. These challenges are being addressed. The high level of Cabo Verde´s performance is well captured in the evaluation report of the Policy Coordination Instrument (PCI) of the International Monetary Fund. It notes that "Cabo Verde's macroeconomic performance has been impressive under the implementation of the authorities' PEDS.

This strong macroeconomic performance was interrupted by the outbreak of the COVID-19 global pandemic. Tourism, the mainstay of the economy, has come to a halt due to domestic and international containment measures against the pandemic.

The global pandemic is having severe economic and social impacts in Cabo Verde. Real GDP, after reaching 5.9 percent in the first quarter in 2020, contracted sharply after the second quarter, leading to a contraction of about 14.8 percent at the end of the year. This was driven by a very significant retrenchment in the tourism and transportation sectors and weak activity across the other sectors of the economy, contributing to higher unemployment (14.5% in 2020) and social hardship. Given the depth and protracted nature of the crisis, the Government has extended into 2021 the COVID-19 relief measures that were originally expected to expire at end-2020. Given the reduction in total revenues and the ongoing needs in social spending to mitigate the impact of the pandemic crisis, the deficit to GDP reached -9.1% and the debt to GDP raised to 154% in 2020.

The pandemic is severely affecting the economy and putting pressure on the budget and the balance of payments. As a tourism-dependent economy, the global economic slowdown and travel restrictions associated with the pandemic are severely impacting the economy. Tourist arrivals declined close to 75 percent in 2020. The impact of the pandemic is also being felt through postponement of domestic investment decisions and a decline in foreign direct investment and remittances. Government revenues have also reduced significantly (-25% in 2020) because of the reduced economic activity while there is an urgent need to scale up spending in health and social assistance.

With COVID-19, the reduction or stoppage of population mobility and economic activity, especially in the areas of hospitality and food service activities, transport and storage, trade, construction, and cultural and sporting events, and the stoppage of agricultural activity because of home confinement, exposes low-income families, and especially the very poor to a situation of having to cope for survival.

To mitigate the social effects of the pandemic, the Government has adopted a set of measures, including the implementation of (i) Social Inclusion Income for 8,000 households in extreme poverty, amounting to 44,000,000 CVE; (ii) Solidarity Income for 30,000 workers from the informal sector who will be amounting to 300,000,000 CVE; (iii) Immediate food assistance to about 22,500 families, totalling 21,000,000 CVE; and (iv) Social protection for the elderly in the adult day care Centers, 14,240,000 CVE.

Similarly, to mitigate the effects on the private business, several measures were adopted namely, (i) payment of all outstanding supplier invoices by the State; (ii) establishment of Credit lines and guarantees for companies; (iii) flexibilization by Cape Verde Central Bank (BCV) of prudential rules to provide greater liquidity to the economy; (iv) Moratoriums on the payment of bank loans for businesses severely impacted by Covid-19 crisis; (v) Flexibility in the payment of taxes and fees; (vi) Exemption from the payment of contributions to the social security administration for companies with revenue losses (vii) Extension of the validity periods of documents; (viii) Implementation of the simplified Lay off which allows workers to remain on a payroll for another 3 months with 70% of their gross salary, of which 50% is paid by the social security administration; (ix) Extension of the unemployment benefit; (x) Payment of an allowance equivalent to sick leave benefit in the event of prophylactic isolation and the need to remain at home to care for a relative.

Both the measures for the informal and formal sector, added to the necessary high-level investments in the health sector, to mitigate the effects of COVID-19 on society, is putting enormous pressure on public accounts.

The Government has implemented sound macroeconomic policies. While priority was given to addressing the impact of the health crisis, policies and reforms remained also focused on maintaining medium-term fiscal and debt sustainability and enhancing further the country's growth potential and resilience to shocks. In this context, the Government produced a long-term development agenda (Cabo Verde Ambition 2030, CVA 2030) highlighting the main strategies for the 2030 horizon, aligned with the Sustainable Development Goals (SDGs). The CVA 2030 will underpin the preparation of five-year strategies (Strategic Plan for Sustainable Development, PEDS II and III) in support of the SDGs for Cabo Verde. The current PEDS will expire at end-2021, and PEDS II (which will be a continuation of the previous PEDS) will be in effect from 2022 to 2026 and will be completed before the end of the year. The Government's policy and reform agenda will be driven by priorities under the PEDS and the Cabo Verde Ambition 2030. In the near term, economic policies will aim at minimizing the impacts of the pandemic, protecting employment and vulnerable groups, and supporting the economic recovery. In this context, the implementation of COVID-19 relief measures will continue to be carefully monitored. Over the medium term, the second Strategy for Sustainable Development (PEDS II, 2022-26) will guide the implementation of policies and reforms building on progress made in the last five years, with the following priority areas: (i) enhancing domestic revenue mobilization to rebuild the revenue base eroded by the global pandemic and improve performance; (ii) strengthening expenditure management and improving the execution of public investment projects; (iii) strengthen the E-Governance and modernization of public administration to increase efficiency and effectiveness in relations with families and the private sector and promote the productivity of public services (iv) advancing SOEs reforms to reduce fiscal risks and support medium-term fiscal and debt sustainability; (v) improving the monetary policy transmission mechanism; (vi) strengthening the financial system; (vii) increasing access to finance and improving the business environment to support private sector development and boost inclusive growth. In addition to these priority areas, PEDS II will aim to put a particular focus on the development of human capital; diversification of the tourism sector and improvement of its linkages with non-tourism sectors, particularly agriculture and fishery; development of the blue and digital economy; and enhanced productivity in the agriculture sector.

In addition to boosting the economy through the diversification of economic activities, Cape Verde's development will be very much anchored in the development of human capital and in the efficiency of the Public Administration to respond to the demands of the private sector. In this sense, it is essential to implement a set of reforms in the Public Administration, which are unavoidable, in order to strengthen the economic recovery and increase the response capacity of the Government and local authorities. Therefore, it is essential to invest in new technologies, in order to increase government efficiency and promote the transparency in the management of public resources.

Mr. President, since 2016 Cape Verde had started an ambitious privatization program, which was suspended by the COVID-19 crisis. In 2019, the State sold 51 percent of the national airline

(*Transporte Aereos de Cabo Verde* – TACV) to Loftleidir CV (ICELANDAIR Group) with the objective of reducing the fiscal burden of the company while improving service delivery and connectivity. The COVID-19 crisis caused a shutdown in the airline industry, which made TACV operation extremely difficult. In March 2021, the Government agreed with the majority shareholder on a business plan to restart operations in July 2021, which included support from the state in the form of loan guarantees. However, the Government decided that the high fiscal risks the company entails for the national budget warranted the reversion of the 51 percent of shares back to state ownership, in accordance with the provisions of the contract. The company is currently undergoing a restructuring process to restart operations at the beginning of 2022. We expect to prepare TACV for re-privatization through a transparent, predictable, and competitive process over the next 18 months.

Furthermore, Mr. President, with the support of all our partners, we achieved an excellent performance against COVID-19, in terms of health. If on an economic level we were severely affected by the pandemic, on a health level we managed to control the effects of the pandemic, without ever reaching pressure and rupture of the health system. We have an excellent level of vaccination in the country, and by the end of the year it will be possible to guarantee the group's immunity. Even before the end of the year, we will start vaccinating young people aged between 12 and 17 years old.

In light of the above, Mr. President, WB's budget support is of crucial significance to help mitigate Covid-19 effects on the Cape Verdean economy and society. Moreover, this budget support will help the country relaunch the bases for economic recovery in the short term, by reinforcing the competitiveness of the economy, the efficiency of investments, supporting the promotion of private sector development and accompanying local economic development and decentralization.

Therefore, on behalf of the Government of Cabo Verde, I hereby request a budget support in the amount of 30 million USD from the World Bank for the 2021 fiscal year.

We look forward to your continuous support to Cabo Verde's development and the wellbeing of its population.

Please accept, Excellency, the assurance of my highest consideration.

MINISTÉRIO DAS FINANÇAS
Gabinete do Ministro

Olavo Correia
Vice Prime Minister, Minister of Finance
and Business Development
and Minister of Digital Economy

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar A: Reduce Fiscal Risks and Improve Debt Transparency.		
Prior action #1: To improve public debt transparency and strengthen fiscal risk management, the Recipient has issued a Regulatory Decree No. 5/2021, dated October 29, 2021, mandating (i) the quarterly publication of the debt bulletin; (ii) the publication of the medium-term debt management strategy; and (iii) the inclusion of a fiscal risk statement in the Budget Report.	No	No
Prior action #2: To manage fiscal risks from the SOE sector, the Recipient has issued a Ministerial Resolution No. 48/2021, dated October 15, 2021, mandating (i) the quarterly publication of the SOE sector bulletin; and (ii) the inclusion of a fiscal risk assessment in the quarterly and annual SOE sector bulletins.	No	No
Pillar B: Strengthen the Resilience of Poor and Vulnerable Households, particularly Women.		
Prior action #3: To support the poorest and most vulnerable population to cope with the protracted economic impact of the COVID-19 crisis, the Recipient has issued Resolution No. 14/2021, dated February 9, 2021, expanding the Social Inclusion Income for Emergency (RSI/E) to households from the poorest quintile not yet covered and all households in the second poorest quintile with children under the age of 15.	No	Yes, positive. The reform supports the temporal expansion of the emergency cash transfer to protect the most vulnerable.
Prior Action #4: To improve the usability and the crisis response capabilities of the social protection system, the Recipient's Ministry of Family and Social Inclusion has issued Directive No. 34/2021, dated April 15, 2021, requiring municipalities to	Yes, positive. The reform strengthens the responsiveness of the social protection system in case of crises, including climate hazards. It thus contributes to increasing climate resilience as the Social Registry can be used to better target assistance to	Yes, positive. The reform improves the flexibility and responsiveness of the social protection framework to protect the most vulnerable to shocks.

register informal workers, identified through the COVID-19 Emergency Cash Transfer Program for Informal Workers (RSO), into the Single Social Registry (*Cadastro Social Único*, CSU).	vulnerable, low-income households to recover from damages associated with extreme weather events.	
Pillar C: Enable a Sustainable Private Sector-Led Recovery		
Prior Action #5: To promote private investment, improve operational performance, and reduce GHG emissions in the electricity sector; the Recipient has approved the restructuring and public divesture of the electricity utility company through the Decree-Law No. 52/2021, dated July 21, 2021.	Yes, positive. The reform addresses commercial losses in electricity generation, which contribute to controlling electricity demand and reducing GHG emissions, given the carbon intensity of the generation system (mitigation).	No
Prior Action #6. To promote environmentally sustainable investments in the tourism sector, the Recipient has approved Decree-Law No. 87/2020, dated December 18, 2020, regulating the process to approve construction projects in Integrated Tourism Development Zones (*Zonas de Desenvolvimento Turístico Integrado*, ZTIDs) and the relevant licensing process.	Yes, positive. The reform supports the effective implementation of an overarching regulatory framework that seeks, among others, to promote environment protection and climate adaptation in tourism investments (adaptation).	Yes, positive, through job creation in the islands more affected by the COVID-19 crisis.
Prior Action #7: To attract sustainable and environmentally responsible private sector investment in fisheries, the Recipient has approved Decree-Law No. 15/2021, dated February 9, 2021, regulating aquaculture.	Yes, positive. Investment in aquaculture will provide a buffer to mitigate the volatility that climate change could impose on marine fisheries (adaptation).	Yes, positive. Private investment in the aquaculture sector will promote job creation.

ANNEX 5: CABO VERDE EMERGENCY RESPONSE TO THE COVID-19 CRISIS in 2020

MITIGATION/HEALTH MEASURES	
Containment measures • Self-quarantine for people returning from abroad. • Mandatory quarantine for suspects of COVID-19. • International air and sea borders closed. • Suspension of inter-islands transportation, except for emergencies. Mitigation measures in 2020 • Closing of schools and universities. • Restrictions on large events and gatherings. • Closure of non-essential services and activities. • Countrywide lockdown. • Public services encouraged to resort to remote working. • Mandatory use of masks.	• Wide-ranging awareness campaigns and surveillance (systematic screening at the airport and port borders). • Reinforcement of national laboratory capacities (six virology laboratories were opened in six months). • Mechanisms for country-level coordination, planning and monitoring. • Rehabilitation of facilities to put in place epidemic treatment centers with isolation capacity.
SOCIAL MEASURES	
• Monthly cash transfers of US$55 to the poorest families registered in the social registry - Cadastro Social Unico (CSU). • Emergency cash transfer schemes using the CSU to support additional families, formal and informal workers in micro and small firms and self-employed workers in the informal sector. • Suspension of electricity and water cut-offs due to non-payments (during the State of Emergency). • State assumption of overdue water and Energy reconnection debts of CSU enrolled households with service cuts derived from these same debts. • 100 percent professional training allowance for 3600 young people from poor families.	• Exemption of health fees for children, pregnant women, people with disabilities and poor people enrolled in the CSU. • Introduction of a simplified lay-off regime under which the workers retain 70 percent of the salary; 35 percent supported by the INPS and 35 percent by the employer (extended until December 2020). • Exceptional unemployment benefit measures - reduction of the guarantee period, removal of some formalities in the application process. • Introduction of a 14-day prophylactic isolation allowance, paid at 70 percent of remuneration.
ECONOMIC AND FISCAL MEASURES	
• Immediate settlement of invoices by the Government. • Acceleration of the reimbursement of VAT credits. • Moratorium and negotiation of tax payments and fees. • Exemption from custom taxes of emergency-related items (health). • Credit moratoriums. • COVID 19 credit line for cash flow reinforcement, with state guarantee up to 80 percent. • Credit line for new investments, with interest bonus up to 100 percent and state guarantees up to 80 percent. • Refinancing line for microfinance institutions, with interest bonus up to 100 percent and state guarantees up to 80 percent. • Micro financing line, with interest bonus up to 100 percent and state guarantees up to 80 percent.	• Guarantee lines for construction contracts, with state guarantees up to 80 percent. • Central Bank stimulus package to the financial sector: - Reduction of the reference rate from the current 1.5 to 0.25 percent. - Reduction of standing lending facility rate from 3 to 0.5 percent. - Reduction of standing deposit facility rate from 0.1 to 0.05 percent. - Reduction of the reserve requirement from 13 to 10 percent. - Reduction of the rediscount rate from the 5.5 to 1 percent. - Creation of a new credit line to banks, with 0.75 percent interest rate and amount up to US$450 million.

ANNEX 6: DPF PRIOR ACTIONS AND ANALYTICAL UNDERPINNINGS

Prior Actions	Analytical Underpinnings
	Pillar A: Reduce Fiscal Risks and Improve Debt Transparency.
1-2	• Cabo Verde 2016 Debt Management Performance Assessment (DeMPA). • Tailored TA to improve the assessment of credit risk from SOEs, and production of risk indicators for the debt management bulleting • Cabo Verde Fiscal Risk assessment. **Key findings:** The DeMPA highlighted that the draft of a new consolidated debt management law is an opportunity for improving effective debt management in Cabo Verde.
	Pillar B: Strengthen the Resilience of Poor and Vulnerable Households, particularly Women.
3	• Protecting People and Economies: Integrated Policy Responses to COVID-19 (World Bank 2020) • Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures (World Bank 2020). **Key findings**: Use of existing structures especially where there are social safety nets in place is the preferred social policy response. RSIs are the most widely used interventions by governments for social assistance.
4	• Bowen, T. et al, 2020. "Adaptive Social Protection: Building Resilience to Shocks." World Bank. • Felipe et. al. 2017, *Social Registries for Social Assistance and Beyond: A Guidance Note & Assessment Tool*, Discussion Paper No. 1704. • Monsalve, 2019, "Social Protection System in Cape Verde". **Key findings:** Social registries can enhance their relevance for adaptive social protection by expanding into certain areas prone to shocks, but also by ensuring data on those vulnerable to shocks and their capacity to cope
	Pillar C: Enable a Sustainable Private Sector-Led Recovery
5	• Report on ELECTRA restructuring financed by Project CV-Recovery &Reform of Electricity Sector - (P115464). • Implementation report for the Action Plan for Sustainable Reduction of Commercial Losses of ELECTRA, supported under the Cabo Verde Recovery and Reform of the Electricity Sector project (P115464). • Cabo Verde master plan for the electricity sector (2018-2040) • **Key findings**: The PwC report provides a roadmap for the restructuration and privatization of the utility company. The implementation report provides the status of the activities and challenges in the implementation of the program.
6	• World Bank (2014). Establishing a Tourism Ministry, Board or Institute? Selecting and Institutional Arrangement to Promote Tourism Growth in Cabo Verde; • World Economic Forum (2019). The Travel & Tourism Competitiveness Report 2019 Travel and Tourism at a Tipping Point; **Key findings:** The needs and gaps assessment in the tourism sector remains substantial, particularly with regards to the policy and regulation vacuum. Bottom-up planning, particularly zoning, has been a challenge as most of the existing tourism land bank plots do not have the proper zoning plans nor have any link with the island tourism masterplans.
7	• Government of Cabo Verde (GoCV) (2020). National Investment Plan for the Blue Economy (PNIEB); • GoCV (2020). Blue Economy Promotion Program (PROMEB). • GoCV (2019). Unified Strategic Framework for the Blue Economy (i.e. CASUEB) • FAO (2010). National Aquaculture Strategic Framework for Cabo Verde **Key findings:** Government's commitment to provide increased support to the aquaculture sector is a prerequisite for the sector's sustainable development. Therefore, the need for a suitable framework for the development of the sector