CABO VERDE

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CABO VERDE

- **Cabo Verde's real GDP growth increased to 3.6% in 2015 from 1.8% in 2014 and 0.8% in 2013 as tourism receipts increased, domestic demand improved and energy prices remained low. However, the economy is still underperforming due to deflation and high unemployment.**
- **While government deficit has narrowed from previously high levels, fiscal consolidation remains a priority to reduce the risk of debt distress, reassure investors and safeguard macroeconomic stability.**
- **Despite Cabo Verde's insularity and unequal distribution of the population across islands, its urban renewal can drive structural transformation by providing informal and micro-entrepreneurs opportunities to upgrade and expand their market reach.**

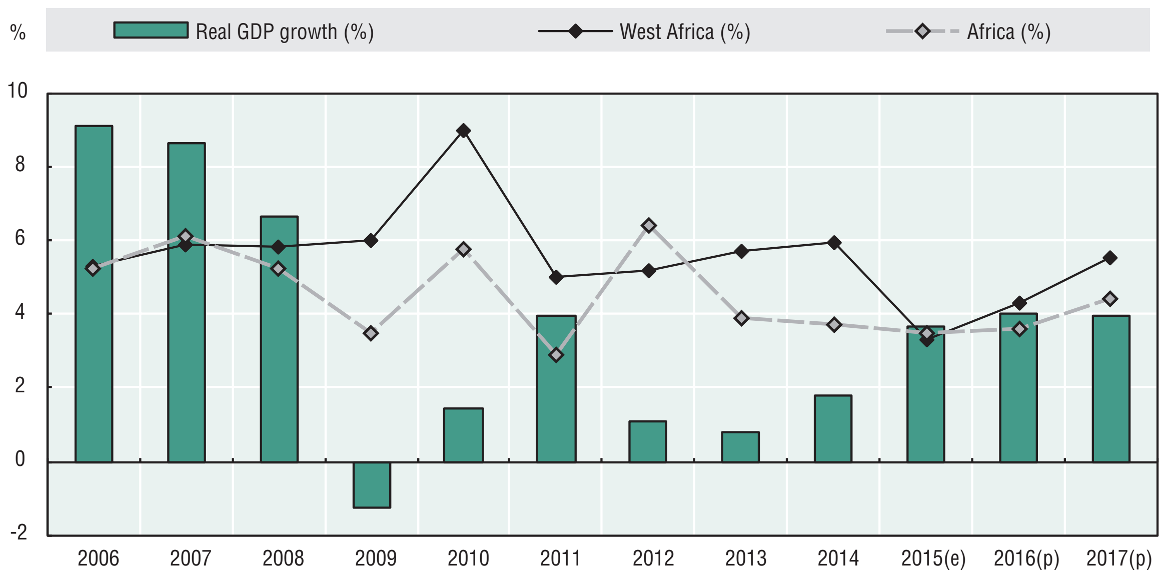
Overview

Cabo Verde's economic recovery remains feeble due to the weak global economy and domestic vulnerability. Tourism and tourism-related foreign investment, including construction, continue to be the main engines of growth. In fact, economic growth recovered to around 3.6% in 2015 (from 1.8% in 2014 and 0.8% in 2013) due to the return of foreign direct investment (FDI) – which grew by 13% in 2014 – especially in tourism. However, economic activity is still catching up with its potential. In addition to public sector efficiency, Cabo Verde's long-term growth depends on bolstering productivity. In 2016 and 2017, growth is expected to recover to an average rate of 4%, below the rate of the boom years before the global financial crisis.

The fiscal situation improved slightly in 2015 due to public investment programme (PIP) phase-out, yet it remains vulnerable. The overall central government deficit is expected to fall in 2015 to 4.5% (from 7.4% in 2014), and again in 2016 to 4%. Challenges also remain to find the appropriate policy path given debt sustainability requirements and a need to improve economic growth. Public debt is expected to reach 118% of GDP in 2015 from 94.7% in 2013. While external public debt is high (76.2% of total public debt in 2015), it remains overwhelmingly concessional, and debt service indicators show that the country shall remain comfortable in servicing its future debt obligations.

Cabo Verde's urban population accounts for about 65% of the country's 514 000 population. The high rate of urbanisation is due mostly to rural-urban migration. Although the increase in the rate of urbanisation is a source of social problems, it also presents an opportunity for informal and micro-entrepreneurs to upgrade and expand their market reach. With a remarkable literacy rate exceeding 85%, Cabo Verde has the foundation for an economic lift-off driven by a robust urban population with skills for a competitive private sector. The country's urban renewal can therefore be an important driver of structural transformation in the years ahead.

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic development**

	2014	2015(e)	2016(p)	2017(p)
Real GDP growth	1.8	3.6	4.0	4.0
Real GDP per capita growth	0.5	2.4	2.8	2.7
CPI inflation	-0.2	0.0	1.6	2.7
Budget balance % GDP	-7.4	-4.5	-4.0	-3.8
Current account % GDP	-8.0	-9.0	-9.8	-10.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

A number of shocks hit Cabo Verde in recent years, including spillover effects from Europe's slow economic recovery, natural disasters (drought, volcanic eruptions) and the Ebola outbreak in West Africa, even though Cabo Verde remained free of the disease. Indeed, GDP growth fell to 1.1% in 2012 and 1% in 2013. Nevertheless, the economy expanded by 1.8% in 2014 driven by a rebound in FDI and increased remittances that boosted household consumption and offered relief in a difficult period for many Cabo Verdeans. As well, fish exports have been strong, highlighting the potential of the sector.

In 2015, the rebound of the European economy had a positive impact on Cabo Verde, particularly through tourism. After a weak performance in 2014, tourism, including cruise tourism, recovered in 2015. FDI flows increased to 3.5% in 2015 as the country showed signs of an upturn. Real GDP growth is forecasted to reach 3.6% in 2016 and to average 4% between 2016 and 2019. This assumes improved economic performance in Europe that will support tourism and inward FDI. Recent government investment in basic infrastructure as well as lower energy prices will support domestic demand. The unemployment rate remained high but is declining, falling to 15.8% in 2015 from 16.4% in 2014 and 16.8% in 2013.

In 2014, agriculture represented 9.4% of GDP, mining represented 0.4% and manufacturing, 6.6%. Tourism drives the economy and is also the engine of poverty reduction. Tourism contributed an estimated 21% to GDP in 2014 (up from 19.2% in 2011 and 20.1% in 2013) and is increasing its role in job creation, generating an annual average of 36 100 jobs from 2013-15. Unfortunately, the sector was the most affected recently by the crisis. Falling FDI meant that fewer hotels were built thus reducing the volume of tourists. In 2014, hotels recorded about 540 1000 entries and 3.4 million overnight stays, a decline of about 2.3% for entries and 0.6% for stays as compared with 2013. Between 2011-14, deflation in some European countries has had a negative effect on Cabo Verde's real effective exchange rate, making the sector less competitive, especially with respect to European travel destinations. Cabo Verde's tourism responded by cutting prices, however the sector was expected to rebound in 2015. In fact, in the first half of 2015, the number of tourists increased by 4.8% and tourism revenue rose by 6%. Rising geopolitical tensions in rival tourist markets is expected to lead to a windfall for Cabo Verde, as tour operators divert traffic to less risky destinations. Also FDI in tourism is returning, having grown by 13% in 2014.

Cabo Verde boasts considerable achievements in attracting foreign investors to tourism. However, the sector exhibits only limited forward and backward linkages with the rest of the economy. Environmental sustainability will be important to protect the country's natural beauty, which is both the main attraction for tourists as well as the main source of tourism revenue.

On the demand side, improved performance was determined in 2014 by an increase in private consumption and significant growth in goods exports. Private investment continued to underperform in 2015, exacerbated by relatively low business confidence. After contracting in 2014, credit to the economy grew by only 1.5% in the first nine months of 2015. This reflects continued weaknesses in the banking sector, as well as a backlog of non-performing loans (around 18% of total exposure) concentrated in the real estate and tourism sectors. The cost of capital is also very high, and FDI to Cabo Verde is still recovering. On the other hand, public investment – both by the central government and by state-owned enterprises financed through on-lending – is retrenching.

Consumer confidence indicators suggest that private consumption in 2015 weakened relative to 2014. Notwithstanding fairly robust remittances, credit to the private sector was weak, and there was a decline in government wages. Agriculture is likely to have benefitted from a very good rainy season, boosting consumption in rural areas in the second half of 2015. Within the public sector, there was a slight increase in spending on goods and services.

In 2015 there was an increase in foreign investment and current transfers (both official and from emigrants). Official foreign reserves grew significantly throughout 2014, and at the end of the year, the accumulated stock ensured 5.5 months coverage of imported goods and services. Goods exports declined by about 28% in the first half of 2015, mostly due to a downturn in fish exports. There was, however, a 9% increase in inflows from services exports from January to June 2015, due primarily to tourism. In 2015, imports increased for consumer goods (6.1%), construction materials (7%) and intermediate goods (11.6%); remittances also maintained a positive trend (16.3%).

The current account deficit for 2015 is forecasted at around 9% of GDP, followed by a gradual reduction over 2016-18. Lower international oil prices are expected to cut Cabo Verde's hefty import bill for energy products (around 20% of total imports), thereby reducing the large trade deficit. The dwindling of government's once high levels of capital investment will slow growth in capital goods imports. Service exports will benefit from a pickup in tourism as European economies recover. Remittance inflows from the large Cabo Verdean diaspora (estimated to equal the resident population) should also rise, in line with European economic growth.

Inflation in Cabo Verde is traditionally low, supported by the Cabo Verdean escudo's (CVE) currency peg with the euro. Prices stagnated in 2014 at a technical deflation of 0.2%. Weak inflation is expected to support private consumption by reducing price pressures on real wages. However, it also increases the real interest rate and thus discourages investment. Low inflation does, however, moderate the appreciation of Cabo Verde's real effective exchange rate (against low inflation in Europe), and contribute to a loss of external competitiveness. The average annual inflation rate rose to 0.0% in 2015; in 2016, inflation is expected to return to its 2013 level of 1.6%. The uptrend in inflation will continue in 2017, averaging 2.5% between 2017-19.

Table 2. **GDP by sector (percentage of GDP at current prices)**

	2010	2014
Agriculture, forestry, fishing and hunting	9.3	9.4
of which fishing	1.1	0.8
Mining and quarrying	0.6	0.4
of which oil	…	…
Manufacturing	6.3	6.5
Electricity, gas and water	0.2	2.3
Construction	12.6	10.4
Wholesale and retail trade; Repair of vehicles household goods; Restaurants and hotels	18.8	20.8
of which hotels and restaurants	4.0	6.5
Transport, storage and communication	17.6	15.5
Finance, real estate and business services	18.2	17.9
Public administration and defence	16.4	16.8
Other services	…	…
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Since 2011, government has gradually implemented a fiscal consolidation programme to maintain macroeconomic stability and cope with the international crisis. The programme is based on four pillars: phasing out the PIP; reducing and optimising current expenditures; changing the treasury banking process and tax administration to increase revenue; and institutional reforms. The consolidation programme is expected to reduce the fiscal deficit to 3.5% of GDP by 2018, down from 10.3% in 2010.

Public investments are expected to drop in relative terms from 10.2% of GDP in 2013 to about 4.3% in 2017. In 2015, public investments represented 5.8% of GDP. Government has honoured its 2013 commitment to not add new investments to its pipeline and the authorities have been rigorously managing current expenditures. Subsidies have been reduced by approximately 86% between 2011 and 2014 from 0.7% of GDP to 0.1%. Budget management has been stringent, resulting in a wage and recruitment freeze. In 2015, current expenditures increased slightly – mostly due to spending on goods and services – but were well within budget.

On the revenue front, government introduced structural measures between 2013 and 2014, including: i) reorganisation of the tax administration with the creation of the national directorate of state revenues; ii) raising VAT in all sectors from 6% to 15%; iii) broadening the VAT base by including communications, water supply and road transport services; iv) introducing a tourist tax of EUR 2 in hotels; and v) adopting a new code that includes a corporate profits tax. These measures have begun to impact tax revenue, which increased to 10% between 2014 and 2015.

Institutional reforms accompanied fiscal consolidation. Initiatives focused on improving state-owned enterprises that deliver essential infrastructure services. Management contracts introduced at the electricity and water company and at the national airline have encouraged improvements in operational performance. These reforms are critical to restoring financial health and reducing contingent fiscal liabilities. In 2014, management contracts were extended to the four remaining strategic state-owned enterprises: Empresa Nacional de Aeroportos e Segurança Aréa (operating airports); Empresa Nacional de Administração dos Portos (operating harbours); EMPROFAC (medicine, pharmacy) and Imobiliária, Fundiária e Habitat (housing services). Nevertheless, some government-related entities, particularly the national airline TACV, are weak and have operating losses. Government's contingent liabilities from both the public and financial sectors are limited.

Fiscal policy is improving the budget deficit, which fell to 4.5% of GDP in 2015 from 7.4% in 2014. Overall financing needs (including on-lending to state-owned enterprises) declined from 10.2% in 2014 to 8.2% in 2015. Government plans to increase public revenue and continue cutting expenditures, particularly concerning PIP.

Table 3. **Public finances (percentage of GDP at current prices)**

	2007	2012	2013	2014	2015(e)	2016(p)	2017(p)
Total revenue and grants	**28.6**	**24.4**	**24.5**	**25.0**	**26.5**	**25.9**	**25.7**
Tax revenue	21.2	18.2	18.0	18.9	18.6	18.2	17.8
Grants	4.6	2.8	2.5	2.3	4.1	4.0	4.1
Total expenditure and net lending (a)	**29.5**	**34.7**	**33.4**	**32.4**	**31.0**	**29.9**	**29.5**
Current expenditure	19.5	22.9	23.2	25.9	25.2	24.9	25.1
Excluding interest	17.9	21.0	21.0	23.4	23.3	23.1	23.4
Wages and salaries	10.2	10.6	10.7	11.7	11.4	11.1	10.7
Interest	1.5	1.9	2.2	2.5	1.9	1.8	1.7
Capital expenditure	10.0	11.8	10.2	6.6	5.8	5.0	4.4
Primary balance	**0.6**	**-8.4**	**-6.6**	**-5.0**	**-2.7**	**-2.2**	**-2.1**
Overall balance	**-0.9**	**-10.3**	**-8.9**	**-7.4**	**-4.5**	**-4.0**	**-3.8**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

A bilateral agreement with the Portuguese government for convertibility supports the longstanding CVE peg to the EUR. The monetary policy of the Central Bank of Cabo Verde (BCV) is to maintain fixed parity between the two currencies to stabilise prices.

The fall in world commodity prices, relative deflation in the Eurozone and contraction in economic activity caused inflation to drop from 4.5% in 2011 to 1.5% in 2013, and to -0.2% in 2014. Inflationary pressures remained low in 2015 due to lower energy prices and weak domestic agricultural performance, as rainfall decreased by more than half over 2014/15. Average annual inflation reached -0.4% in March 2015, rising to 0.1% in October.

With muted inflation and robust international reserves, BCV has taken an accommodative monetary policy stance along with measures to resolve non-performing loans (NPLs). The BCV policy rate was cut by 200 basis points to 3.75% by August 2014; in February 2015, BCV further reduced the rate by 25 basis points to 3.5%. It also lowered the minimum reserve requirement from 18% to 15%, and extended the time limit to liquidate repossessed assets from two to five years.

Credit to the private sector fell by 1% due to weak demand for loans, banks' aversion to lend to the highly indebted corporate sector, and recognition and liquidation of NPLs. In June 2015 the system-wide NPL ratio was 20.3%, up from 18.7% in 2014. Strong capital adequacy has been improving (16.2%), and provisioning for NPLs was broadly adequate (46%). Bank profitability recovered from its trough in June 2014 but still remains low, with return on assets at 0.2% and return on equity at 2.4% as at June 2015.

Continued benign inflation (around 1.6%) and strong international reserves will characterise 2016. Monetary policy is expected to remain accommodative to facilitate resolution of NPLs.

Economic co-operation, regional integration and trade

Cabo Verde's merchandise exports market has remained fragmented and limited to fish and fish products, with fish products accounting for more than 80% of total merchandise exports for the first half of 2015. Spain and Portugal are the main export markets, with more than 90% share in the country's total trade. Total services exports reached CVE 51 583 million in 2014, and CVE 39 525 million in the first three quarters of 2015. Tourism remains the main source of services exports with a 62.1% share in 2014 and a 64.5% share in the first three quarters of 2015. Food, construction materials and engines – largely from Europe – account for more than 70% of total imports. Cabo Verde's regional trade is tiny: 1.2% for total imports and 0.1% for exports within the ECOWAS region, and less than 2% for Africa as a whole.

In November 2015, government organised the first National Forum on Trade to elicit feedback from the private sector on trade constrains. A notable finding was that exports eligible for the United States under the African Growth and Opportunity Act (AGOA) have been modest – less than 10% of total exports to the United States. This is mainly due to AGOA's bureaucratic procedures, which many firms find it difficult to comply with.

According to the 2015/16 Global Competitiveness Index, Cabo Verde was 112th out of 140 countries. To increase competitiveness, the National Trade Council was established in June 2015 to formulate and co-ordinate the country's trade policy. The Strategic Trade Development Plan (2015-2020), also adopted in June 2015, will guide that policy. The aim is to reduce dependence on the fishing industry, increase the share of trade to 15% of GDP from 12% in 2014, and improve the coverage rate (exports plus re-exports) to 65% from 46.3% over the same period.

Table 4. **Current account (percentage of GDP at current prices)**

	2007	2012	2013	2014	2015(e)	2016(p)	2017(p)
Trade balance	-45.7	-36.6	-33.6	-35.1	-29.2	-26.0	-24.7
Exports of goods (f.o.b.)	6.0	10.0	10.1	14.6	15.3	15.3	15.5
Imports of goods (f.o.b.)	51.7	46.6	43.6	49.7	44.5	41.3	40.1
Services	15.0	13.6	17.8	15.6	11.8	9.7	7.3
Factor income	-2.1	-4.3	-3.5	-5.2	-6.2	-5.9	-6.1
Current transfers	19.9	14.8	14.4	16.7	14.7	12.4	13.0
Current account balance	**-12.9**	**-12.6**	**-4.9**	**-8.0**	**-9.0**	**-9.8**	**-10.4**

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

Despite fiscal consolidation in 2014/15, the debt stock relative to the size of the economy has risen. This is due to lower growth in recent years combined with depreciation of the euro. Public debt reached 118% of GDP in 2015 from 94.7% in 2013. It is expected to peak at 123.8% of GDP in 2017 and then decline gradually. Since the deficit (including on-lending) already peaked in 2012, the delayed peak of public debt is driven by amortisations, especially as grace periods end.

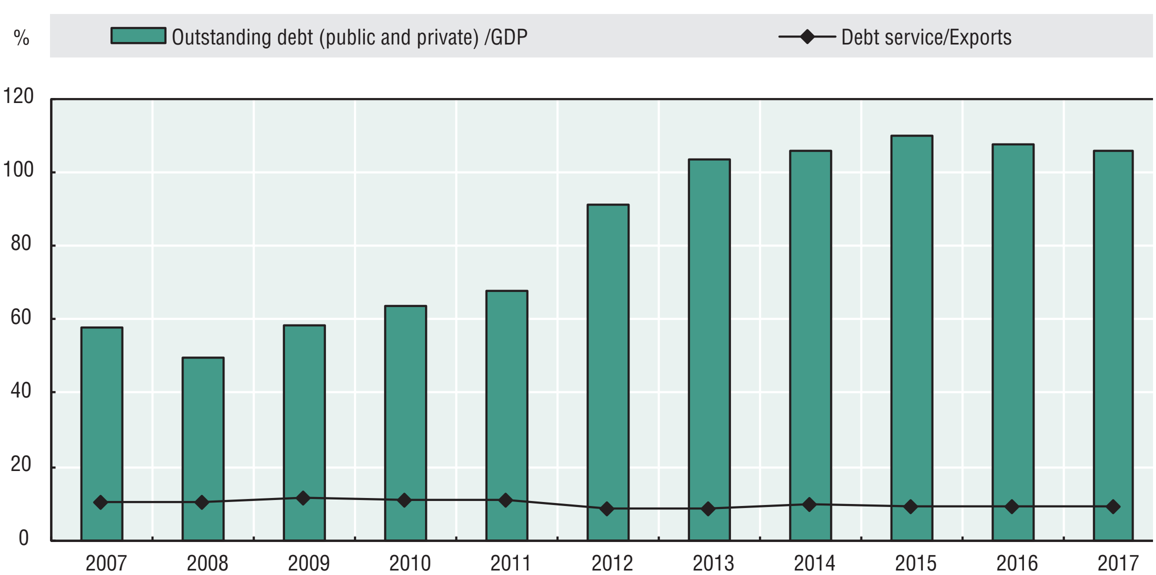
While external public debt is high (76.2% of total public debt in 2015), it remains overwhelmingly concessional. Debt service indicators show that the country shall remain comfortable in servicing its debt obligations in the future. In tandem with phasing out PIP, government is stepping up efforts to crowd in the private sector.

Debt is managed by the Treasury Department. In 2011, the Medium-Term Debt Management Strategy became a tool to conceive and monitor indebtedness strategy and policy. It was last updated in 2014 for a horizon of 5 years. The strategy is taken into account yearly within the state budget and provides a tool for the analysis of new debt.

The World Bank and the International Monetary Fund conducted a debt sustainability analysis (DSA) in May 2014. It put the external debt stock and servicing ratios below the threshold over the 2013-33 projection period. Over the medium term, the debt service to export ratio is expected to be 8%, and debt service to revenues, 11%. The DSA also suggests that, in view of external debt indicators, Cabo Verde's risk of debt distress remains moderate with high prospects of worsening because of vulnerability to a one-off depreciation of 30% as compared with the baseline scenario.

The assessment of high risk is reinforced by a slow recovery in the euro area, rising domestic debt and contingent financial liabilities related to state-owned enterprises and local government debt. The government has, however, taken important steps to contain the risk of debt distress. These include consolidation in the medium-term expenditure framework, with delays of some public investment projects until 2018, and cancellation of others. Notwithstanding these developments, the debt situation requires monitoring in light of growth and exchange rate vulnerabilities.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source: IMF (WEO & Article IV).

Economic and political governance

Private sector

Reforms to Cabo Verde's business environment appear to have stagnated since 2013. Improvement measures have included the streamlining of administrative procedures for entrepreneurs, easing the process for registering property and closing/liquidating a business and tax incentives for investors through the General Investment Code in 2012. Also, in an effort to promote entrepreneurship, in 2012 government established the Agency for the Development of Enterprises and Innovation, which provides technical support to small and medium-sized enterprises (SMEs).

These achievements made Cabo Verde one of the world's best performing countries in the World Bank report, *Doing Business 2012*. However, the fact that *Doing Business 2015* ranked Cabo Verde 122nd out of 189 countries (as compared with 118th in 2014) reflects a slowing of reforms. Efforts need to be made regarding: i) securing credit, as a large number of microenterprises only have access to the meagre resources of microfinance institutions; ii) the overall costs of starting a business, which increased between 2013 and 2014; iii) trading across borders, following increases in 2013/14 in procedures and time required to export and import; and iv) the ease of closing a business with Cabo Verde placing 189th out of the 189 countries ranked by the World Bank.

To maintain sustainable and inclusive growth, the country should intensify reforms to improve productivity and ensure greater competitiveness. The *Global Competitiveness Report 2015-2016* ranks Cabo Verde 112th out of 140 countries surveyed. This is a slight improvement from 114th position (out of 144 countries) in the 2014-15 report. The main obstacles to competitiveness are: the limited size of the domestic market, the difficulty of obtaining credit due to extremely high interest rates, the high tax burden on businesses and the lack of basic infrastructure.

Financial sector

Cabo Verde's financial sector appears sound, supported by banks' generally adequate capitalisation and liquidity. Banks hold an important asset stock, consisting mainly of residential and commercial properties received as settlement under financial transaction guarantees. Foreign banks do not depend on parent institutions, as they are fully funded by domestic deposits. Deposits in domestic banks by expatriate Cabo Verdeans continue to be an important source of funding for the sector. The banking sector remains highly concentrated, with only two major banks that concentrate two-thirds of the total loan market share, and nearly 70% of total deposits.

In 2014, banking experienced a reduction in credit (-0.3%) but significant growth in deposits (9.3%). Private sector credit growth had yet to pick up in 2015. Optimism in the market has risen, with some banks reporting increases in new credit to the private sector, suggesting growth of around 4% system-wide. Obtaining credit is a major obstacle for SMEs and represents a significant constraint for future growth. Several initiatives are in place to provide access to capital through venture capital or credit guarantees. Many of them are sector-specific and administered by a large number of institutions.

BCV has enhanced its supervisory approach over the past few years, including upgrading the legal framework. The passage of the Financial System Basic Law and the Law on Financial Activities and Institutions in 2014 are an important step. While lowering interest rates in 2014, BCV also absorbed part of the system's excess liquidity to discourage excessive risk taking, strengthen monetary policy transmission and encourage development of the interbank market. Nevertheless, the transmission mechanism remains weak and the interbank market has been inactive since May 2013, as banks continue to hold excess reserves.

To complement monetary policy decisions, in February 2015, BCV extended the deadline for selling assets received as settlement from two to five years. However, banks must strengthen internal mechanisms and tools to adjust their balance sheet through faster and more substantial sale of these assets.

Public sector management, institutions and reform

Cabo Verde is widely recognised among African countries for its good governance. According to the 2013 Mo Ibrahim Index of African Governance, the country ranked second out of 52 countries. In Transparency International's Corruption Perceptions Index 2014, Cabo Verde was the second least corrupt African country (with a score of 57 out of 100). According to *Doing Business 2015*, Cabo Verde stands at 91 in the ranking of 189 economies on the ease of paying taxes. Despite its strong record on corruption, Cabo Verde launched a new programme in 2014 to combat corruption in the civil service.

Over the past few years, government has taken several structural reform initiatives to improve the public finance management system. Progress has been achieved on completeness, transparency and supervision, particularly through the introduction of programme-based classification, treasury management reform, tax code review and an Integrated Financial and Budget Management System. The adoption of the National Planning Act in 2014 paved the way for the introduction of programme-based budgeting by 2017. The 2015 budget was presented on a programmatic basis for the first time. A new budget framework law is intended to institutionalise these reforms, which are currently not enshrined in law.

These achievements have strengthened fiscal consolidation and had a significant impact on the monitoring of public expenditure and revenue. However, a number of weaknesses remain – internal and external oversight, flaws in the assessment of contingent liabilities of public enterprises, and the lack of a rational public investment management system. Government is finalising a public finance reform strategy. Also a Public Expenditure and Financial Accountability assessment launched in 2015 will serve as a basis for updating the public financial management action plan and continuing reforms.

Government declared 2015 the year to consolidate the various public financial management reform initiatives. Due to the 2016 elections, rather than open new reform fronts, government will consolidate and strengthen existing ones.

Natural resource management and environment

In 2014, drought and volcanic eruptions on Fogo Island demonstrated Cabo Verde's vulnerability to natural hazards. Protecting the country's natural assets is vital to maintaining national wealth and attracting tourists. Growing pressure on biodiversity, water resources, soils and coastal zones should awaken public officials to the need for a sustainable development programme and policies more in harmony with environmental preservation. Natural resources management and balancing human activities with conservation emerge as the greatest challenges facing environmental governance in Cabo Verde.

The integration of sustainable development principles in development policies and programmes is substantiated in the 2011-2016 Government Program. It advocates for the creation of a "Transversal Green Agenda based on innovation, on the search for an optimal mix of renewable energies, on sustainable cities and on the creation of a more respectful attitude toward nature and the environment in Cabo Verde." It also dictates that efforts must be undertaken to promote biodiversity, improve protected areas, fight desertification, protect forests, treat wastewater and introduce clean and renewable energies. Cabo Verde has surpassed Millennium Development Goal (MDG) 7 to ensure environmental sustainability, by increasing the proportion of protected land and marine areas between 1990-2015 by 18.65 percentage points.

Political context

Cabo Verde is among the most democratic nations in the world. It is politically stable, thanks to the quality of its democratic system, established in 1991 and strengthened over time. Cabo Verde scored 7.81 out of 10 on The Economist Intelligence Unit's 2014 Democracy Index, ranking 31st out of 167 countries in the world and 3rd in Africa. Cabo Verde's performance is mainly a result of its excellent electoral process (9.17 out of 10) and the high level of civil liberties (9.12 out of 10).

Elections in 2011 resulted in a first-ever coalition between the country's two main political parties, the African Party for the Independence of Cabo Verde (PAICV) and the Movement for Democracy (MPD). While current President Jorge Carlos Fonseca won the presidency in 2011 with MPD backing, PAICV has controlled parliament for the past 15 years, allowing it to name the nation's prime minister and government. In recent years, MPD has mounted strong opposition to PAICV, which suffered a poor showing in municipal elections in 2012. Particularly, PAICV has come under attack for running up the public debt on expensive infrastructure projects while failing to tackle rampant youth unemployment.

After 15 years in opposition, MPD reclaimed power during legislative elections on 20 March 2016. A presidential election will be held later in 2016.

Social context and human development

Building human resources

In 2014, the average literacy rate for Cabo Verdeans aged 15 and above was 86.5%, one of the highest in Africa. By 2014, the country had 526 preschools, 420 elementary schools and 50 secondary schools. The rate of school drop-outs decreased: in 2013/14, the rate was 1.1% for elementary schools and 5.8% for secondary education, as compared with 1.7% for elementary schools and 7.3% for secondary schools in 2010/11. Over the last 12 years, the number of tertiary institutions and universities increased. Quality of education, however, remains the main challenge, and courses offered by universities often do not match the skills needs of the market.

To improve the quality of tertiary education, government has instituted measures outlined in the Strategic Document for Economic Growth and Poverty Reduction. Additionally, the University of Cabo Verde, partly government-funded, incentivises professors to pursue advanced degrees around the world. In fact, over the last decade, the number of Cabo Verdeans with PhDs has increased. The main problem is that there is currently no systematic funding for academic and scientific research.

Progress has also been made in health, especially primary care. In 2010, Cabo Verde had two central hospitals, three regional hospitals and seventeen health centres. In 2013, the number of regional hospitals increased to 4 and health centres to 28. Furthermore, in 2014, skilled health professionals attended 95.6% of all births, a 20% increase over 2007. Immunisation coverage for measles was at 96.7% in 2011, higher than the 95% MDG target. In 2014, the under-five mortality rate was 22.5 per 1 000 births, a decrease of 60% from 1990. Over the same period, infant mortality decreased by about 52% to 20.3 per 1 000 live births. However, the rate of decline in both infant and child mortality was below the two-thirds MDG target, and infant mortality represented about 90% of all deaths for children under five years old.

A five-year (2011-15) plan (*Plano Nacional de Luta contra a Sida*) was established to combat the transmission of HIV/AIDS. Access to antiretroviral drugs improved, reaching 56% in 2014, up from 39% in 2010. Mother-to-child HIV transmission also decreased to 2.9% in 2014 from 5.6% in 2011. Although the number of new infections was lower in 2014, there has been a general upward trend since 2003, signalling the need for renewed vigour to slow the spread of infection.

Poverty reduction, social protection and labour

According to the Human Development Index (HDI), Cabo Verde has made improvements in quality of life. This is likely due to a series of Growth and Poverty Reduction Strategy Papers (GPRSP), the latest of which is the GPRSP III (2012-16). The GPRSPs contain ambitious plans for reducing poverty and structurally transforming the country by expanding its productive base.

In 2014 the country's HDI was 0.646, higher than the 0.518 average for sub-Saharan Africa. Nonetheless, poverty remains high. In 2007, the national poverty rate was 26.6%; but there are huge variations across the country. For example, the poverty level in Santa Catarina do Fogo was about 60% as compared to 4% on Sal Island. According to the Ministry of Finance, there was a slight decline in the national poverty rate to 25% in 2011, but again, regional variations persist.

High poverty levels partly reflect an equally troubling trend in unemployment. Although the unemployment rate fell sharply between 2011 and 2012, the pace of decline has slowed since then. In 2012, 16.8% of Cabo Verdean's were unemployed. The rate fell to 16.4% in 2013 and to 15.8% in 2014. However, this was much higher than the 12.2% recorded in 2011.

Government has undertaken measures to improve labour flexibility. Yet, the private sector maintains that these measures fall short of attracting investors, and it attributes high unemployment to a skills mismatch, especially among youth. In April 2015, government, in collaboration with labour unions and others, approved changes in the national labour code to decrease both rigidity and structural unemployment in the long term.

Child labour is another challenge facing Cabo Verde. A 2013 study by the National Institute of Statistics indicated that 8 683 children (about 1.4% of population) were employed, many of them in work that is detrimental to their health, security and moral development. Over the past two years, government has instituted policy measures and institutions to tackle the scourge: the Statute of Child and Adolescent Law (2013); National Committee for Prevention and Eradication of Child Labour (2013); and National Action Plan to Prevent and Eliminate Child Labour (2014). A list of jobs deemed dangerous for children and procedures to guarantee child safety were also approved in 2015.

The number of social protection claimants increased by 17% to 197 991 in 2014 from 169 290 in 2010. Although Cape Verde currently has a youthful population (15-24 year olds represent 20% of the total population), the National Institute for Social Security (INPS) faces growing demands as more people are aging. This is expected to worsen in 20 years. INPS has, therefore, established measures to be more flexible and commercially inclined in order to ensure financial sustainability, economic growth and reduced unemployment.

Gender equality

Cabo Verde has made strides in bridging the gender gap, such as improving women's political empowerment by increasing the proportion of women in parliament and in ministerial positions. The proportion of salaried women in non-agricultural sectors also increased from 48.8% in 2000 to about 66% in 2012. This indicates flexibility in the labour market, which has attracted women away from traditional agricultural work into modern sectors. The gender gap in education also narrowed: from 1990-2013, the literacy rate for women above age 15 increased to 83.4% from 59.4%. The equivalent figures for men were 91% in 2013, up from 74.7% in 1990.

In 2011, government enacted legislation to criminalise violence against women. Following the law's passage, the number of reported cases tripled to 2 787 in 2012 from 855 in 2010, mainly due to increased public awareness. In 2015, government approved the *Plano Nacional de Igualdade de Género (2015-18)*, which aims to provide the country with tools, programmes and action plans for promoting equal rights and opportunities for women and men. Recognizing these efforts, the Global Gender Index for 2015 ranked Cabo Verde 50th out of 145 countries.

Thematic analysis: Sustainable cities and structural transformation

Cabo Verde is divided into 22 municipalities spread across 9 inhabited islands, and the country's population has increased from 341 491 in 1990 to 513 906 in 2014. In 1990, 56% of Cabo Verde's population lived in urban areas. In two decades, this had increased to more than 60%, making it one of the most urbanised countries in Africa.

Urban growth has been more dramatic in Praia, the capital city, and on the islands of São Vicente and Sal. Sal, which accounts for 5.2% of the national population, has one of the highest demographic growth rates in the country. Only the island of Brava has experienced a decline in urbanisation, with less than 18.8% of its population living in urban areas in 2010 as compared with 27.1% in 1990. Given that Cabo Verde's population has been growing at less than 1% since 1990, the increase in urbanisation is therefore mostly due to rural-urban migration, which accounts for half of urban growth.

Expansion in the rate of urbanisation is not only a source of social problems but it also provides informal and micro-entrepreneurs with opportunities to upgrade and expand their market reach. In 2012, Sal Island contributed 11% to the country's GDP and had the second highest GDP per capita after Praia. The island's poverty rate was only 4%, the lowest in the country. With significant investment potential, Sal demonstrates the value of the private sector for better urban planning. The island's Master Plan for 2013-16 prioritises investment in urban infrastructures, estimated at about EUR 30 million. Nearly half of that financing is to come from private sector and international partners.

Praia, which is the administrative seat of government and the country's commercial centre, has also experienced marked demographic and economic shifts. With more than 25% of the national population, it accounts for more than 70% of GDP for Santiago Island, where it is located; in 2012, Praia accounted for 40% of national GDP. Many local and international firms and organisations are located in Praia. Construction of the country's international airport and improvement to the port have added additional economic dynamism to the city.

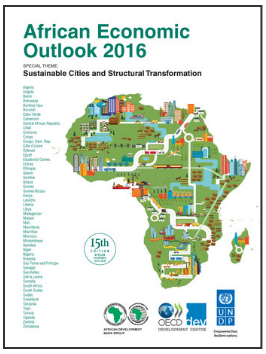
Praia has thus become the main destination for migrants both from other countries as well as from within Cabo Verde. This influx, however, has brought new challenges. The city has recorded rapid increases in unplanned, informal settlements, especially in peri-urban areas. This has come with the attendant social problems, including crime and social unrest due to rising unemployment, especially among youth. Hence, the municipal government has been implementing policies to attract more formalised investments that cater to the needs of the urban population, in particular disaffected young people. Although the different urban development strategies reflect the priorities of urban planners, they are also aligned to national strategies and development plans, giving it a holistic development approach.

At the national level, the Ministry of Environmental, Housing and Territorials Planning has been working with UN-Habitat to implement an urban planning strategy. In 2012, the National Program for Urban Development and Improvement of Cities was approved. It envisions better planned, more inclusive and resilient towns, with an emphasis on land management and information, infrastructure development, urban safety, social connectivity and integration.

Recently, Cabo Verde secured funding to improve urban infrastructure. In 2010, a EUR 200 million loan agreement was signed with the Portuguese government to build 8 000 new houses and rehabilitate another 16 000. An additional USD 66.2 million grant was received from the United States for the second Millennium Challenge Account (MCA) compact, a five-year programme running from 2012-17. One of the three MCA project components is for direct provision of water and sanitation infrastructures to the most vulnerable families, at a cost of USD 20 million. Once completed, these projects will ease the housing problem and modernise Cabo Verde's urban infrastructure network.

Cabo Verde still has transportation challenges, stemming mainly from the geographic structure of the country. Currently, there is no land connection between the country's 10 islands. Transport between islands is either via domestic flight or by sea, using the country's nine ports. To increase connectivity, spur transformation and promote inclusive growth, government has implemented transport projects. In 2013, the highway network reached 1 046 km, with Santiago claiming about 40% of the network. Government has also constructed international airports on the four most populous islands – Santiago, Sal, Boa Vista and São Nicolau.

With a remarkable record in human capital development, Cabo Verde has laid the foundation for an economic lift-off driven by a robust urban population with skills for a competitive private sector. Praia and two of the mostly urbanised islands – Sal and Boa Vista – generated the bulk of their income from tourism, and made the largest contribution to the country's GDP. These islands can eventually become centres of urban renewal and structural transformation in Cabo Verde.



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