CABO VERDE

2015

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- **With real GDP growth of 2% recorded in 2014, the economic recovery remains subdued due to weaknesses in the global and domestic economies, but tourism, tourism-related foreign investment and construction remain engines of growth for the Cabo Verdean economy.**
- **Cabo Verde's fiscal situation has improved slightly in a context of the phase-out of a public investment programme in a pre-electoral year, but it is still vulnerable.**
- **Although Cabo Verde has made economic progress in recent years, there are pockets of spatial exclusion as evidenced by strong emigration from underdeveloped islands.**

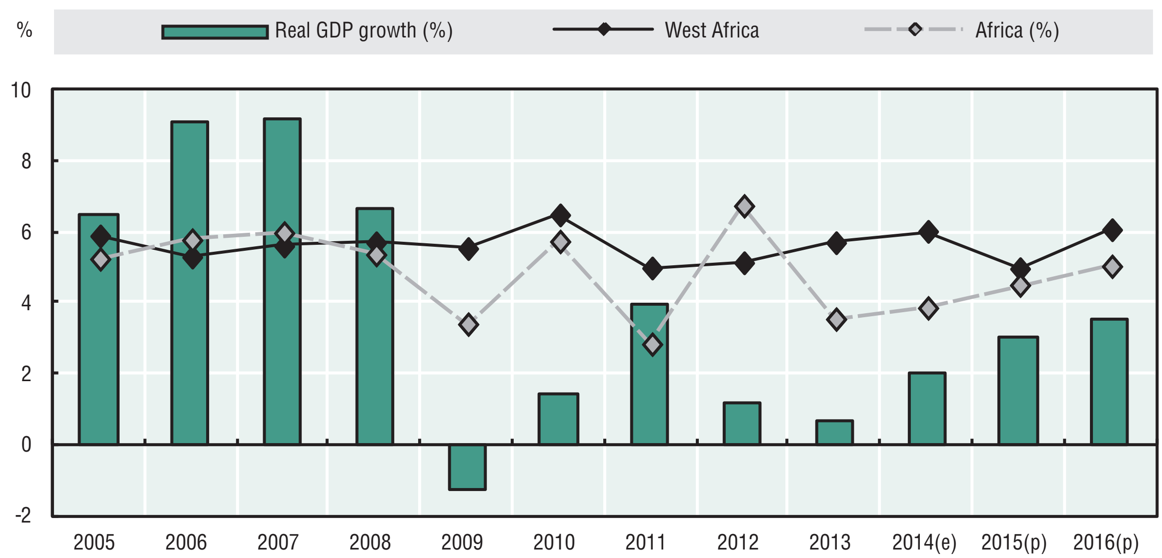
Overview

Exposed to a difficult external environment, economic growth in the Cabo Verdean economy decelerated from 4.0% in 2011 to 0.7% in 2013. In the latter year, the country was particularly affected by a decline in remittances and Foreign Direct Investment (FDI) from Europe, as well as in Official Development Assistance (ODA). In 2014, GDP growth modestly picked up to 2.0%, led by the construction sector, whereas tourism had a negative contribution. Economic growth is expected to improve in 2015/16 to above 3%. This will be driven by good performance in the tourism sector, resumption of private credit growth, product diversification into areas like agriculture and fisheries, an increase in productivity and a modest economic recovery in the euro area.

The government has been winding down its ambitious Public Investment Programme (PIP) to ensure debt sustainability. During the last few years, the combination of weaker revenue performance and higher capital expenditure has driven up public debt to 107% of GDP at end-2014 – a rise of 50 percentage points since 2008. Even though debt financing has been highly concessional, there are risks to debt sustainability if progress on fiscal consolidation stalls. In the face of the country's reduced capacity to borrow, it has become critical to bolster domestic revenue mobilisation in order to ensure macroeconomic stability. A broad set of reforms has already been implemented to streamline and rationalise tax policies in line with international best practices, and efforts are underway to increase the efficiency of tax administration. As monetary conditions have eased and Non-Performing Loans (NPL) are gradually being resolved, banks are in a better position to increase credit to the private sector.

Cabo Verde's nearly half a million people are concentrated on the two islands of São Vicente and Sal and Praia, the capital city, where economic opportunities are more favourable. People have migrated from underdeveloped islands, particularly Brava and São Nicolau, where pockets of spatial exclusion persist. The rising demographic pressure induced by migration has accordingly imposed a burden on infrastructure and environmental conditions, with attendant social and economic problems, including crime. Addressing these challenges requires concerted efforts at all levels of government. Cabo Verde's development strategy therefore represents a national vision aimed at fostering more equitable development on the different islands, especially those with widespread poverty and spatial exclusion. To this end, the authorities have devised policies and strategies and undertaken investments programmes to mitigate against these problems. The related measures are yielding results, as is shown by the increase in the share of population with access to basic water and sanitation and the reduction in rates of the poverty headcount.

Figure 1. **Real GDP growth**



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

Table 1. **Macroeconomic development**

	2013	2014(e)	2015(p)	2016(p)
Real GDP growth	0.7	2.0	3.1	3.6
Real GDP per capita growth	-0.2	1.1	2.1	2.7
CPI inflation	1.5	-0.4	2.2	2.4
Budget balance % GDP	-9.0	-8.0	-7.1	-6.2
Current account % GDP	-3.5	-9.0	-8.6	-7.9

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

Recent developments and prospects

Cabo Verde's sources of economic growth remain tourism, tourism-related foreign investment and construction, all of which are greatly dependent upon the global economy, mainly the euro area. Exposed to a difficult external environment, the Cabo Verdean economy has decelerated in the last two years. Output growth slowed from 4.0% in 2011 to 1.2% in 2012. It further slowed down to 0.7% in 2013 due to slowing export growth, falling FDI, ODA and remittances, as well as weak credit growth. In 2014, growth modestly picked up to 2.0%, led by the construction sector, whereas tourism had a negative contribution due to the fall in prices. The unemployment rate remained high at 16.4%, compared to 16.8% in 2013.

In 2013, infrastructure investments and consistent policies for the sector contributed to an expansion in tourism, albeit at a slower pace. Tourism has been doing well in Cabo Verde, with hotel bookings close to capacity, new investments in the sector and a considerable increase in cruise traffic. However, progress on initiatives to further strengthen the sector has been relatively modest recently. The government is working on a number of initiatives, including a study on the impact of tourism on the environment, an inventory of tourism, a tourism board and a strategic plan for the sector, but few have been completed (the strategic plan expired in 2013). The government urgently needs to consider what the future tourism model will be, how the sector can be diversified and how environmental initiatives and tourism can be combined effectively and sustainably.

Private investment remained low in 2014 as reflected in continued weaknesses in business confidence. Credit to the private sector declined by 0.4%, symptomatic of continued weaknesses in the banking sector, and the cost of capital to companies remains high. After a brief increase in late 2013 and early 2014, FDI continued its six-year decline, although an increase in capital goods and a pipeline worth EUR 600 million in FDI commitments suggest that this trend may indeed reverse toward the beginning of 2015. The public investment programme carried out by the central government and state-owned enterprises (SOEs) declined in line with the government's fiscal consolidation programme. Yet, due to a high import content of about 90.0% for public investment and a small multiplier, the effect on growth is expected to be relatively small.

Consumer confidence indicators suggest that private consumption was relatively strong in 2014, supported by strong remittances and an increased government wage bill. Government wages are the main reason for a strong increase in public consumption in 2014. This is mostly due to new hiring of teachers and tax accountants and promotions teachers rather than wage increases. However, a disappointing rainy season resulted in a poor harvest, which may dampen consumption in rural areas and increase poverty.

Goods exports increased by about 26% in 2014, mostly due to buoyant fish exports. Receipts from service exports have fallen due to a decrease in tourism receipts. Although more tourists are visiting Cabo Verde, prices have fallen, partly as a consequence of deflation in some European competitor countries, putting downward pressure on prices in the Cabo Verdean tourism sector. An increase in tourism exports was expected for the last quarter of 2014, as a new resort opened operations in October, with over 1 000 rooms. As absorption was increasing modestly, imports were expected to register a slight increase.

The agricultural sector was affected in 2014 by lack of rain and a very poor distribution of rainfall during the months of August, September and October. Furthermore, an insufficient recharge of groundwater resulted in depleted dam reservoirs and other water sources, thus compromising irrigated agriculture production. The government foresees a deficit in agriculture production when compared to the average level over the last five years. In particular, corn and bean production decreased 80% and 88% respectively in comparison to 2013. Food insecurity remains a worry given the preliminary results of the 2014/15 agriculture season.

On 23 November 2014, the volcano Pico de Fogo, located on the island of Fogo, reactivated with explosive and effusive activity. The outpouring of lava covered an estimated 450 hectares, including approximately 120 hectares of agricultural land (including crops and 1 000 heads of cattle). It destroyed houses, roads, schools, hotels, a health centre and headquarters of the national park. This will have a major impact on the livelihoods of affected families in the short, medium and long terms. There are about 1 076 displaced persons, including 544 women and children. The damage caused by the Fogo volcano is estimated at more than EUR 50 million. The government launched an international emergency appeal to assist the affected populations and support the reconstruction of the island of Fogo in the aftermath of this natural disaster.

Economic growth is expected to improve in 2015 to 3.1% and continue at 4.0% per year in the long term. This, however, depends on a strong tourism sector, better conditions in the euro area, resumption of private credit growth, product diversification into areas like agriculture and fisheries and an increase in productivity.

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

	2009	2014
Agriculture, forestry, fishing & hunting	9.5	9.4
of which fishing	1.1	0.8
Mining and quarrying	0.6	0.4
of which oil	…	0.0
Manufacturing	5.6	6.5
Electricity, gas and water	1.8	2.3
Construction	13.9	10.4
Wholesale & retail trade; repair of vehicles household goods; Restaurants and hotels	18.0	20.8
of which hotels and restaurants	3.9	6.5
Transport, storage and communication	17.5	15.5
Finance, real estate and business services	17.5	17.9
Public administration and defence	15.5	16.8
Other services	0.0	0.0
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities

Macroeconomic policy

Fiscal policy

Cabo Verde's fiscal situation has slightly improved but remains vulnerable. To offset the deteriorating budget deficit, the government took steps to improve tax revenue and downsize the volume of public investment and subsidies granted to public enterprises in deficit. Given Cabo Verde's budgetary rules, actual fiscal performance in recent years has been less expansionary than originally forecast. The approved budget includes a provision stipulating that as much as 30% of several classes of expenditures can only be executed if revenues perform as expected.

As a result of the authorities' budget reprogramming exercise, fiscal performance in 2013 was less expansionary than originally budgeted. The central government's overall deficit dropped from a projected 9.9% of GDP to 9.0%. It was expected to fall to 8.0% in 2014 and gradually decline to 5.0% in 2017. Moreover, the pace of fiscal consolidation is likely to be more pronounced in the years to come. The authorities were able to safeguard social spending from these containment measures. The government appears committed to decelerating its PIP. The 2015 budget and the latest Medium-Term Fiscal Framework (MTFF) clearly show that public investment is declining.

Fiscal consolidation recorded significant achievements during 2013, including: the harmonisation and streamlining of value-added tax (VAT) rates, the passage of three new tax codes and the launch of a large taxpayer office. The authorities have also focused on enhancing the efficiency of tax administration by reforming the Directorate of Contributions and Taxes (DCI). Further improvements in taxpayer services and a smooth merger of customs and revenue administration remain important priorities. This includes plans to resolve tax arrears of about 4.0 % of GDP, as well as outstanding claims for tax refunds of roughly 1.5% of GDP. The 2014 budget has allocated 0.6% of GDP towards settling such claims and other refunds. The authorities are also preparing a full database of tax refunds to settle outstanding claims.

Current expenditure increased in 2014, mostly due to an increase in the wage bill, resulting from new hiring and promotions. VAT receipts registered a strong increase in line with the new tax measures that took effect in January 2014, however, the increase was less than expected. Income tax registered a fall of 4.9% in the first three quarters of 2014, driven by a reduction in corporate tax. This is partly due to the refusal of large companies that are owed VAT refunds to pay corporate tax. The government did not meet its revenue target for 2014, and the shortfall in revenue was compensated by cutting expenditure on goods and services. The performance of SOEs is improving. Of the six largest SOEs, only the energy company Electra and the airline company TACV (*Transportes Aéreos de Cabo Verde*) remain under distress, but reforms on both companies are starting to show positive results.

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

	2006	2011	2012	2013	2014(e)	2015(p)	2016(p)
Total revenue and grants	**28.3**	**25.6**	**24.5**	**24.9**	**26.1**	**25.2**	**25.3**
Tax revenue	20.5	20.0	18.4	18.5	18.3	17.7	17.5
Grants	5.3	2.9	2.8	2.6	4.0	3.8	4.0
Total expenditure and net lending (a)	**33.3**	**33.1**	**34.8**	**33.9**	**34.1**	**32.4**	**31.6**
Current expenditure	21.9	23.2	22.9	23.5	24.2	23.9	24.2
Excluding interest	20.2	21.7	21.0	21.3	21.7	21.4	21.6
Wages and salaries	10.6	10.6	10.6	10.9	10.9	10.5	10.2
Interest	1.8	1.5	1.9	2.3	2.5	2.5	2.6
Capital expenditure	11.4	9.9	11.9	10.4	9.8	8.5	7.4
Primary balance	**-3.3**	**-5.9**	**-8.3**	**-6.8**	**-5.4**	**-4.6**	**-3.7**
Overall balance	**-5.1**	**-7.5**	**-10.2**	**-9.0**	**-8.0**	**-7.1**	**-6.2**

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

Monetary policy

Monetary and exchange rate policies clearly target price stability, and public spending does not crowd out private investment. Cabo Verde traditionally experiences only moderate inflation, partly supported by the currency peg with the euro. The inflation rate has maintained a downward trend since April 2013 due to lower commodity prices, subdued inflation in the euro area (particularly in Portugal), weak domestic demand and decreasing external demand. It decreased to -0.1% in October 2014 from 1.5% in 2013. The inflation rate is strictly linked to the price of raw materials and national production. Given the bad agriculture season in 2014, more pressure is expected on the inflation rate.

With the increase in international reserves to a comfortable level of 4.5 months of import cover and inflation under control, the Central Bank of Cabo Verde (BCV) was able to ease monetary policy to support the economic recovery. It cut the benchmark interest rate by 150 basis points to 4.3% in March 2014 and reduced the rates of rediscount and of the lending facility by the same amount to 8.3 and 7.3% respectively. The aim of these measures is to help stimulate financing viable investment projects and support economic recovery. The BCV emphasised that the impact of these measures will be enhanced if they are combined with structural measures that help reduce risks and bolster potential growth.

Unfortunately, the impact of a reduction in an interest rate cut on lending rates is unlikely to be significant given weaknesses in the transmission mechanism. The amount of credit increased slightly by 1% in 2014. The performance of the interbank market was disappointing due to the fact that all banks have excess liquidity. The minimum reserve requirement (MRR) was maintained at 18%. Monetary policy is constrained by the fixed exchange rate regime, in particular given that about 40 % of the funding of banks consists of emigrant deposits. The level of NPLs has started to fall but remains high at 16%. The BCV's measures to address these NPLs in the banking system could bring about an increase in credit to the private sector.

Economic co-operation, regional integration and trade

Cabo Verde enjoys sound diplomatic and economic relationships with many countries and international institutions. The European Union is the country's main trading partner. In 2014, a new fishing agreement was signed with the EU for a period of four years, which is expected to benefit the country to the tune of EUR 2.1 million. This facility is aimed at promoting the sustainable management of fisheries and supporting fishing communities. In addition, the two parties ratified a visa agreement, which was initiated in 2012. It comes into effect at the end of 2014. The agreement will facilitate short-stay entry visas for Cabo Verdeans. In August 2014, Cabo Verde also ratified a visa agreement with the government of Angola.

Cabo Verde has also forged new relationships aimed at diversifying its partners. These include China, India, Turkey and other emerging countries. The country also enjoys strong economic and political relations with the Community of Portuguese-Speaking Countries (CPLP). However, trade benefits accruing from its membership have been minimal.

Although Cabo Verde belongs to ECOWAS, its share of the bloc's trade is insignificant, as is its trade with Africa overall. In 2013, Africa accounted for only 1.2% of Cabo Verde's exports and 2.0% of the country's imports. Much of the trade is conducted with the EU, with fish and fishing products as main exports (80.0%). Spain is the main trading partner, accounting for two thirds of total merchandise exports. With respect to imports, the EU is also Cabo Verde's main trading partner, with Portugal's share of more than 40.0% being the single largest, followed by the Netherlands at 20.1%.

Cabo Verde has not fully benefitted from the African Growth and Opportunity Act due to inadequate certification of eligible products. As a result, exports to the US accounted only for 1.1% of all goods exports in 2013.

On the external front, the current account deficit is estimated to have narrowed sharply from 11.5% of GDP in 2012 to 3.5% in 2013, contributing to an improvement in the overall balance of payments and allowing international reserves to increase to roughly 4.5 months of imports cover This reflects a healthy outlook for goods and services exports and significant official financing inflows (already committed). However, in 2014 the trade deficit increased slightly to 35.0% of GDP, and the current account deficit widened to 9.0% of GDP due to a drop in tourism receipts. The exchange rate is broadly in line with fundamentals. Nevertheless, Cabo Verde's high dependence on tourism and remittances points to significant external vulnerabilities.

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

	2006	2011	2012	2013	2014(e)	2015(p)	2016(p)
Trade balance	-37.2	-45.1	-40.2	-34.5	-35.0	-29.7	-29.2
Exports of goods (f.o.b.)	6.8	10.6	10.0	10.9	9.6	10.1	10.1
Imports of goods (f.o.b.)	44.0	55.7	50.2	45.4	44.6	39.7	39.3
Services	12.5	13.5	17.9	19.4	15.7	14.8	13.9
Factor income	-3.6	-3.9	-4.0	-3.6	-4.9	-4.2	-2.6
Current transfers	23.5	19.2	14.9	15.2	15.2	10.5	9.9
Current account balance	**-4.8**	**-16.3**	**-11.5**	**-3.5**	**-9.0**	**-8.6**	**-7.9**

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

Debt policy

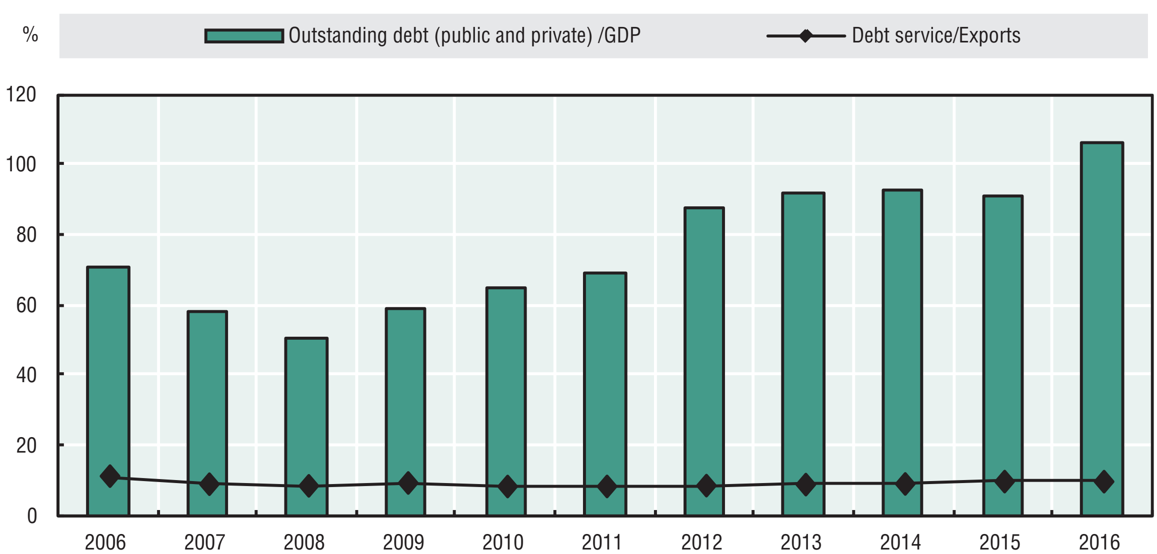
Public debt is estimated to have been 107.3% of GDP in 2014, mainly as a consequence of the public investment programme. While external public debt is high at 76.4% of total debt, nearly 92.0% of the external debt portfolio is concessional. Cabo Verde enjoys a low average carrying cost of its public debt and long maturities. On the external side, Cabo Verde pays an average 1.3% interest rate on its concessional and bilateral debts and 2.1% on market-based instruments. The interest rate risk is low because almost 94.0% of the public debt consists of fixed-income instruments, while only 6.0% is linked to the Libor and Euribor. The refinancing risk is also low as the average maturity is 13 years and only 8.0% of the public debt matures in less than one year.

Cabo Verde's domestic public debt remains at relatively low levels. The government's ability to finance the PIP through concessional external loans has helped to keep domestic debt low at 24.0% of GDP at end-2013. Moreover, there is a legal limit of 3.0% of GDP on domestic financing of the deficit per year. At the end of 2012, the National Pension Fund held about 44.0% of domestic debt, and the rest was held by the banking system. Treasury bonds make up about 94.0% of domestic debt. The average maturity of domestic debt at end-2013 was six years, and the average interest rate was 5.4%. The domestic debt interest rate stands at 4.0% on treasury bills (*Bilhetes do Tesouro*) and 5.4% on Treasury bonds (*Obrigações do Tesouro*).

Cabo Verde's Debt Sustainability Analysis (DSA) revealed that under the baseline assumptions all external debt and debt-service ratios remain below the policy-dependent thresholds throughout the projection period. The present value (PV) of public and publicly guaranteed external debt is expected to peak at 49% of GDP in 2016 and then gradually decrease to 28% of GDP by 2033.

A challenge Cabo Verde faces is the phasing out of concessional financing due to the higher level of per-capita income it has obtained over the past two decades. As an emerging economy, Cabo Verde will need to prepare itself to rely less on donor resources and more on market resources, especially external ones to avoid crowding out credit to the private sector. This again highlights the need to strengthen macro-fiscal stability to signal creditworthiness to markets. Cabo Verde will need to design new instruments to access more market-based external financing.

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

According to the 2015 World Bank report, *Doing Business* Cabo Verde has regressed in its overall ranking to 122nd position from 118nd in the 2014 report. The country is ranked 114th out of 144 countries on global competitiveness by the World Economic Forum 2014-2015, with labour market efficiency, financial market development, and macroeconomic environment found to be particular challenges.

Improving the performance of the labour market is particularly important to increase productivity, create employment, and reduce inequality. A new labour code – which is being finalised through broad-based consultation with stakeholders – should help reduce inflexibility with regards to working hours, disciplinary measures and redundancy regulations. Also, skills mismatch has been found to be an important factor in explaining the decline in total factor productivity. More funding for vocational training and other skills enhancement are being considered.

Domestic private investment has been weakened by low credit growth as commercial banks have resorted to strengthening their balance sheets. The government is making a noticeable effort to improve access to financing, especially for SMEs. Further improvements to the investment climate include the passing of the bankruptcy law, efforts to improve minority shareholder protection, land titling, a one-stop shop for trade, and a tourism board to co-ordinate collective action of businesses, government and municipalities active in tourism sector.

Infrastructure will be crucial for the private sector to succeed, to connect consumers and businesses, across islands and with global markets. Energy is critical, as are transportation services and water mobilisation, and others. The government's tremendous effort to invest in the infrastructure of the country will now need to yield the expected economic returns. SOEs in charge of infrastructure, such as the *Empresa Nacional de Aeroportos e Segurança Aérea* (ASA) and the *Empresa National de Administraçao dos Portos* (ENAPOR), have registered noticeable achievements.

Private sector participation through public-private partnerships (PPP) has been actively promoted by the government. Bringing in private sector expertise can help ensure that infrastructure is administered efficiently. The government is putting in place the institutions and acquiring the expertise to ensure the best value for the country and follow international best practice in assessing bids and awarding contracts.

Financial sector

The financial sector is being revamped to provide domestic credit and support the recovering dynamism of the economy. Cabo Verde's banking sector remains well capitalised and liquid. Foreign banks do not depend on parent institutions, as they are fully funded by domestic deposits. Financial stability risks have increased with the rise in NPLs and fall in bank profitability. Future priorities of the BCV include refining its operational framework so as to raise the efficiency of the transmission mechanism and promote the development of the interbank market.

Capital adequacy appears to remain solid for the banking system as a whole, with the Capital Adequacy Ratio (CAR) reaching 13% at end-2013, comfortably above the 10% regulatory minimum. However, in one bank the CAR has fallen just below the regulatory minimum. In addition, given that provisioning has not kept up with the rise in NPLs (the coverage ratio is 48%, down from 52% a year ago), there is a risk that actual capital could be lower if impaired loans are properly provisioned.

The BCV has put significant effort into enhancing its supervisory approach over the past few years, including upgrading the legal framework. The recent passage of the new financial sector laws is an important step in closing gaps within the legal framework. The BCV is undertaking an overall review of its regulatory framework in order to align it with the new laws and has already mapped out the areas where new regulations are needed. On the prudential side, so far four new regulations related to governance matters have been issued, encompassing fit and proper requirements for board members and provisions for significant ownership, as well as consumer protection. The BCV has established an ambitious schedule for 2015 for the revision of prudential regulations.

Public sector management, institutions and reform

Cabo Verde has made considerable progress towards public financial management (PFM). The country has developed sound fiscal forecasting tools, introduced a medium term fiscal framework, aligned the budget and planning processes and introduced programme-based budgeting. The progressive adoption of the latter, which began in 2013, gained new momentum with the 2015 state budget, which led to the fixing of sectorial budgetary ceilings based on programmes.

Among the most significant progress made recently was the approval by the national assembly of the national planning system's new basic law, which establishes the new planning architecture. However, the Budgetary Framework Law has yet to be approved. The passage of this law is crucial for the establishment of the legal basis of the new programme-based budgeting approach. Some progress has been made regarding internal control as well. The adoption of electronic tax declarations, e-procurement and the development of the M & E system enhance internal control of PFM.

Regarding budget transparency, the Ministry of Finance and Planning (MFP) generally publishes the state budget proposal on its website and discusses it with the main social stakeholders. The initial enacted budget is published on the parliament's and MFP's websites as well. However, the publication of information on budget execution shows room for improvement despite the efforts made by the MFP in recent months. Both trimestral and annual budget implementation reports are published with delay. The last published state accounts audited by the court refer to 2011.

Among the progress made at the level of external control and transparency is the reduction of the backlog in the verification the autonomous entities' management accounts and the reduction of the delays in publication of the trimestral state accounts.

Natural resource management and environment

Cabo Verde is endowed with diverse flora and fauna and rare maritime species, which attract large numbers of tourists. However, the country's arid climatic conditions make it highly susceptible to extreme weather events and climate change. Illegal fishing also presents a challenge for the country's natural resource management strategy. Due to the importance of tourism to the economy, the government has therefore given special attention to terrestrial and maritime biodiversity conservation.

Accordingly, several measures have been put in place to guide the management of natural resources. The National Plan for Environmental Education (2013-22) aims at raising citizens' awareness in order to promote the sustainable use of natural resources. The government's environmental policy strategies are aligned to existing laws and regulations, particularly the two National Action Plans for the Environment (PANA). While PANA I, which was instituted in 1994 for ten years, had a limited overall impact on the environment, PANA II (2004-14) was more decentralised and multi-sectoral. It identifies guidelines, indicators and allowable investments for the responsible use of natural resources and environmental sustainability. For instance, investments in environmentally sensitive areas must be subjected to an environment impact assessment.

Cabo Verde has also made significant improvements in developing clean energy. An investment plan of more than EUR 300 million could lead to the generation of more than 140 MW of renewable energy and in excess of 800 jobs, while cutting actual energy costs by 20%. By 2020 renewable energy could account for half of the country's energy resources.

Political context

Cabo Verde is among the most democratic nations in the world, ranking 26 in the world and second in Africa, according to the Democracy Index 2012. Its democracy has been consolidated over the past 25 years in a framework of a semi-presidential representative system. The president is the head of state and is elected by popular vote for a five-year term. The prime minister is the head of the government and is nominated by the national assembly and appointed by the president. Successive elections have been considered free and fair. There is a free press and the rule of law is respected by the state. Freedom House granted Cabo Verde two top scores in its 2014 Freedom in the World report. Additionally, in 2014 the country was ranked second among African countries for the Press Freedom Index, the Ibrahim Index of African Governance and the Corruption Perceptions Index.

The most recent elections were held in 2011. The African Party for the Independence of Cabo Verde (PAICV) captured parliamentary elections in February 2011, while the opposition Movement for Democracy (MPD) won the presidency in August 2011. Presidential and legislative elections have been marked since 1991 by a peaceful transition of power between these two major parties. Each party has ruled for about a decade. The two parties have already launched preparations for the next presidential and legislative elections in 2016. In 2013, Ulisses Correia e Silva was elected as the new MPD president. He will contest the position of prime minister with the new PAICV president, Jandira Hopffer Almada, who was elected by her party in December 2014.

Social context and human development

Building human resources

Cabo Verde has made great strides in improving its human resource capacity. In 2013, the country's Human Development Index (HDI) was 0.636, a progressive increase from 0.573 in 2000. This improvement mainly reflects achievements in education and health over two decades. In 2012, literacy rates for those aged 15 years and above stood at 85.3%, up from 80.0% in 2004. Cabo Verde has recorded near universal primary education and achieved the MDG target in 2005. Similarly, the secondary education completion rate stood at 90.0% in 2012, up from 57.0% in 2005. However, quality of education remains the main concern, particularly in rural areas. The government has therefore instituted measures aimed at increasing the availability of quality teachers and enhancing teaching aids. The main focus is on use of ICT, promoting vocational subjects and updating the curriculum. For tertiary vocational education, the government's national strategy is to increase access and develop youth's skills to increase their employability. In 2001, there were only three centres for vocational training. This increased to 11 in 2014, with more than 20 000 individuals enrolled in various skill development programmes.

In the health sector, Cabo Verde more than doubled per capita total health expenditure to USD 144.2 in 2012 from USD 70 in 2002. Increased resource allocation has led to improvements in basic health indicators. Available World Bank data for 2013 shows that infant and child mortality rates fell to 23.3 and 27.8 per 1 000 live births, from 21.9 and 26.0 respectively. Similarly, maternal mortality declined to 53 per 100 000 live births from 58 recorded in 2010. However, the availability of quality health personnel still poses a challenge. In this regard, the government has instituted measures to hire more health care workers to scale up delivery of health services to the public. Accordingly, the share of the health sector in government operating expenses is expected to increase to 9.7% from 9.1% in 2014.

Combatting chronic diseases remains a top priority for the government. A five-year (2011-15) national plan (*Plano Nacional de Luta contra a Sida* – PENLS) has been put in place to combat HIV/AIDS, with the majority of funding coming from the Global Fund. It complements the existing national committee for the fight against AIDS (CCS-SIDA). The CCS-SIDA is being updated to make it more effective by targeting the most vulnerable groups, especially homosexuals, sex workers and drug users. Although recent data show a 0.8% incidence rate for HIV/AIDS for the entire population, new infection cases pose a challenge. In 2012, 351 new cases were reported out of which 161 were men and 187 women. From 1987 to 2012, 4 049 HIV cases were recorded, representing 1 340 AIDS infections and 866 deaths.

Poverty reduction, social protection and labour

Cabo Verde's poverty is largely spatial in nature, with the poor concentrated in rural areas where little tourism takes place. In recent years, there has been some progress in reducing poverty as growth has solidified. Between 2002 and 2007 the level of poverty in urban areas more than halved to 13.2% from 25.0%. Over the same period, poverty in rural areas fell to 44.3% from 51.1%. According to the Ministry of Finance, data showed an overall national poverty rate projection of 25.0% for 2011. Income inequality has also narrowed over the past decade. The Gini coefficient declined to 0.48 in 2010 from 0.55 in 2002. The fall in income inequality also mirrors improvements in the HDI.

Despite these improvements, rural poverty remains the main pressing challenge for the government. Accordingly, the third Growth and Poverty Reduction Strategy Paper (GPRSP-III) for 2012-16 explicitly highlights the need for public intervention to combat poverty. This strategy places emphasis on fostering growth in the agriculture and fisheries sector, where a majority of the poor earn their livelihoods.

Other poverty mitigation measures are being scaled up and new ones explored. The GPRSP-III calls for the National Institute for Social Security (INPS), the custodian of social protection in Cabo Verde, to increase coverage to about 40% of the population by 2016. Similarly, the INPS is targeting coverage of 42% for enterprises registered under its portfolio and contributions to the national pension system from up to 39% of the number of active individuals. However, due to labour market rigidity, the potential number of jobs created by the formal sector is low, threatening the viability of the INPS itself. According to the *Global Competitiveness Report 2014-2015* of the World Economic Forum (WEF), Cabo Verde's restrictive labour market regulations, mainly related to the cost of hiring and firing, redundancy costs and pay and productivity, present an onerous obstacle for doing business in the country. This could explain the country's poor ranking on the WEF competitiveness index for labour-market efficiency (126 out of 144 countries). The new labour code is expected to introduce more flexibility in the labour market.

Cabo Verde's unemployment rate fell slightly to 16.4% in 2013 from 16.8% in 2012. However, this was still higher than the 12.7% recorded in 2011. Youth are the most affected by unemployment. In terms of child labour, a lack of reliable statistics makes it difficult to accurately quantify the extent of the problem. According to the Cabo Verdean Institute for Children and Adolescents, cases of child labour decreased to 8 000 from 11 000 between 2005 and 2006. Conversely, a study by the Institute of Employment and Vocational Training has shown a doubling of cases to 16 328 in 2009 from 8 000 recorded in 2007. In 2013, the National Institute of Statistics reported that there were 8 683 cases of child labour, 88.0% of which involve children doing some kind of dangerous work.

Gender equality

Although women enjoy the same legal rights as men in Cabo Verde and violence against women has been criminalised, it nonetheless still persists. Some elements of discrimination also manifest occasionally. The National Institute of Statistics reported an increase in cases of violence against women in nine municipalities of the country. Incidents of violence against women shot up to 2 787 in 2012 from 855 cases in 2010.

Nonetheless, progress has been made in addressing other forms of gender inequality. For instance, women represent one fifth of all members of parliament, and half of the 16 ministerial positions are held by women, among them some key portfolios, including finance, health and education. There are also few gender disparities in terms of women's political participation at the local level. In 2014, the WEF ranked Cabo Verde 26 among 142 countries in terms of political empowerment of women. In terms of the overall gender gap index, Cabo Verde was ranked 50 out of 144 countries.

The GPRSP-III is the government's main thrust strategy for further reduction in gender disparities. Specifically, the government is committed to reducing gender based violence and narrowing gender gaps in net enrolment rates across all levels of the education stratum.

Thematic analysis: Regional development and spatial inclusion

Cabo Verde is an archipelago of ten small islands, with a population of about half a million people. Although the country's population has increased steadily from 341 491 in 1990 to 491 875 in 2010, the rate of growth has slowed down in recent years. In 2013, Cabo Verde's population was estimated at 498 897, an increase of only 0.9% from 2001, compared with an annual average of 2.2% from 1990 to 2000. However, this population reflects marked spatial distribution patterns. In 1990, more than half of the country's population lived in rural areas, while 44.0% were in urban areas. By 2000, the pattern had reversed: the population was 46.0% rural and 54.0% urban. As migration intensified, a little over one third of the total population was rural in 2010, while 62.0% lived in cities, mainly Praia, the capital city, and on the two islands of São Vicente and Sal.

Although Cabo Verde has made economic progress in recent years, there are pockets of spatial exclusion, as evidenced from emigration from underdeveloped islands. For instance, the population of São Nicolau decreased to 12 817 in 2010 from 13 665 in 1990. The same happened to Brava and other islands with fewer resources. In contrast, Sal, Boa Vista and Santiago, which have better economic prospects, have seen an increase in populations. Economic progress on these islands is mostly related to the tourism sector. In the last decade, the tourism sector has grown steadily. Sal, an island of 25 779 residents (5.2% of the national population), has been the main recipient of FDI in the tourism sector. Between 2006 and 2010 tourism-related FDI in Sal represented more than 50.0% of all FDI to Cabo Verde. And in the last two years, Sal and Santiago were the two main destinations for tourism-related FDI.

Increasing demographic pressures arising from inter-island and international migration have imposed a burden on infrastructure, leaving the authorities to grapple with the attendant environmental, social and economic challenges created by the mushrooming of illegal neighbourhoods in the cities. As a result, Praia, home to 40.8% of all immigrants, has experienced all manner of social problems, including a deterioration in sanitary conditions and a rise in crime. In 1995, more than 12 000 cases of cholera outbreaks were recorded in the city, and in 2009 Praia suffered from an outbreak of dengue fever, affecting more than 20 000 people. The recent rise in crime has been fuelled mainly by high unemployment, which stands at 12.8%, nearly double the national average of 7.6%. The number of registered robberies increased to 4 418 from 3 165 between 2011 and 2012.

Effects of climate change, such as regular flooding, are a result of both natural disasters and human settlements. Cabo Verde has an arid climate, and with rising population pressures a declining water supply is a major source of concern. Sand erosion and loss of biodiversity have also emerged as key environmental challenges, especially acute in Santiago, Sal and Boa Vista, where investment in tourism infrastructure has imposed pressures on natural resources.

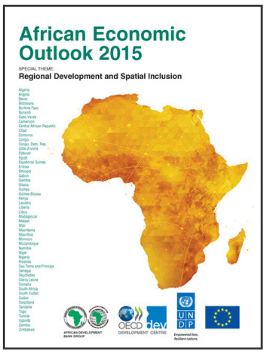
As an island economy, spatial inclusion is crucial to Cabo Verde's long-term development. Addressing spatial and other development challenges that hold the country back from achieving inclusive growth would entail concerted efforts at all levels of government. In the last two decades, the authorities have devised economic, social and environmental strategies and undertaken investments and institutional reforms to mitigate against problems created by rising population density, such as outbreaks of waterborne diseases, congestion and associated pressures. Over the past decade, notable progress has been made, especially in water and sanitation. As a result, the proportion of households with access to waste and sewage disposal systems increased from 58.0% in 2007 to 66.8% in 2010 and 72.3% in 2013.

Cabo Verde's intervention strategy is guided by the long-term national development vision. The agenda for economic transformation has been operationalised since 2004 by a series of three Growth and Poverty Reduction Strategy Papers (DECRP – *Documento de Estratégia de Crescimento e Redução da Pobreza)*. The DECRPs have focused on key development challenges, including investment in human capital and basic infrastructure, strengthening governance and ensuring equity. They represent a national vision for fostering more equitable development on different islands, especially areas with widespread poverty and spatial exclusion such as Santa Catarina, where more than 60% of houses have no water connection from a public source. For instance, to integrate different regions of the archipelago, the government has prioritised improvement of transport infrastructure, particularly roads, airports, and bridges. Although these interventions contributed to halving national poverty in 2011 from 49% in 1988, there are significant regional variations.

The government has also instituted measures to address environmental pressures. Among them are the National Plan for the Environment 2004-14, the Strategic Plan for Tourism Development 2010-15, the National Action Plan to Fight Desertification and the n°29/2006 Law regulating Environmental Impact Assessments (EIAs) in sensitive areas. For instance, before large tourism infrastructure projects are undertaken in Sal and Boa Vista approval for an EIA must be obtained from the National Department for the Environment. Moreover, investments in sensitive areas are forbidden if there is a potential negative impact on nature or on the local population. In 2013, parliament approved a law to establish the National Agency for Water and Sanitation. Despite these measures, deep structural reforms are required to enhance efficiency in the sector.

Implementation of the country's development strategies requires not only human and institutional resources but also substantial financial outlays. To this end, the government has sought external support to supplement domestic resources. For example, in order to reduce the shortage of housing across the country, the government obtained a EUR 200 million loan from the Portuguese government to implement *Casa para todos*, a programme aimed at building 8 000 new houses and rehabilitating 16 000 others. The project is managed by the Ministry of Decentralisation, Housing and Spatial Planning. Furthermore, a total of USD 66.2 million in grants was accessed from the second tranche of the US's Millennium Challenge Account for Cabo Verde. Of this amount, USD 20 million is for direct provision of water and sanitation infrastructure to the most vulnerable families.

Beyond the strategies outlined above, many non-state actors also play an active role in improving people's livelihoods and safeguarding the country's natural habitat. With the active participation of all stakeholders, Cabo Verde is on course for a more resilient and prosperous society.



From:

African Economic Outlook 2015

Regional Development and Spatial Inclusion

Access the complete publication at:

https://doi.org/10.1787/aeo-2015-en

Please cite this chapter as:

African Development Bank/OECD/United Nations Development Programme (2015), “Cabo Verde”, in *African Economic Outlook 2015: Regional Development and Spatial Inclusion*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/aeo-2015-17-en