Cape Verde

Cape Verde remains a model for political rights and civil liberties in Africa, and its economic governance is sound despite unfavourable external factors and rising public debt levels.

However, the country's economic performance continues to be undermined by the economic and financial crisis around the globe, and in the euro area in particular.

High unemployment, persistent inequality and rising living costs could lead to social instability.

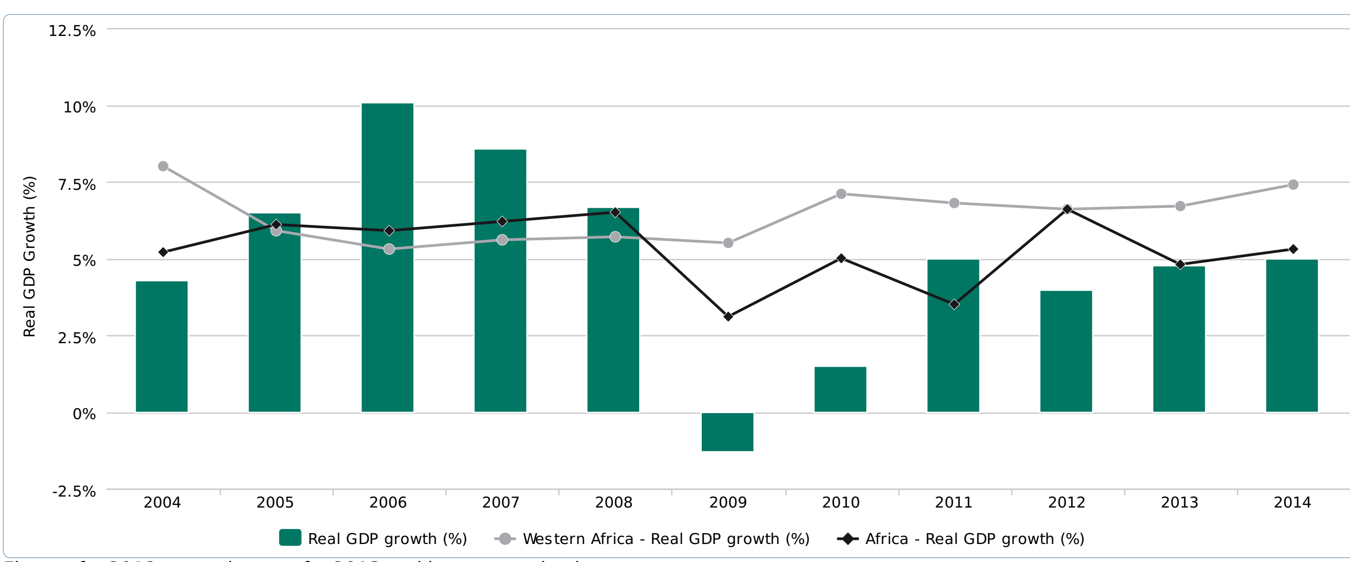
Overview

The slowdown observed since the end of 2011 persisted in 2012, due to economic stagnation around the globe, and in the euro area in particular. Reduced foreign aid and sluggish foreign investment resulted in gross domestic product (GDP) growth dropping from 5.0% in 2011 to a projected 4.0% in 2012. Remittances inflows held up, however, and tourism did well. Tourism and ancillary activities remained the driving force of the economy in 2012, accounting for around 30% of GDP and 90% of total exports. Yet the deteriorating global economic outlook and the euro area sovereign debt crisis is likely to continue to weigh on Cape Verde's economic performance. However large new public investments are expected to provide support to domestic demand and raise the GDP growth up to 4.8% in 2013. Over the medium term, the resumption of structural reforms will be critical if Cape Verde is to sustain the high growth rates of the past decade.

Macroeconomic and fiscal management remained sound in 2012. Tighter fiscal policy and prudent monetary policy resulted in low inflation (2.5% in 2012 against 4.5% in 2011), an improvement in the external position and a recovery of international reserves to 3.8 months of imports in September 2012. Credit growth slowed considerably, however, reflecting sluggish demand and increased credit risks. The budget deficit equalled -7.3% of GDP. The government has already adopted corrective measures to improve revenue collection and scale back public investment in 2013. Cape Verde is still on track to achieve all the Millennium Development Goals (MDGs) by 2015, and remains a regional model of good governance, political rights and civil liberties.

In spite of its past success, Cape Verde is facing challenges to keep growing at a sustainable and inclusive way. The country's lack of non-renewable natural resources and poor conditions for agriculture keep it highly vulnerable to external shocks. Tourism, the main driver for economic growth, has successfully tapped into natural resources such as biodiversity, landscape and the environment. Hotels and restaurants, for instance, grew almost six times faster than the national economy between 2000 and 2010, accounting for almost 16% of GDP in 2010. Yet it supplied only 4.6% of all jobs in 2010, compared to 2.5% in 2000. The government of Cape Verde has therefore been seeking to promote a more balanced economic development. The Third Growth and Poverty Reduction Strategy Paper (GPRSP III), yet to be adopted, reflects the government's attempt to address the country's structural challenges and adapt the country's development model to its new non-Least Developed Country (LDC) circumstances.

Figure 1: Real GDP growth 2013 (West)



Figures for 2012 are estimates; for 2013 and later are projections.

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Table 1: Macroeconomic indicators

	2011	2012	2013	2014
Real GDP growth	5	4	4.8	5
Real GDP per capita growth	4	3	3.8	4
CPI inflation	4.5	2.5	2.4	2.5
Budget balance % GDP	-7.5	-7.3	-8.9	-8.9
Current account % GDP	-16.4	-14.1	-15	-16.4

Figures for 2012 are estimates; for 2013 and later are projections.

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Recent Developments & Prospects

Table 2: GDP by Sector (percentage of GDP)

	2007	2010
Agriculture, forestry & fishing	-	-
Agriculture, hunting, forestry, fishing	9.9	9.2
Construction	12.7	12.4
Electricity, gas and water	0.9	1.6
Electricity, water and sanitation	-	-
Extractions	-	-
Finance, insurance and social solidarity	-	-
Finance, real estate and business services	4.6	4.2
General government services	-	-
Gross domestic product at basic prices / factor cost	100	100
Manufacturing	5.3	6.2
Mining	0.8	0.6
Other services	15.2	16.2
Public Administration & Personal Services	-	-
Public Administration, Education, Health & Social Work, Community, Social & Personal Services	-	-
Public administration, education, health & social work, community, social & personal services	13.2	13.7
Social services	-	-
Transport, storage and communication	18.9	17.4
Transportation, communication & information	-	-
Wholesale and retail trade, hotels and restaurants	18.6	18.5
Wholesale, retail trade and real estate ownership	-	-

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In 2012, Cape Verde's economy was impacted by the weak international economic situation. GDP growth rate dropped to 4.0%. Foreign direct investment (FDI) decreased, mainly driven by the intensification of the crisis in many European countries. Official development assistance (ODA) also dropped, following the downward trend observed since Cape Verde's graduation out of the group of LDCs. Tourism remained the main economic driver.

Despite the weak global economy, the tourism sector remained strong and expanded by 23% in 2012, helping to compensate for some of the decline in FDI and ODA. However, tourism did not substantially contribute to job creation and did not support the expansion of other sectors. Structural reforms — such as a better organisation of local production of goods and services, the creation of a quality certification system for local products, and improvements in inter-islands transportation systems — are necessary for the dynamism in tourism to translate into broader economic benefits.

Economic difficulties in Europe (mainly Portugal and Spain) will continue to have a direct and negative impact on the Cape Verdean economy. Cape Verde's overwhelming reliance on the European economy will likely affect remittances, ODA, FDI, and external demand, forcing the authorities to maintain a tight fiscal policy. The country’s economic growth is therefore expected to remain below 5% in 2013. The European crisis, if it gets worse, could result in a decline in government revenues, even though the Millennium Challenge Account (MCA) will be introduced in 2013, contributing 31.7% of all projected ODA. Moreover, tax reforms in 2013 could affect tourism investment and increase the odds of tax evasion. Hence, the government’s projected revenues might be too optimistic, and public debt could in fact increase in 2013.

The tertiary sector represents about 70% of GDP and is dominated by tourism and ancillary activities (transport, real estate and construction). Tourism, real estate, and construction is mostly driven by FDI, with tourism being mostly based on foreign-owned, all-inclusive resorts. Growth and diversification outside tourism remains limited.

Agriculture accounts for less than 8% of GDP. It is estimated that favourable weather conditions and new dams led to an increase in agriculture production in 2012. However, agriculture remains a marginal sector of the economy. Although new irrigation infrastructure supported by public investment is currently under construction, it is expected that agriculture will continue to make a very modest contribution to GDP growth.

The industrial sector is still modest but is forecast to be the fastest-growing part of the economy, averaging annual growth of 5% in 2013-14. This is largely due to the government's capital spending programme. Indeed, public investment will be an important driver of growth in 2013-14, as FDI is set to stagnate as a result of poor economic conditions in Europe — the main source of foreign investment into Cape Verde.

Cape Verde is not well endowed in non-renewable natural resources. Its solar and wind potential, however, has led to expanding investment in renewable energy in recent years. The Cabeólica project, which involved the construction of four wind farms, was completed in 2012 and covers about 25% of the country's electricity needs. The project contributes significantly to achieving the government's ambition to reduce non-renewable energy to 50% of the country’s energy consumption by 2020.

After the monetary tightening adopted by the Central Bank in December 2011, Cape Verde’s external position stabilised significantly during 2012. International reserves recovered to 3.8 months of imports in September 2012. In addition, the current account deficit declined, due to the resilience of tourism and remittances.

Macroeconomic Policy

Fiscal Policy

Cape Verde's fiscal stance has been tightened to respond to increasing budgetary pressure. The budget deficit is estimated at 7.3% of GDP in 2012. The simultaneous drop in tax revenues and donor grants, the ongoing expenditure demands of the government's public investment programme and the limited space for further cuts in recurrent expenditures are responsible for the fiscal situation. Tax revenue reached only 19.9% of GDP in 2012. The tax-to-GDP ratio had steadily grown and peaked at 25% in 2008 but has been plunging since 2009. This is likely due to the inefficiency of the tax administration and to the increased share in GDP of some sectors, such as tourism, that benefit from tax incentives.

To compensate for the revenue loss, the government scaled back its investment programme by 3% of GDP. Indeed, a mid-term review of the budget execution resulted in the cancellation of investment projects with a budgetary execution lower than 30% and in the reduction of capital expenditures financed by domestic resources. In addition, recurrent expenditures declined by 0.8% of GDP, with the government cutting purchases of goods and services and postponing salary increases and new recruitments.

The Ministry of Finance and Planning (MFP) intends to raise the tax-to-GDP ratio to 25% in 2016 by reforming tax policy, tax procedures and tax administration. Some measures already included in the 2013 Budget Law are expected to boost tax revenues by about 2% of GDP (an increase of 18.5% compared to 2012). The changes include: *i)* the elimination of the 6% special rate on the value added tax (*Imposto sobre Valor Acrescentado* - IVA) for hotels and restaurants, which will now pay the regular rate of 15%; *ii)* the harmonisation of the IVA's incidence tax base for electricity, water, oil, telecommunications and transport services; and *iii)* changes in the formula for computing the monthly withholding of the income tax (IUR). Authorities are aware that increasing the tax burden may harm investment, growth, equity, and price stability. For this reason, the reform will also seek to simplify and rationalise taxation to make it more business and investment friendly.

On the expenditure side, the investment programme will be reviewed to identify projects that could be postponed or cancelled. Strict controls on recurrent spending will also be maintained. This adjustment is expected to stabilise the overall deficit to 6.7% of GDP in 2013. To cover the deficit, the government continues to favour foreign debt to finance major projects, prioritising concessional borrowing in euros.

Table 3: Public Finances (percentage of GDP)

	2009	2010	2011	2012	2013	2014
Total revenue and grants	26.9	27.9	25.7	25	25.4	26.2
Tax revenue	18.9	19	20.2	19.9	19.8	19.8
Oil revenue	-	-	-	-	-	-
Grants	5	6.3	2.9	2.5	3	3.8
Total expenditure and net lending (a)	32.7	38.5	33.2	32.4	34.3	35.1
Current expenditure	19.6	19.8	23.1	22.8	24.2	25.4
Excluding interest	18.2	18.2	21.5	21.2	22	22.8
Wages and salaries	10.9	11.7	10.6	10.5	10.3	10.1
Interest	1.4	1.6	1.5	1.6	2.2	2.6
Primary balance	-4.5	-9	-6	-5.7	-6.7	-6.3
Overall balance	-5.9	-10.6	-7.5	-7.3	-8.9	-8.9

Figures for 2012 are estimates; for 2013 and later are projections.

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Monetary Policy

Monetary policy is constrained by the need to maintain the Cape Verde Escudo (CVE) currency peg to the euro. Measures to reduce inflation and stabilise foreign-exchange reserves have been in place since 2011. In 2012, interest rates and commercial banks' reserve requirements were maintained at the levels set in December 2011. In addition, the central bank controlled the expansion of domestic credit to both the public and private sectors. Despite the recent increase in net external assets led by the recovery of international reserves, the money supply expanded only modestly. Indeed, loan conditions became more restrictive, and credit to the economy stagnated. The monetary aggregate M2 increased by only 2.4% in September 2012 year on year (compared to 3.6% in December 2011) as a result of the decline in the banking sector's net credit to the government (10.1%) and the sharp slowdown in credit to the economy (from 11.8% in December 2011 to 2.9% in September 2012).

The money supply in the narrow sense (M1), which signals the growth of money demand for transactions, declined in 2012. M1 decreased by 6.6% in September year on year, due to the reduction in currency in circulation (4.6%) and in demand deposits (7%). Meanwhile, interest-bearing deposits grew by 10.1%, primarily due to residents' increased time deposits in domestic currency (10.1%) and emigrants' deposits (9.2%).

The growth of monetary and quasi-monetary liabilities suggests that consumers and business people are losing confidence in the economy, a behavior that is not alien to current financial constraints to private sector activity. Loans to non-financial companies and individuals stagnated in 2012, and effective interest rates on loans grew by 0.37 percentage points on average. Sluggish credit reflects the banks' more careful evaluation of credit and liquidity risks. This caution is due to a rise in non-performing loans, the tight monetary policy, and macroeconomic risk aversion.

Also due to tighter monetary conditions and the slowdown of economic activity, inflation fell from 4.5% in December 2011 to 2.5% in December 2012. A relatively benign inflationary outlook is expected in 2013, as economic growth will slow further and monetary policy will remain tight. A moderation in global oil prices will also ease pressure on prices, resulting in an average inflation rate of 2.4%. In 2014, consumer prices are expected to rebound to 2.5%, in line with upticks in economic activity and international oil prices. Any surge in global oil or food prices, however, would lead to a strong upward revision of this forecast.

Economic Cooperation, Regional Integration & Trade

Since 2007, Cape Verde has been part of a Special Partnership Agreement (SPA) with the European Union, which promotes co-operation in trade and investment. Cape Verde is seeking to reduce its economic dependency on Portugal, especially when it comes to FDI and tourism. The implementation of the second phase of the MCA also reflects closer economic ties with the United States. Cape Verde joined the World Trade Organization (WTO) in 2008. Cape Verde has also benefited from Growth and Opportunity Act (AGOA), and maintains a fishing agreement with Japan. It has begun to develop co-operation with China, and most recently, India. Although Cape Verde is member of the Economic Community of West African States (ECOWAS), commercial relations with the sub-region are still weak.

The impact of all these agreements on exports, however, has been marginal, due to Cape Verde's limited infrastructure and small industrial sector. About 90% of the country's food is imported. The trade balance deficit increased from 45.7% of GDP in 2011 to 46.5% in 2012. Europe remains the largest trading partner, accounting for more than 80% of imports and 90% of exports. Tourism, a key source of revenue for the economy, grew by 23% in 2012. The current-account deficit therefore narrowed to -14.1% of GDP in 2012, compared to -16.4% in 2011. It is projected to increase to -15% in 2013. Current transfers declined, as ODA in the first three quarters of 2012 were 22% below the 2011 level.

FDI dropped by 57% between 2011 and 2012. Italy, Spain, and Portugal contributed more than 70% of total FDI in 2011; during the first three quarters of 2012, their collective share had dropped to less than 26%. In contrast, 48.4% of FDI has originated from other non-EU countries, including non-traditional investors such as China. Most FDI still flows into the tourism sector, which absorbed 83.3 % of the total in the first three quarters of 2012, up from 68.9 % in 2011.

Table 4: Current Account (percentage of GDP)

	2004	2009	2010	2011	2012	2013	2014
Trade balance	-41	-39.5	-41	-45.7	-46.5	-47.6	-48.7
Exports of goods (f.o.b.)	6.2	5.4	8.1	11.4	12.1	11.5	11.1
Imports of goods (f.o.b.)	47.2	45	49.1	57.1	58.6	59.1	59.8
Services	3.4	9.4	12.4	14	18.2	19.2	20.1
Factor income	-2	-2.5	-4.7	-4	-2.2	-2.1	-2.1
Current transfers	25.2	18.1	20.4	19.4	16.5	15.4	14.3
Current account balance	-14.4	-14.6	-12.9	-16.4	-14.1	-15	-16.4

Figures for 2012 are estimates; for 2013 and later are projections.

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Debt Policy

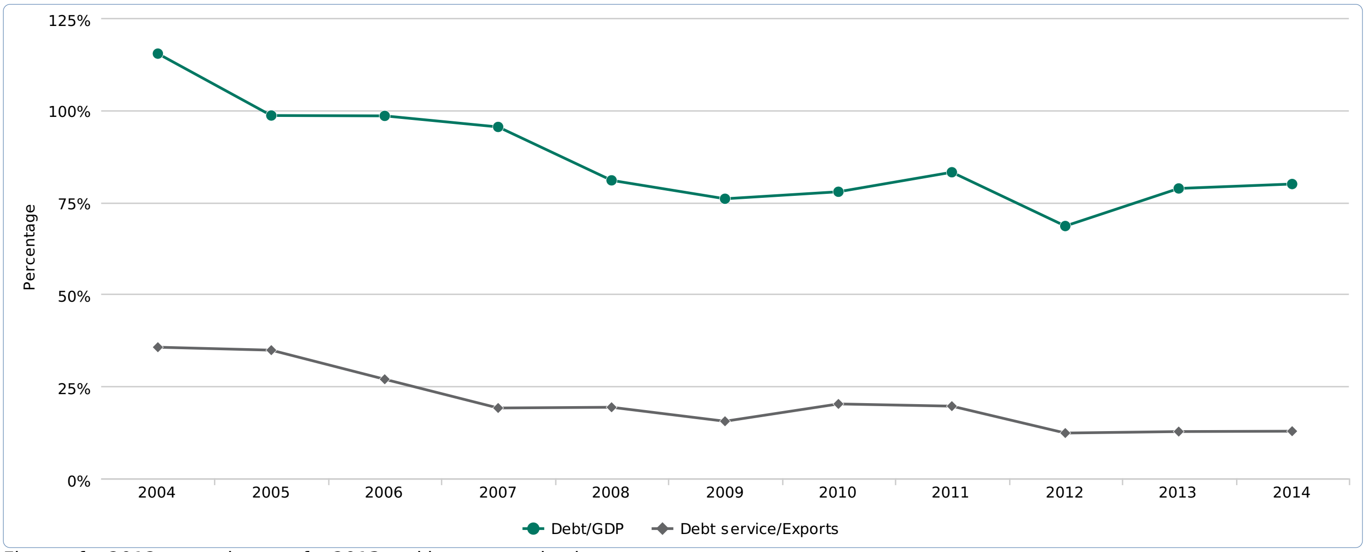
As a result of the increase in the public sector's borrowing requirements, the total nominal government debt has increased by 5.6% to an estimated 81.0% of the GDP in 2012. The external debt represents 59.8% of the GDP although it is predominantly concessional. The domestic debt, contracted mostly from the non-banking sector, represents 21.2% of the GDP.

Debt Sustainability Analysis (DSA) show that Cape Verde's public debt should remain sustainable in the long term, but significant vulnerabilities persist in the short and medium term. Total public debt is forecast to keep increasing in 2013 and to peak at 92.2% of GDP in 2014. The debt burden is then projected to decline from 2015 onward, based on the twin assumptions of decreasing fiscal deficits and a long-term GDP growth rate of around 5% a year.

Efforts to increase revenues and slow down the implementation of the public investment programme would substantially reduce Cape Verde's vulnerability to macroeconomic shocks. Yet the country would remain vulnerable, even in a very favourable scenario of continuous access to concessional lending (which is arguably unrealistic given Cape Verde's graduation to MIC status).

The rapid increase in public debt expected over the next few years elevates the probability of debt distress from low to medium. Consequently, accelerating the process of budgetary consolidation would help slow the growth of the debt burden, reduce the government's total financing needs over the medium term, and mitigate the likelihood of debt distress. Reducing fiscal deficits would also contribute to building resilience and reducing exposure to liquidity risks stemming from large financing needs and the prospect of unforeseen adverse macroeconomic shocks. The tax measures and scaling back of the public investment programme announced by the authorities are therefore expected to improve the government's debt profile. Reforms in SOE's oversight should also mitigate the risks coming from contingent liabilities.

Figure 2: Stock of total external debt and debt service 2013



Figures for 2012 are estimates; for 2013 and later are projections.

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Economic & Political Governance

Private Sector

Cape Verde's business environment has markedly improved thanks to the adoption of new or revised regulations. Key changes include the reforms adopted to facilitate Cape Verde's admission to the WTO, as well as the simplification of business licensing, property registration and bankruptcy/liquidation procedures. These achievements made Cape Verde one of the top reformers in the World Bank reports *Doing Business 2011* and *2012*, with the country's overall position rising from 142nd in 2010 to 121st in 2012. The slight drop in the 2013 ranking (to 122nd), however, highlights that further actions are required.

To foster entrepreneurship, the government has created the Agency for the Development of Enterprises and Innovation (ADEI). Moreover, ADEI also has been promoting investments for small- and medium-sized enterprises (SMEs).

Tax incentives have been introduced to promote private investment and encourage the consumption of some goods. These incentives, however, have resulted in significant fiscal pressure over the last few years. The government is therefore considering rationalising tax incentives to maintain fiscal revenues.

Domestic and foreign investors often cite the rigidity of the labour market as a significant constraint. Labour regulations focus on the protection of the employees and, added to the slow pace of the legal system, impose a high cost on businesses. The rigidity of the labour market explains, in part, the high level of informality and the reliance on foreign workers in sectors such as construction.

Financial Sector

Cape Verde's financial system suffers from a structural problem, which has resulted in credit rationing in 2012. High liquidity has not translated into lending, due to the high percentage of non-performing loans (around 10%), generally associated with investment in real estate. The lack of credit also occurred because of the low quality of applications. At the same time, the financial sector generally does not have the capacity to finance large projects, which have to be funded by international institutions.

Besides commercial banks, the financial system in Cape Verde includes a stock market and insurances companies. Operations on the stock–exchange, however, have been limited in the past two years.

Two companies (Garantia and Impar) control the small insurance market. The social security system is controlled by the National Institute of Social Security (INPS). The institution, created in 1954, is highly liquid and is a major lender to the government. INPS is also a stockholder in several state-owned enterprises such as Electra, a power utility.

Public Sector Management, Institutions & Reform

Cape Verde received the second-highest ranking for governance performance in the 2012 Ibrahim Index of African Governance, out of 52 countries. It came 1st out of 16 countries in West Africa. Transparency International's 2012 Corruption Perception Index ranked Cape Verde as the second least-corrupt African country after by Botswana. Cape Verde's ranking improved from 41st in 2011 to 39th out of 174 countries in 2012. However, the country still suffers from significant police corruption, mostly among border police.

The implementation of Public Finance Management (PFM) reforms has made some strides, specifically in the areas of treasury banking and budget administration and planning. Significant challenges remain, however, particularly in the oversight of state-owned enterprises (SOEs) and the effectiveness of internal and external controls. Authorities have also identified tax administration and tax policy reforms as a priority. A public procurement legislative review has suffered some delays. However, new decrees should be submitted to the National Assembly during 2013.

The third Growth and Poverty Reduction Strategy Paper (GPRSP-III) for the period 2012-16 is waiting to be approved by the government. The GPRSP-III focuses on competitiveness and sustainable, inclusive, and broad-based economic growth. The GPRSP-III identifies four reform areas: *i)* overhauling the taxation system to increase the government's ability to mobilise domestic resources; *ii)* reforming the labour code to reduce hiring and firing costs and make the labour market more flexible; *iii*) fostering human capital development by expanding technical and vocational training (TVET) and improving the quality of tertiary education; and *iv)* enhancing the service delivery by SOEs while fostering the participation of the private sector in the provision of infrastructure services. Reforms are already underway. A new tariff regulation model in the energy sector was introduced in 2012 as well as institutional reforms in the public energy utility, ELECTRA. In addition, authorities have finalised the tax reform package that includes the rationalisation of incentives. Changes in the corporate income tax legislation have been submitted to Parliament in December 2012. Further reforms are expected in 2013 to streamline the Value Added Tax (VAT) legislation.

Natural Resource Management & Environment

Cape Verde has made important strides toward achieving Millennium Development Goal (MDG) 7, in particular regarding the increase in the proportion of the population with access to safe drinking water (from 42% in 1990 to 89.5% in 2007). The country’s adverse climate conditions, coupled with with its geomorphologic, social and economic conditions, put severe strain on the already limited and fragile natural resources and ecosystems, increasing the risks of environmental degradation and poverty.

In the last decade, there have been significant efforts to strengthen environmental protection including the protection of endemic species and critical habitats. The legal framework for the environmental sector in Cape Verde is broad and thorough. However, there are still challenges for improving environmental governance, which include sector specific regulations and enforcement, as well as strengthening institutional capacities while promoting the participation of the civil society and local communities in natural resources conservation.

The lack of a clear institutional framework for the water sector and sanitation has been a significant challenge for integrated management of water resources and solid waste. The country is responding to this challenge and institutional reform is underway. Regarding climate change mitigation and adaptation, Cape Verde has made tremendous progress in the reduction of emissions of greenhouse gases and in taking adaptive developmental measures. For instance the renewable energy projects completed in 2012 reduced CO_2 emissions by 15 000 tonnes. By 2020, the country plans to have 50% of the energy mix covered by renewable energy sources.

Political Context

Cape Verde continues to be a model of political rights and civil liberties in Africa. Ethnic strife, which is a major cause of instability elsewhere on the continent, is unlikely given the country's relative homogeneity. During the last decade, five presidential and legislative elections have been held in Cape Verde, all marked by a peaceful transition of power between the two major parties in the country: the African Party for the Independence of Cape Verde (*Partido Africano da Independencia de Cabo Verde* - PAICV) and the Movement for Democracy (*Movimento para a Democracia* - MPD). PAICV won parliamentary elections in February 2011, and the opposition MPD won the presidency in August 2011. Both polls were considered credible and fair by international observers. Municipal elections held in July 2012 resulted in the opposition MPD controlling 13 municipal councils (up from 11 in 2008), and the ruling PAICV holding eight (down from 10 in 2008). The two parties have been fighting over the shape of 2013 budget, especially the programme to raise taxes on water and electricity. However, the cohabitation is peaceful and seems unlikely to pose any problems in the future. With national elections not due until 2016, the government now has an opportunity to devote renewed attention to structural reform, the implementation of which was delayed by the parliamentary, presidential and municipal elections held in 2011-12.

Social Context & Human Development

Building Human Resources

Cape Verde's 2011 Human Development Index (HDI) of 0.568 was below the average of 0.630 for countries in the medium human development group but above the average of 0.463 for countries in sub-Saharan Africa. The literacy rate among the 15-24 year-olds is close to 96%, and there are no clear disparities between boys and girls or between income levels. Secondary school remains a challenge because of high dropout rates, especially among boys. Whereas almost all children aged 6 to 11 were attending school in 2009-10, more than 30% of 17-year-olds were out of the school system. High dropout rates have been associated with the direct costs of going to school (transportation, books, and fees). The quality of education varies significantly and can be quite poor. Enrollment in tertiary education is estimated to be close to 13 times higher for the highest income groups (quartiles five and four) when compared to the lowest income groups (quartiles one and two).

Child mortality has retreated thanks to a strict immunisation policy. The under-five mortality rate dropped significantly from 56% in 1990 to 23.7% in 2009, edging closer to the MDG target of 18.7%. Infant mortality has also improved to about 20% in 2009 (the MDG target is 14%). Evidence suggests that 15% of children under the age of one die of infections and parasites, which calls for improvement in the water and sanitation system and public health education.

The maternal mortality rate fluctuates significantly because of the small size of the population. In 2009, the mortality rate reached 53.7 per one hundred thousand deliveries, substantially above the MDG target of 17.3% and the much lower rate of 16.2% recorded in 2007. In absolute terms, however, seven women died of pregnancy-related causes in 2009, compared to two in 2007 and in 2008. The proportion of births attended by skilled health professionals dramatically improved from 36% in 1998 to 76% in 2009. However, post-natal visits remain very low and a concern: more than 50% of mothers did not visit doctors after giving birth in 2009.

The incidence of HIV/AIDS is relatively low (0.8% of the population) but the number of people infected with HIV rose steadily from 114 in 2000 to 319 in 2009. This can partly be explained by the increase in the number of people getting tested for the disease. The number of people dying of AIDS, while relatively small, has more than doubled between 2000 and 2009. The third national strategic plan against AIDS was launched in 2011 and primarily focuses on vulnerable groups.

Poverty Reduction, Social Protection & Labour

Recent poverty estimates are not available because of lack of data on income and consumption. According to the 2007 household survey, national poverty rates dropped significantly from 49% in 1990 to 26.6% in 2007. Progress has been uneven, however. Recent work based on the 2010 Demographic Census indicates that poverty rates on islands with the best tourism infrastructure, Sal and Boa Vista, are less than half of the national average. Meanwhile, poverty incidence in largely rural islands with limited tourism infrastructure such as Fogo and Santa Antão are well above the national average. Similarly, whereas poverty in urban areas dropped from 25% to 13.2 % between 2002 and 2007, poverty in rural areas improved only from 51.1% to 44.3%.

Even if Cape Verde is on track to achieve all the targets of the MDGs by 2015, significant challenges remain. The Human Development Index stood at 0.568 in 2011, ranking Cape Verde 113th out of 169 countries. Over the 2000-11 period, the rating progressed by only 0.6% a year on average. The slow progress challenges the Government to redouble its efforts to improve the population's standard of living.

Although planning documents, including the GPRSP, adopt an inclusive approach to growth, they do not present a clear plan to integrate poverty reduction, social protection, and job creation with the economic growth strategy. Authorities largely consider poverty reduction and job creation as likely positive outcomes of economic growth. The evidence, however, contradicts this assumption.

Cape Verde is seeking to reform social protection as part of the country's efforts to build a more inclusive strategy for economic growth. Preliminary analysis of the current social protection system, which include a pension system, health, education, and nutrition programmes, indicates that programmes, objectives and implementing agencies are highly fragmented and poorly co-ordinated.[1] While there is a general understanding of socio-economic risks to the population,[2] there is little systematic information on vulnerabilities and on factors that exacerbate the risks associated with the intergenerational transmission of poverty. The existing social protection framework has therefore a limited ability to address the country's main socio-economic challenges in a systematic way.

Another issue of concern is unemployment among the youth, who account for 50% of the working-age population. The 2010/11 fiscal recovery plan helped to scale unemployment down from 13.1% in 2009 to 10.7% in 2010. Yet unemployment rose again to 12.2% in 2011, and the plan did not create enough first-job opportunities for young workers. An estimated 20.1% of 15-to-24 year olds were unemployed in 2010, rising to 27.1% or more than twice the overall average in 2011. High unemployment, persistent inequality and rising living costs could lead to social instability.

Gender Equality

Gender equality remains a challenge, despite significant progress in recent years. Although the share of seats in national parliament held by women has almost doubled since 2005, it remains low at around 21%. Since it was introduced in 2005, a survey on sexual and reproductive health has contributed significantly to gathering information about gender-based violence and to the increase in social campaigns and awareness against that type of violence.

Gender disparities in unemployment rates, especially between young men and women, also indicate an uneven access to resources. More than a third of women aged 15-24 were unemployed in 2011, well above the overall unemployment rate of 12.2% and the 22.1% recorded for men in the same age category. Access to jobs for women in Cape Verde is especially important to further reduce poverty, considering that households headed by women tend to be one and a half times more likely to be poor than those headed by men.

Gender is often mentioned in official strategic documents, including the GPRSP. Yet concrete policy actions that directly seek to create a better gender balance or mitigate gender disparities remain limited.

Thematic analysis: Structural transformation and natural resources

Cape Verde lacks non-renewable natural resources and therefore does not export energy or hard commodities. Extractive industries accounted for less than 1% of GDP in 2007-10, and the country relies heavily on fuel imports. The country's marine potential remains largely untapped. Whereas fisheries provided more than three quarters of total exports in 2010, the sector is relatively small in the Cape Verdean service-driven economy and accounted for only 1% of GDP that year.[3] The country's lack of sizable arable land and dry climate make it unsuitable for large-scale agriculture, and about 90% of the food it consumes is imported. The dry climate also means that a lot of the water for irrigation and national private consumption comes from oil-fueled desalination plants. Cape Verde, however, has capitalised on its biodiversity and landscape through the development of tourism, which has become the country's economic engine.

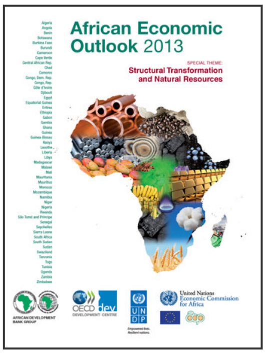
A recent study estimates that natural resources in a broad sense contribute about 35% of GDP, about half of which comes from tourism. However, the study points out that this contribution could reach more than 56%, if losses from environmental degradation were avoided and potential gains from natural resources exploitation, such as the promotion of eco-tourism, were maximised. The largest loss from degradation comes from beach sand extraction for construction, which costs the country 4% of GDP. While more attention has been given to the problem since 2009, sand extraction from beaches and saline intrusion in farmlands persist (PEMFAR 2011). In addition, about a third of Cape Verde's precious rainwater goes unharvested every year.[4] The country, on the other hand, has been successfully harnessing its wind and solar potential, thereby reducing its dependence on oil-fueled stations. Renewable energy penetration was estimated at 25% in 2012, up from only 3% in 2009 (PEMFAR 2011).

The development of tourism has underpinned Cape Verde's process of economic and social transition in the last few decades, which culminated in the country's graduation out of the LDC category in 2008. The economy grew by an average of about 6% in real terms over the decade ending in 2010, despite the sharp decline recorded in 2008 and in 2009, a result of the global economic and financial crisis. Limited available data suggests that the hotels and restaurants sector increased its contribution to growth significantly: between 2006 and 2007, this sector contributed the most, about 30%, to the country's growth followed by the trade sector (23%). This is in contrast to the average contribution of less than 5% during 1992-2002 and of about 14% during 2003-06. Yet tourism's substantial contribution to economic growth has failed to translate into a significant change in the structure of employment in the country: hotels and restaurants accounted for about 4.6% of total jobs in 2010, only 2.1 percentage points higher than in 2000.

The nature of Cape Verde's tourism partly explains why such a dynamic sector has had little impact on job creation. Investment in all-inclusive hotels has been the most dynamic feature of the sector in recent years. About 76% of tourist beds in Cape Verde are concentrated in all-inclusive hotels and on two of the nine inhabited islands. This model of tourism, however, generally has little impact on local development because its value chain tends to be controlled and managed by foreigners, with limited local involvement. Most profits are funneled abroad (see, for instance, Akama and Kieti 2007 in their study of the Mombasa resort in Kenya that also discusses similar dynamics in Cape Verde). Indeed, the total repatriation of profits increased substantially (more than 23 times) between 1999 and 2010, suggesting that the positive impact of higher foreign investment was mitigated by significant financial outflows. Profits repatriated in 2010 were equivalent to 42% of goods exports and to about half of incoming remittances. While it is not possible to determine from available data how much of these outflows are directly associated to tourism-related sectors (including construction), the high correlation between unprecedented outflows of profits and growth in these sectors suggests that the all-inclusive model of tourism generates high leakage rates and narrow economic benefits.

Notes

1. ILO Report "A Proteção Social em Cabo Verde: situação e desafios", 2012
2. "Estratégia Para o Desenvolvimento da Proteção Social de Cabo Verde"
3. "Boletim de Estatísticas 20 anos," Cape Verde Central Bank, accessed in 13 September 2012 and GDP 2007-2010 data, INE 2013, www.ine.cv/actualise/destaques/files/53d5516d-527a-4971-b408-a56fb67aaad5Contas%20Nacionais_2007-2010_VF.pdf, accessed on January 30 2013
4. Public Expenditures Management and Financial Accountability Report (PEMFAR) in the Environment Sector in Cape Verde, 2011



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