

REPUBLIC OF CABO VERDE: SYSTEMATIC COUNTRY DIAGNOSTIC (SCD)

# Republic of Cabo Verde

Adjusting the Development Model to Revive Growth and Strengthen Social Inclusion

SYSTEMATIC COUNTRY DIAGNOSTIC (SCD)

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## Adjusting the Development Model to Revive Growth and Strengthen Social Inclusion

SYSTEMATIC COUNTRY DIAGNOSTIC (SCD)

International Development Association  
Country Department AFCE1  
Africa Region

International Finance Corporation  
Sub-Saharan Africa Department

Multilateral Investment Guarantee Agency  
Sub-Saharan Africa Department

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The World Bank Group  
1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
[www.worldbankgroup.org](http://www.worldbankgroup.org)

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Global Practice/Cross-Cutting Support Area	Input Providers
Education	Kamel Braham and Antonio Henriques
Energy & Extractives	Karen Bazex, David Vilar, and Pedro Antmann
Environment & Natural Resources/Fisheries	Mimako Kobayashi and Berengere P.C. Prince
Finance & Markets	Julian Casal
Governance	Kjetil Hansen
Health, Nutrition & Population	Edson Correia Araujo
Social Protection & Labor	Eric Zapatero Larrío
Trade & Competitiveness	Penelope Fidas, and Laurent Corthay
Transport	Tojoarofenitra Ramanankirahina, Shruti Vijayakumar, and Arthur Foch
Water	Oumar Diallo and Pierre Boulanger
IFC/Public Private Partnerships	Faheen Allibhoy, Anne Bastin, Luciana Harrington, Elsa le Borgne, Vincent Floreani, Marieme Travaly
MIGA	Conor Healy
ICT	Jerome Bezzina
Disaster Risk Management	Doekle Geert Wielinga and Oscar A. Ishizawa

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CVE1.00 = US\$0.01124

US\$1.00 = CVE89.24

## Abbreviations and Acronyms

<b>BCV</b>	Central Bank of Cabo Verde (Banco de Cabo Verde)
<b>CVE</b>	Cabo Verdean escudo
<b>ECOWAS</b>	Economic Community of West African States
<b>EU</b>	European Union
<b>FDI</b>	Foreign direct investment
<b>GDP</b>	Gross domestic product
<b>GNI</b>	Gross national income
<b>GPRS</b>	Growth and Poverty Reduction Strategy
<b>GVA</b>	Gross Value Added
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>ICT</b>	Information and communications technology
<b>IDA</b>	International Development Association
<b>INE</b>	Institute of National Statistics Cabo Verde (Instituto Nacional de Estatística Cabo Verde)
<b>IMF</b>	International Monetary Fund
<b>M&amp;E</b>	Monitoring and evaluation
<b>MDG</b>	Millennium Development Goal
<b>MoF</b>	Ministry of Finance
<b>MIC</b>	Middle-income country
<b>ODA</b>	Official development assistance
<b>PEMFAR</b>	Public Expenditure Management and Financial Accountability Review
<b>PFM</b>	Public financial management
<b>PPP</b>	Purchasing power parity
<b>SCD</b>	Systematic Country Diagnostic
<b>SDG</b>	Sustainable Development Goals

<b>SIDS</b>	Small island developing states
<b>SME</b>	Small and medium enterprise
<b>SOE</b>	State-owned enterprise
<b>SSA</b>	Sub-Saharan Africa
<b>TVET</b>	Technical and vocational education and training
<b>TFP</b>	Total factor productivity
<b>UK</b>	United Kingdom
<b>UN</b>	United Nations
<b>UNICEF</b>	United Nations Children's Fund
<b>WBG</b>	World Bank Group
<b>WEF</b>	World Economic Forum
<b>WGI</b>	World Governance Indicators
<b>WHO</b>	World Health Organization

Regional Vice President:	Makhtar Diop
Country Director:	Louise Cord
Senior Directors:	Carolina Sanchez-Paramo, Felipe Jaramillo
Practice Managers:	Andrew Dabalén, Lars Christian Møller
Task Team Leaders:	Rob Swinkels, Rohan Longmore

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## EXECUTIVE SUMMARY<sup>1</sup>

Over the past quarter of a century, Cabo Verde's development progress has been remarkable. Its gross national income (GNI) per capita has grown sixfold, from around US\$500 per capita in 1986 to more than US\$3,000 in 2008. In 2007 it transitioned to lower-middle-income status, becoming the only non-extractive economy in sub-Saharan Africa to do so in such a relatively short time. The fast economic growth has translated into substantial welfare improvements for its population. Using a national poverty line of PPP US\$5.60 per day, the incidence of poverty fell from 58 percent in 2001 (when poverty measurement began) to 35 percent<sup>2</sup> in 2015, while extreme poverty, using the national food poverty line of PPP US\$2.90 per day, dropped by two-thirds to 10 percent during this period. Inequality fell, and the consumption-based Gini index dropped from 53 to 42. Human capital achievements have been equally impressive. At 73, life expectancy is the second highest in Africa, after Mauritius. In the global gender gap index, Cabo Verde ranks among the world's best in the "health and survival" and "school enrollment" dimensions. It is among the 30 best performing countries in terms of achievement of the Millennium Development Goals.

Cabo Verde's impressive achievements were grounded in political stability, sound economic policies, and strong institutions that maintained the rule of law, underpinned its open democracy, and kept corruption under control. These accomplishments were economically driven by the exponential development of all-inclusive tourism resorts in 2 of the 10 islands. The economic liberalization that took place during the 1990s, together with high levels of public investment in infrastructure, one of the world's highest levels of development assistance per capita, and high foreign direct investment (FDI) in the tourism sector, drove growth and poverty reduction. Remittances further contributed to the improvement of living conditions. The tourism sector, driven by a model based on all-inclusive resorts, has become the principal driver of economic growth and job creation in the country.

The global financial crisis of 2008 led to a sudden, dramatic, and sustained slowdown in economic growth that has laid bare the exhaustion of Cabo Verde's development model. The collapse of economic growth was caused by a sharp

decline in the level of FDI, which was influenced by the sovereign debt crisis in Europe. Increased countercyclical capital spending by the government only partly compensated for this decline. In addition, returns on private and public investments contracted by more than 20 percent, highlighting weaknesses in the quality of investment undertaken after the crisis. Although visitor arrivals rebounded quickly and earnings from the sector increased, spending per tourist has declined by 37 percent since 2008. Poverty, however, continued to drop between 2007 and 2015, most likely reflecting investments in rural infrastructure, rising remittances, and a further increase in the volume of tourism workers. A reduction in fertility also contributed to this decline.

**In the aftermath of the 2008 crisis, the limited impact on growth of government's countercyclical public investment spending and the mounting inefficiencies in its large parastatal sector led to a rapid buildup of public debt.** Cabo Verde's debt has increased by about 70 percentage points to 130 percent of the gross domestic product (GDP) in 2016, and the risk of external debt distress is high. A significant part of the debt is held by weakly managed state-owned enterprises (SOEs), which represent a significant source of risk. The government has repeatedly had to cover the operational expenses of insolvent SOEs from the budget. Although Cabo Verde's debt is overwhelmingly concessional, which has kept debt service low, weaknesses in overall fiscal management practices raise concerns for sustainability. By the end of 2016, the total debt stock for the three largest SOEs reached 34 percent of GDP (US\$550 million), with the largest debt held by social housing, electricity, and airline companies. Fiscal resources to further raise competitiveness and tackle poverty are limited.

**Although public investment since 2008 has contributed to increased indebtedness, the investment in rural areas may have helped the continued decline in poverty.** The poverty analysis undertaken for the SCD shows that the construction of dams and rural roads, together with the expansion of the rural electricity network and access to water, coincided with a sharp drop in the number of rural poor, from 121,000 to 87,000. This reduction mainly took place in the islands of Santiago, Santa Antão, and Fogo. Rural-to-urban migration and an increase in remittances also played a role in rural welfare improvements.

**The continued low economic growth highlights limitations in the current tourism model which does not provide sufficient benefits to Cabo Verdeans.** Although tourist arrivals have continued to grow, earnings per visitor almost halved between 2007 and 2015. The growth in hotel room stock has also slowed. The country is overwhelmingly sold as a “sun, sea, and sand” destination, dominated by a few international tourist operators, with two of the nine inhabited islands receiving 90 percent of the tourists. There is room to further exploit the potential for strengthening local tourism supply chains and boost spending outside the resorts, which is low. The large hotels import most of their food and beverage needs, citing unreliable local supply and food-safety concerns. There are also broader competitiveness concerns and a low institutional capacity; likewise, policy vacuums have constrained a more strategic development of the tourism sector.

**Economic diversification has been hampered by a relatively weak business climate.** According to the 2018 Doing Business report, Cabo Verde is now ranked 127th out of 190 countries; this places it below the average of other lower-middle-income countries, which have an average rank of 118. The report identified that the most problematic factors are access to finance, an inefficient government bureaucracy, tax rates, and an inadequately educated workforce.

**A lack of economic prospects for disadvantaged groups leads to social exclusion and could potentially undermine social cohesion.** The high unemployment rate, especially among youth (63 percent of the 15- to 24-year-olds in Praia are unemployed), threatens to lead to behavioral problems. Juvenile crime and drug abuse are rising. A recent study among youth in Praia revealed that a quarter of all 12- to 21-year-olds had committed at least one violent crime.<sup>3</sup> Cabo Verdeans increasingly feel unsafe<sup>4</sup>, and there is also some evidence that discontent and dissatisfaction are rising. Women’s opportunities to participate in the labor market are restricted by existing gender norms, which grant them almost exclusive responsibility for domestic chores, children’s education, and family care<sup>5</sup>.

**As a small and open island economy, exposure to high trade volatility and susceptibility to climatic and geological hazards negatively affects the resilience of the economy and households; this could undermine the sustainability of Cabo Verde’s achievements.** The 2008 global financial crisis caused a sudden fall in tourism receipts and FDI. Similarly, the data show that the 2014–2015 Ebola pandemic crisis in West Africa coincided with a downturn in tourism in

Cabo Verde. In addition, severe and repeated droughts have taken a high toll on the resilience of the rural population, as was witnessed in 2014 and 2017. The country is also exposed to other hazards, such as hurricanes, landslides, coastal erosion, and volcanic eruptions. Although Cabo Verde is one of the world’s most vulnerable countries in terms of climate change, it is not adequately prepared to face the future risks.

**Reigniting and sustaining economic growth in Cabo Verde requires a paradigm shift in the current development model toward economic diversification out of low-margin tourism, a greater role for private investment, greater public sector efficiency, more targeted poverty reduction programs, a focus on the quality and economic relevance of education, and enhanced national risk management practices.** Constrained by debt, the government will have to foster an environment amenable to greater private sector participation in the economy. This includes addressing the various market and government failures that have been ignored during the investment boom. The lack of diversification has made the country vulnerable to economic shocks. Modifications to its development model are required to better exploit Cabo Verde’s comparative advantages, enhance its resilience, and embrace innovation to raise productivity.

**Although Cabo Verde has benefited from its geographical characteristics, being a small island country also comes with inherent economic challenges that the country shares with other small island developing states (SIDS).** These hardships need to be taken into account when designing its new development model. SIDS tend to be unable to access economies of scale; consequently, they have a highly specialized export structure and struggle to be competitive. The lack of economies of scale also often has a dampening effect on the benefits of FDI by limiting the positive spillover effects of interaction between foreign and domestic firms. Cabo Verde’s tourism industry is a case in point. It is dominated by large foreign-owned resorts with limited links to domestic small and medium enterprises and the domestic economy. Consistent with other SIDS, Cabo Verde has difficulties reducing its public debt due to higher public spending as a proportion of GDP relative to other categories of countries.

**This Systematic Country Diagnostic (SCD) aims to identify the binding constraints as well as the opportunities for reducing extreme poverty and raising the welfare of the poorest 40 percent of Cabo Verde’s population in a sustainable manner.** The SCD is driven by evidence and

is based on a review of 50 existing studies, an analysis of the available data, and in-country expert discussions that took place in 2016 and 2017. It benchmarks Cabo Verde's performance against a set of structural and aspirational peer countries, including the Seychelles, Mauritius, Maldives, and Saint Lucia (when data is available). The SCD forms the foundation of the collaboration between Cabo Verde and the World Bank Group's Country Partnership Framework (CPF) 2018–2021.

**The analytical framework for the SCD is organized around three broad pillars for reducing poverty and raising shared prosperity in Cabo Verde.** These pillars are as follows: (1) economic growth and job creation; (2) social inclusion of disadvantaged groups; and (3) strengthening macro and household resilience. First, faster economic growth will be essential to boost household incomes through the creation of decent jobs and more productive self-employment. Second, social inclusion will strengthen the human capital and physical assets of population groups that currently are not sufficiently engaged in the development process and are unable to undertake productive activities. Third, macroeconomic stability will help tackle the public debt while strengthening household resilience and limiting their exposure to shocks. A strong and efficient public sector that can reform and deliver results will be an important dimension that cuts across the three pillars.

**Within this framework, the constraints have been identified based on systematic benchmarking of Cabo Verde against its aspirational peers along key performance indicators and additional evidence.** The eleven constraints are grouped under four broad categories: lack of human capital, weak connectivity, underperformance of the public sector, and lack of resilience.

**Improving human capital will be of vital importance for realizing Cabo Verde's potential to grow its domestic private sector, raise productivity, and promote competitiveness and innovation.** Secondary school drop-out rates are relatively high and above those of Cabo Verde's aspirational peers. The percentage of repeaters in lower secondary school is high (23 percent), and the survival rate to the last grade of lower secondary is only 77 percent, close to 8 percentage points lower than the country's aspirational peers. The workforce's inadequate skills and qualifications are a major constraint for business: in 2009, 40 percent of firms identified this as a major constraint. Few systematic tests of learning outcomes are conducted, but the *Aferida* national

sample-based test conducted in 2010 revealed poor learning outcomes in mathematics and Portuguese for around 40 percent of students in Grade 6. Tertiary education has limited relevance for the labor market, with 70 percent of university students enrolling in the humanities and social sciences. Technical and vocational education and training (TVET) is not well integrated into the education system and does not meet job market demands. Discriminatory social norms against women leave them with a disproportionate share of domestic and child caring duties and prevent them from engaging in the labor market and improving their living conditions.

**Insufficient connectivity is another binding constraint to unlocking Cabo Verde's pathways to prosperity.** The archipelago consists of nine inhabited islands that are dispersed and surrounded by rough seas, which poses enormous challenges from the standpoint of infrastructure development. However, despite considerable improvements in recent years, the overall supply and quality of the transport infrastructure network remains unsatisfactory, below that of the Seychelles and Mauritius. A key constraint is insufficient government capacity to regulate the sector and to develop and manage transport concessions. Information and communications technology (ICT) services are inadequate; despite widespread broadband Internet access, available bandwidth per Internet user is relatively low (about half the amount available to users in the Seychelles or Mauritius) and enforcement of the regulatory regime is weak. Despite progress in access to and quality of electricity services, shortcomings in the planning and management of the power sector have led to high electricity losses: 27 percent in 2016. This contributes to high energy and desalinization costs for drinking water, which are among the highest in Africa.

**Risks to macroeconomic stability are currently substantial due to high public debt and exposure to economic volatility.** Cabo Verde's public debt has continued to increase despite fiscal consolidation in recent years<sup>6</sup>. This limits the fiscal space for further public spending on infrastructure, human capital, and protecting the poor. Technical and operational efficiency of government spending, including SOEs, is low. Better and more systematic engagement of the diaspora in investing in the country could possibly help mobilize resources. Like many other SIDS, Cabo Verde has a narrow economic base and its high dependence on tourism and remittances points to significant external vulnerabilities. The high concentration of visitors from a few countries in Europe, along with the vulnerability of the domestic economy to the decisions of foreign investors, exposes the economy

to high risks, as was witnessed during the financial crisis. Cabo Verde also has appeared vulnerable to outbursts of vector-borne diseases leading to a brief dengue epidemic in 2009–2010 and a Zika virus outbreak in October 2015.

**Although Cabo Verde has outperformed many of its aspirational peers along the most recently available**<sup>7</sup> key governance indicators, its public sector is regarded as relatively ineffective and inefficient. Delivery of reform is weak<sup>8</sup>. This apparent paradox is caused by several problems in the public sector. These include: (1) antiquated government norms and procedures, and the current orientation on “process” rather than “results;” (2) lack of coordination between agencies; (3) low technical capacity and high turnover of highly qualified personnel staff; (4) limited performance tracking and evaluation of key programs, which limit learning about what works, and a lack of timely statistics for evidence-based policy making; and (5) a lack of effective public–private dialogue, as the government has been relatively weak to provide strategic guidance to the tourism sector. Finally, decentralization has been insufficiently effective. The 22 municipalities—the only level of government below the central government—have a fair amount of autonomy, but suffer from capacity constraints and shortcomings in oversight and supervision. The country’s PEDS 2017-2021 spells out various measures to tackle the challenges.

**Given its geographical characteristics and its location in the mid-Atlantic, Cabo Verde is highly exposed to natural disasters, and climate change risks have the potential to significantly derail Cabo Verde’s achievements and prevent further progress.** Extreme weather events have become more frequent, exacerbating households’ limited resilience to recover and pick up their livelihoods, which particularly affects the poor. However, Cabo Verde’s climate mitigation, adaptation strategies, and financial capacities remain limited. The country ranks just 79th on the “climate change readiness score,” which is lower than its aspirational peers, including the Seychelles, Mauritius, and Saint Lucia. Despite their welcome impact on rural poverty reduction, incomplete operationalization of rural infrastructure investments and poor facilitation of supply chains prevent the rural poor from further building their resilience. Social protection programs are fragmented and have difficulties reaching working age families to protect them against shocks and build their assets. The monitoring of their impact is weak.

**There is insufficient preservation of Cabo Verde’s natural capital—perhaps its most important national asset—which**

**undermines the tourism industry.** Cabo Verde is considered one of the world’s 11 most endangered marine biodiversity “hotspots,” yet the country ranks only 78th out of 141 countries on the “enforcement of environmental regulations” in the Travel & Tourism Competitiveness Index. Enforcement of environmental regulations remains inadequate and environmental management has suffered from the unclear assignment of roles and responsibilities. Solid waste management is not always up to standard.

**In the shorter term, Cabo Verde could prioritize resolving those constraints that would allow it to access two main pathways to boost growth, reduce extreme poverty, and promote shared prosperity: diversified tourism and agricultural niche products.** These must form the core elements of a modified development model and can be unleashed once the binding constraints are removed. While additional opportunities exist in the medium term, these are affected by substantial structural barriers that must first be removed.

**A diversified and more inclusive tourism sector will be Cabo Verde’s most likely pathway to progress.** Cabo Verde’s attractiveness as tourist destination has generated much wealth for the country. However, its nature, geographic spread, and form needs to change. The image of Cabo Verde as a “sun, sand, and sea” single-product destination is unjustified and obscures a wide variety of potential tourism products that Cabo Verde has to offer, including eco-tourism, hiking, adventure, culture, and history. This illustrates a serious branding and marketing challenge. Diversification is likely to spread the benefits more widely across the islands. Forecasts by the World Travel and Tourism Council suggest substantial growth potential for added value and employment. Diversified tourism would generate jobs away from the main tourist resorts and also reduce pressure on housing infrastructure on Sal and Boa Vista. However, international tourism competitiveness rankings suggest that serious hurdles remain. Improving inter-island connectivity and strengthening the skill sets of its workforce will be essential. Realizing Cabo Verde’s tourism potential requires a well-developed tourism sector strategy that presents a clear vision and policies for diversification. Better management and selection of foreign investors is needed, in conjunction with support to micro and small enterprises to increase their ability to offer high quality tourist products and tap into high value tourism supply chains.

**Agricultural, livestock, and fishery niche products have the potential to be scaled up so to provide enhanced livelihoods and incomes to the poorest segments of the population.** Cabo Verde’s horticultural sector has successfully expanded

**TABLE 1.** Binding Constraints and a Summary of the Evidence

	Constraint	Subconstraint	Evidence
1	Inadequate human capital	High school drop-out rate	<i>Benchmarking:</i> Cabo Verde ranks behind aspirational peers in terms of net secondary enrollment, and student retention is relatively low and not improving. <i>Other evidence:</i> A high proportion of children are not in school, not working (IDRF 2015).
		Insufficient skills	<i>Benchmarking:</i> Proportion of firms stating that an inadequately educated workforce is a major constraint is higher than aspirational peers. Long distance from education efficiency frontier. <i>Other evidence:</i> Low scores for the <i>Aferida</i> test on mathematics and Portuguese; 37% of teachers have no degree.
2	Poor connectivity	Problematic inter-island transportation	<i>Benchmarking:</i> Cabo Verde ranks behind its aspirational peers on the WEF's quality of infrastructure index, especially regarding quality of port infrastructure and air transport. <i>Other evidence:</i> Expert interviews conducted for the SCD in 2017 suggest maritime and air transport are unreliable in terms of timing.
		Weak ICT infrastructure	<i>Benchmarking:</i> The ITU ranks Cabo Verde behind its aspirational peers in terms of ICT development. Internet use and bandwidth per Internet user are also lower than aspirational peer countries. Low global rank (103rd) on the UN's e-governance index. <i>Other evidence:</i> Expert interviews conducted as part of this SCD revealed an inadequate regulatory regime and lack of cable capacity.
		High energy costs	<i>Benchmarking:</i> Cabo Verde has higher energy and desalinated drinking water costs than its peer countries. Electricity losses are higher than the average for SSA. <i>Other evidence:</i> High commercial losses of ELECTRA.
3	Risks to macroeconomic stability and fiscal sustainability	High debt	<i>Benchmarking:</i> Debt-to-GDP ratio is higher than peers; macroeconomic risk rates are higher than Mauritius (similar to the Seychelles). <i>Other evidence:</i> Present value of debt is above sustainability threshold.
		High economic vulnerability	<i>Benchmarking:</i> Higher volatility of GDP growth than aspirational peers.
4	Weak public sector performance	Insufficient delivery of reform	<i>Benchmarking:</i> Lower WGI scores along "government effectiveness" and "regulatory quality" compared to aspirational peer countries; lower global rank than aspirational peers on Doing Business, and rank is dropping. Larger public wage bill than peers. <i>Other evidence:</i> Political economy studies suggest that the bipartisan political system paralyzes civil society and pressure groups.
5	Lack of resilience	Low household resilience	<i>Benchmarking:</i> Higher frequency of droughts and storms than peers; lower rank than peers on its Vulnerability score; highly unequal land ownership and low land assets of the extreme poor.
		Lack of protection of the natural environment	<i>Benchmarking:</i> Low rank on enforcement of environmental regulations on the Travel & Tourism Competitiveness Index. Cabo Verde is one the world's most endangered biodiversity "hotspots." <i>Other evidence:</i> CPIA scores for Cabo Verde are lowest for environmental sustainability.

in the last decade and benefited from the extension of the electricity network, better availability of irrigation water, and improved rural roads. The average annual growth of 4.6 percent per year of the agricultural and fisheries sector during 2007–2016 reflects the growing shift from subsistence agriculture to an agriculture sector increasingly oriented toward meeting the demands of the urban market. Across the archipelago, a range of agricultural goods are

produced and successfully exported for specific markets. A realistic development strategy for the agricultural and livestock sector must indeed focus on niche products and niche markets, such as organic, ethnic, fair trade, nostalgia products (*produtos da terra*) for the diaspora and other low volume/high added value products focusing on those that already show some export performance. The latter include coffee, wine, *grogue* (rum), cheese, and processed

fish products. Addressing the absence of an efficient and adequate national logistics system will be essential, together with organizing production and farmers, improving market information and marketing, and supporting public policies that further promote increased production, quality systems, and support for exporting enterprises. Recycling wastewater might be crucial to ensure adequate water supply for expanded production.

**While Cabo Verde's geographical location in the middle of four continents offers the potential to develop a logistics hub, a digital and innovation hub, or even a financial hub, key constraints have yet to be overcome, and further work is needed to study the potential and assess private sector interest.** Becoming a logistics hub would require building and maintaining a global competitive advantage. Currently, connectivity to global support chains is weak and trading infrastructure indicators show lower values than Cabo Verde's aspirational peer countries. Developing a logistics/hub-centered economy is not simply about large infrastructure projects; it also involves creating a platform for an efficient flow of business activity for which the enabling environment is currently not optimal. ICT development is below par, with relatively low bandwidth per Internet user and weak enforcement of the ICT regulatory regime. This affects international competitiveness. The feasibility of developing Cabo Verde as an ICT or financial hub is

further constrained by inadequate management of the power sector, which contributes to high energy costs, and also the relatively poor quality of education, in addition to transport connectivity problems. In the short term, the ICT sector should probably focus on strengthening its support to other sectors, such as modernizing the delivery of education and health services across the archipelago and developing logistics and tourism. A number of measures are spelled out in the country's PEDS 2017-2021 that aim to address the shortcomings.

## NOTES

1. The analysis presented in the SCD is based on the most recent data and studies, mostly up to 2016. It also benefited from analysis undertaken as part of the Government's new Strategic Plan for Sustainable Development (PEDS by its Portuguese acronym) 2017–2021 which outlined several measures to address some of the binding constraints to shared prosperity in Cabo Verde identified in this SCD.
2. As the general poverty rate is 35 percent, the poor nearly overlap with the bottom 40 percent, the target group for raising shared prosperity, which is one of the World Bank's twin goals.
3. Dias 2015.
4. Afrobarometer 2015
5. See the 2013 World Bank Country Economic Memorandum for Cabo Verde.
6. Total public debt declined marginally in 2017, the first contraction in ten years, due primarily to favorable exchange rate movements.
7. Up to 2014
8. See for example the recent World Bank reports on 'Doing Business' which suggest Cabo Verde has been unable to improve its business climate since 2012.



## Introduction

**T**his Systematic Country Diagnostic (SCD) presents an assessment of the main opportunities and constraints for achieving the World Bank's twin goals in Cabo Verde. It assesses the pathways for reducing extreme poverty and raising the welfare of the poorest 40 percent of the population in a sustainable manner, and identifies the main constraints for operationalizing these. The SCD is based on a review of existing documents, analysis of available data, and in-country discussions and expert interviews that took place during 2016 and 2017. It is driven by evidence and benchmarks Cabo Verde's performance against a set of aspirational peer countries that include the Seychelles, Mauritius, Maldives, and Saint Lucia (when data are available; see appendix A for details on their selection). The SCD is not limited to areas or sectors where the World Bank is currently—or anticipates to be—active, but rather focuses on the country's development potential and challenges to meeting the objectives of poverty reduction and shared posterity. It lays the ground for the program of collaboration between Cabo Verde and the World Bank Group: the 2018–2021 Country Partnership Framework.

Cabo Verde's economic achievements over the last 30 years have been spectacular and are unprecedented on the African continent. These achievements are remarkable given the unique challenges the country faces due to its small size, lack of scale for production of goods and delivery of economic and social services, remoteness, geographical dispersion, environmental fragility, and high exposure to shocks. Between 1985 and 2016, average GNI per capita increased sixfold, and average annual growth was more than 5 percent. Growth was particularly spectacular during 2000–2007 when it reached an annual average of 7 percent, allowing the country to graduate from low-income status in 2007 (see figure 1a). This made Cabo Verde the only African country with a non-extractive economy to achieve that status in such a short time. It is currently the richest country in West Africa and the 9th richest in sub-Saharan Africa (SSA).

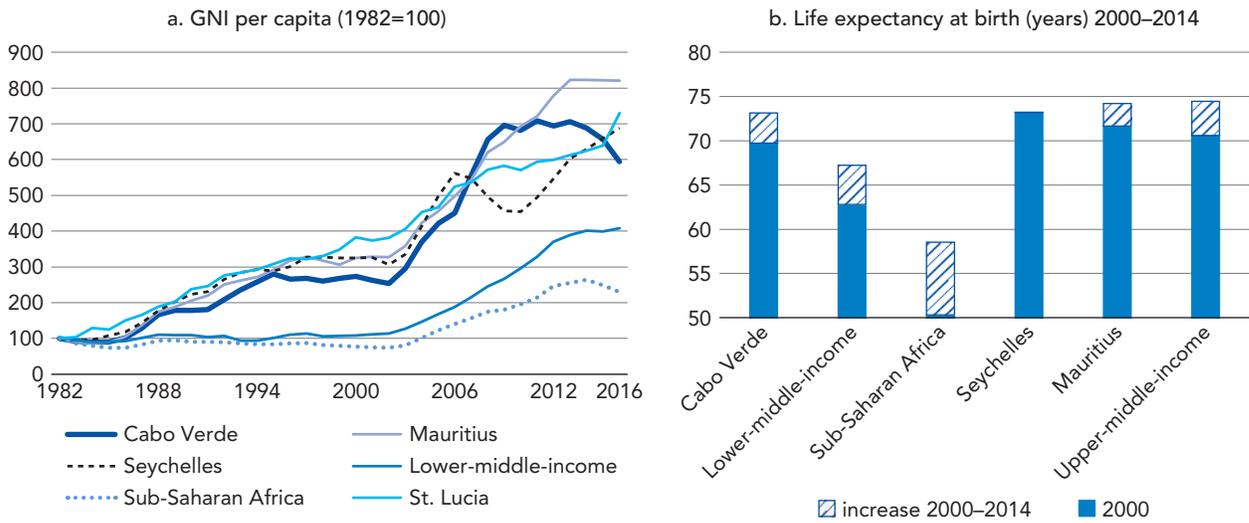
The country's economic performance is mostly attributable to significant investment in infrastructure linked to

the promotion of the country as a tourist destination. The total number of available hotel rooms grew by 12 percent per annum over the past 16 years. The number of visitors has also increased at an annual rate of 10 percent, positioning the country as one of the fastest growing tourist destinations in 2016.

**Social achievements have been equally impressive.** The *extreme* poverty rate—based on the national food poverty line—reduced from 30 percent in 2001 to 10 percent in 2015, and the number of extremely poor people dropped from 138,000 to 55,000 during this period (see box 1 for a brief description of Cabo Verde poverty lines). Inequality fell as the Gini index dropped from 53 in 2001 to 42 in 2015. Improvements along nonmonetary poverty indicators were even more important, including life expectancy (see figure 1b), maternal mortality, net primary school enrollment, and access to an improved water source.

Cabo Verde's social and economic achievements benefited from its political stability anchored in strong democratic institutions, the rule of law, and a relatively strong human capital base. Since independence, political transitions have proceeded without violence or instability. Few other countries on the continent boast such a record. Cabo Verde's strong institutions and relatively well-developed human capital are partly the result of the colonial period, when the country served as the administrative hub for Portugal's imperial and commercial interests in the region.<sup>1</sup> This feature, and the openness of the economy, enhanced Cabo Verde's attractiveness for foreign investors, triggering sizeable amounts of foreign direct investment (FDI) in the tourism sector and support from donors.

The financial crisis of 2008, followed by the European sovereign debt crisis, hit Cabo Verde unusually hard. Its GNI per capita has plateaued at around US\$3,300 per capita since 2009, and even dropped to US\$3,000 per capita in 2016, halting the completion of its transition to an upper-middle-income country. Real GDP growth averaged only a mere 1.4 percent per year between 2009 and 2016, despite the rebound in tourist arrivals after 2010, as

**FIGURE 1.** Cabo Verde has Made Remarkable Progress in Economic Growth and Human Capital Achievements

Source: World Development Indicators.

Note: 1982 is the first year for which GNI data for Cabo Verde is available.

revenue per tourist arrival has dropped. This has confined Cabo Verde to the list of top five slowest growing economies in SSA and resulted in a widening of the gap between Cabo Verde and other aspirational peers such as Mauritius and the Seychelles.<sup>2</sup>

The deceleration in growth since 2008 has principally been attributed to lower investments and a deterioration in the quality of investments. FDI fell and total factor productivity also decelerated sharply. In response to the crisis, the government initially increased public investment in infrastructure projects (until 2013); however, this did not revive economic growth. Instead, it contributed to a sharp

rise in the public debt-to-GDP ratio, from 68 percent in 2008 to 132 percent in 2016, putting the country at high risk of debt distress. High public debt is likely to constrain public spending. However, as the country pursues fiscal consolidation, it will be important to ensure adequate expenditures to promote economic growth and build the assets of the poor.

The global financial crisis and the euro debt crisis exposed underlying weaknesses in Cabo Verde's development model, which suggests it is in need of adjustment. Recent progress in poverty reduction was partly driven by a relatively robust flow of remittances, which contributed to raising households' consumption but without creating sufficient jobs and productivity growth. The available evidence suggests that reigniting growth requires creating space for the domestic private sector and addressing the structural bottlenecks that have kept it from participating in the country's growth sectors. Reduced involvement of the state (where possible) and a renewed focus on skills development will have to be an important part of the adjustment to Cabo Verde's growth model. There is also a need to improve the management and prioritization of public and private investment to reverse a declining productivity and ensure these contribute more effectively to the country's development. Making significant changes to this will not be easy, as international experience has shown that countries may be resistant to break from policies that have produced previous success.

### BOX 1. Poverty Benchmarks in Cabo Verde

Extreme poverty, based on the international poverty line of PPP US\$1.90 per day, halved between 2001 and 2007 (from 16 to 8 percent) and then again 4 percent in 2015. However, there is some uncertainty around the 2011 PPP for Cabo Verde. We therefore use the national definition of extreme poverty, which is based on the costs of meeting basic foods needs in Cabo Verde. This is CVE 136 per person per day. The general poverty line, which is based on the costs of meeting basic food and non-food needs, is CVE 250 per person per day. Using a PPP of 46.7 CVE per US\$, these figures are PPP US\$2.90 per person per day and PPP US\$5.36 per person per day, respectively.



**The report is structured as follows.** Chapter 1 provides the relevant context, describing key features of the country, its geography, economy, and the implications of being a small island state. Chapter 2 reviews past achievements in terms of economic growth, poverty reduction, human development, and good governance, and presents some manifestations of problems that suggest the need for a shift in the country's development model. Chapter 4 presents an analytical framework and discusses the main constraints for realizing Cabo Verde's potential. This is followed by Chapter 4, which summarizes

the main opportunities/pathways for further reducing poverty and increasing shared prosperity. Chapter 5 subsequently summarizes the binding constraints and corresponding evidence, and presents the remaining knowledge gaps.

## NOTES

1. Successive Growth and Poverty Reduction Strategies (GPRS) in Cabo Verde all prioritize good governance as a central pillar of the country's development.
2. See INE 2018.



## Setting the Stage: Country Context

*The previous chapter introduced the report and offered a concise summary of Cabo Verde's development achievements and challenges. This chapter presents the key defining characteristics of Cabo Verde and places it within the context of other small-island developing states (SIDS). As a small and fragmented archipelago located off the West African coast, Cabo Verde faces a unique set of development constraints. At the same time, its geography also offers advantages and makes it an attractive tourist destination. Cabo Verde's high emigration and fast drop in birth rate has led to a demographic transition taking place faster than elsewhere in Africa. It is the second most urbanized country in Africa. Cabo Verde's economy and the livelihoods of its people depend largely on the services sector, and the structure of the economy has remained relatively unchanged over the past ten years. The country faces many of the challenges that are typical of SIDS, including a highly specialized export structure, a relatively large public sector, and exposure to high trade volatility and natural disasters.*

### Geography

As a small and fragmented archipelago located 650–850 km west of the West African coast, Cabo Verde faces a unique set of development constraints. Its small population (540,000 in 2016) is scattered across nine islands that are up to 300 km apart and separated by turbulent seas. Approximately 88 percent of the population currently lives on four islands: Santiago (56 percent), Sao Vicente (15 percent), Santo Antão (9 percent), and Fogo (8 percent). The total land mass of 4,033 sq km is small and forms less than 1 percent of its total territory, although its land size is still much larger than those of its aspirational peers (it is 9 times the size of the Seychelles and double that of Mauritius). Its vast ocean has a modest marine fertility and its climate is like the continental African Sahel, with poor and erratic rainfall. Availability of fresh water per capita is low, the second lowest in Africa. Only around 10 percent of the land is said to be arable. The country is highly vulnerable to climatic events, including frequent droughts, sea level rise, and storm surges. It is also plagued by volcanic eruptions.

At the same time, its geography also holds advantages. Its natural beauty, year round attractive climate, and proximity to Europe—its main tourist market—has enabled the fast growth of Cabo Verde's tourism industry. Being an archipelago away from mainland Africa also protects the country from cross-border security issues, and pests and communicable diseases may not reach its islands so easily.

### History

**Cabo Verde was born out of European colonialism and African slavery.** The ten uninhabited islands were discovered in the 15th century and became a Portuguese territory. The colonists almost immediately began to bolster their numbers with slaves brought in from the mainland colony of Guinea-Bissau (then *Guiné Portuguesa*), and through intermarriage ultimately created a distinct Cabo Verdean ethnic identity. Given its strategic location on the great trade routes between Africa, Europe, and the New World, Cabo Verde quickly became a crucial part of the transatlantic slave trade economy.<sup>1</sup> After slavery was formally abolished in 1878, Cabo Verdeans first turned to whaling (the origin of Cabo Verde's large emigrant community in the United States) and cod fishing, and then increasingly concentrated on cargo shipping. A large part of the population obtained their income through agricultural activities where frequent droughts often led to famine, poverty, and forced migration.

**Due to its modest natural resources and strategic location, Cabo Verde has long served as the administrative hub for Portugal's imperial and commercial interests in the region.** In that context, it received relatively large amounts of investment in its physical and human capital. Following the end of the military regime in Portugal, the Republic of Cabo Verde officially declared its independence on July 5, 1975. It initially maintained a state union with Guinea-Bissau, but this ended in 1980. Unlike in Guinea-Bissau, Cabo Verde's military remained small even at the height of the struggle for independence, and has always remained separate from the civilian government.<sup>2</sup>

## Demographics

At 540,000 people, Cabo Verde's population is small—the fifth smallest in SSA—and is relatively urbanized. Its average annual population growth rate dropped from 2.0–2.7 percent in the 1990s to 1.0–1.2 percent during 2010–2016.<sup>3</sup> In 2016 about 66 percent of the population lived in urban areas, up from 27 percent in 1982, and Cabo Verde is the most urbanized country on the continent after Gabon. Urbanization has been mostly driven by frequent droughts and job creation in tourism-related activities. More than one-third of children live in a household that is headed by a single woman.<sup>4</sup>

The country experienced high levels of outmigration, especially during the 1980s and to a lesser extent from 2003–2007 (see figure 3). The total emigrant population is estimated to be between 750,000 and 1,000,000 people, many of whom left before independence in 1975. Over the past 30 years, more than 100,000 Cabo Verdeans (one-fifth of its current population) migrated abroad. The majority went to Portugal, France, and the United States. Of the more recent migrants, most left to study abroad (around a third of all migrants during 2009–2014).<sup>5</sup> It is unclear how many return after completing their studies, as no records are kept. Migrants continue to play an important role in Cabo Verde's development via the financial resources they channel into the economy through remittances and foreign investment. For example, 17 percent of small tourist businesses are owned by former emigrants.<sup>8</sup>

Cabo Verde's demographic transition is taking place faster than elsewhere in Africa, providing opportunities but also increasing pressure on the labor market. The share of the population that is of working age has been rising since 2000, and the share of the population between 15 and 64 years old rose by 1.6 percent per year during 2001–2013 (compared to 0.6 percent per year during 1990–2000). Cabo Verde has already benefited from its demographic dividend. The contribution of growth in the share of the population between 15 and 64 to the rise in income per capita rose from 7.6 percent in 1990–2000 to 41.4 percent in 2001–2013.<sup>6</sup> The share of the population that is of working age is expected to peak at around 2030.<sup>7</sup> By comparison, SSA's share is expected to reach its highest proportion in 2080. Cabo Verde thus has only another 13 years left to reap the benefits from this demographic dividend. However, since 2012 the proportion of the population that is “active” (i.e., conducts paid work or actively looks for work) has dropped from 63 percent to 58 percent of the working age population. Together with the high youth unemployment rate (49 percent in urban areas in 2016 and 74 percent among young urban women), Cabo Verde is at risk of losing its historic opportunity to reap the maximum benefits from its demographic dividend.<sup>8</sup>

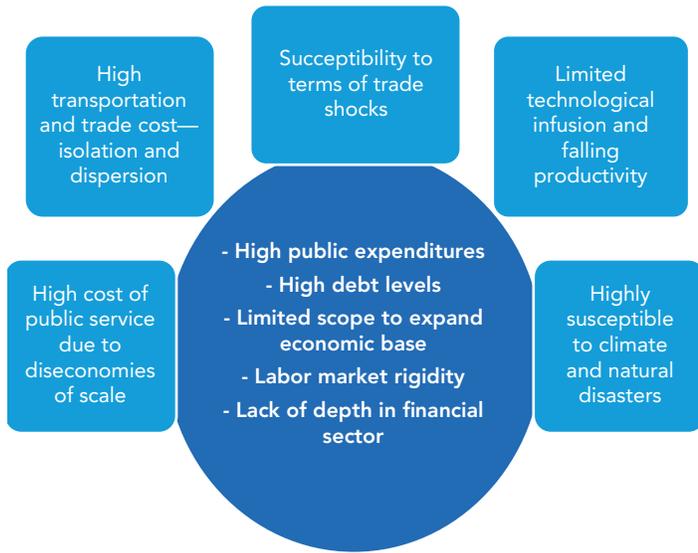
## Cabo Verde as a Small Island Economy

Cabo Verde shares many economic challenges with other SIDS, which has implications for its development strategy (see figure 2). The fragmentation of its territory and the dispersion of its small population across nine islands raises costs of trade and prevents cost-effective integration of the domestic market for goods, services, and labor. It contributes to the high cost of delivering essential services, which include health, education, electricity, and drinking water and sanitation services. Although its location in the mid-Atlantic offers strategic advantages, it makes freight services relatively expensive and creates challenges for integrating into global value chains.

Like most other small economies, Cabo Verde is unable to access economies of scale, and consequently has a highly specialized export structure. Its economy and the livelihoods of its people depend largely on the services sector, which is dominated by the tourism industry. The structure of the economy has remained relatively unchanged over the past ten years. The services sector accounts for roughly 70 percent of economic activities and 65 percent of labor force participation (see figure 4).<sup>9</sup> Commerce, hotels, and restaurants (supported by the tourism sector) provide

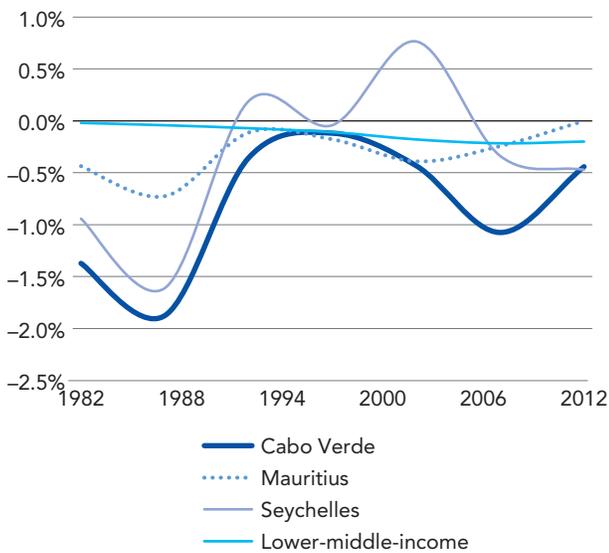


**FIGURE 2.** Features of Small Island Economies

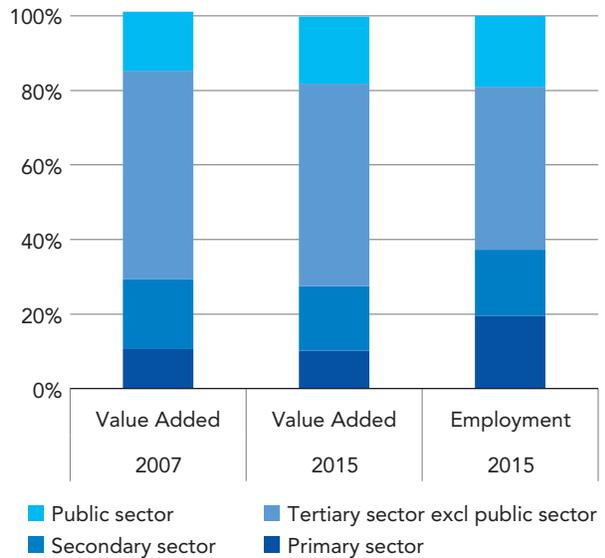


Source: Lederman and Lesniak 2017.

**FIGURE 3.** Net Annual Migration from Cabo Verde and Some of Its Aspirational Peers (in % of total population)



**FIGURE 4.** Sectoral Distribution of Value Added and Employment



Source: Figure 3 calculations use five-year grouped data from the World Development Indicators (data.worldbank.org); Figure 4, based on data from INE and BCV.

around 23 percent of jobs, followed by public administration and public services (19 percent). In 2015, agriculture, livestock, and fisheries activities contributed 9.6 percent to GDP while employing 20 percent of the workforce (see figure 4). This suggests that labor productivity in this sector is low, and indeed the *extreme* poverty rate in 2015 was highest among those working in this sector (28 percent for day laborers and 21 percent for the self-employed) compared to 10 percent for the whole population. Although important for rural livelihoods, the primary fisheries sector is small, poorly governed, and contributes only 1 percent to GDP. It employs 3 percent of the workforce. Canned fish (using fish caught by large foreign vessels) dominates the manufacturing sector, which forms 15 percent of GDP. In 2015, 12 percent of GDP was generated in the nonagricultural informal sector, employing around 21 percent of the workforce.<sup>10</sup>

**Cabo Verde is an open economy and has maintained strong ties to Europe, particularly Portugal.** Since trade liberalization reforms in the early 1990s, the country has maintained a trade openness ratio of above 90 percent, anchored in several bilateral, regional, and international agreements.<sup>11</sup> The national currency is pegged to the euro under a special partnership with Portugal. The United Kingdom, Spain, Portugal,

and Italy supply the bulk of the country's tourists, as well as remittances (together with the US) and FDI. Europe also accounts for close to 100 percent of the country's commodity exports, which consist mainly of frozen and processed fish. Proximity to major West African markets and its Economic Community of West African States (ECOWAS) membership have not translated into greater export diversification. In 2014, Africa accounted for just 9 percent of Cabo Verde's exports and 3 percent of its imports.

**Smaller economies tend to have difficulties managing their public debt.** Size also appears to be a factor in the relative size of the government's budget, with small economies, including Cabo Verde, spending significantly more as a proportion of GDP relative to other categories of countries. In many of these economies the government is the main employer, which keeps the wage bill high. The absence of opportunities to exploit economies of scale in the provision of public goods also raises the amount of public spending as a proportion of the economy. Weak fiscal management, susceptibility to damages from natural disasters, and growth volatility all combine to create an environment for building up persistently high levels of public debt.



## NOTES

1. Lumumba 2013.
2. World Bank 2013a.
3. In Africa, only Mauritius, the Seychelles, Lesotho, and the Central African Republic had lower population growth since 2001.
4. Population census 2010. There are no data that suggest that migration affects gender balances, as both men and women migrate.
5. Rodriguez 2017.
6. Marone 2016.
7. Marone 2016. This is the result of a rapid decline in mortality and fertility (from 5.3 children per woman in 1990 to 2.3 in 2014).
8. Comparable data on the sectoral distribution of employment are only available from 2010 onward, preventing a proper medium-term assessment of shifts in the sectoral distribution of employment and structural transformation.
9. Comparable data on the sectoral distribution of employment are only available from 2010 onward, preventing a proper medium-term assessment of shifts in the sectoral distribution of employment and structural transformation.
10. INE 2015a.
11. World Trade Organization 2015. The country's trade arrangements include ECOWAS and the African Growth and Opportunities Act (AGO), which has been extended to September 30, 2025.

## Past Achievements

*The previous chapter presented the country context by briefly discussing key features of its geography, history, demographics, and economy. It also reviewed the main challenges of being a SIDS. In this section we present Cabo Verde's past achievements, including its high economic growth, fast poverty reduction, and success in improving other social indicators. Important progress in the development of good governance is also discussed. We end by presenting some of the emerging symptoms that suggest Cabo Verde's development model needs adjustment.*

*Cabo Verde's development model—based on capital accumulation linked to the development of the country's tourism sector—in combination with strong institutions for maintaining the rule of law, accountable government, and a stable democracy, has allowed the country to outperform peers in social and economic development. However, growth collapsed following the global financial of 2008 and the euro debt crisis. This was largely due to a drop in FDI and official development assistance, as well as declining productivity of capital and labor. Growth in tourist arrivals soon picked up, but total revenue from tourism stagnated. Nevertheless, poverty in 2015 was substantially lower than in 2007 due to a movement of poor households to the services sector and income growth in that sector, but also for those who work in agriculture and industry or construction. Poverty among the unemployed and inactive also reduced, most likely due to robust remittances growth. Cabo Verde outperforms its aspirational peer countries along many governance indicators, except for “government effectiveness” and capacity to adequately regulate the private sector, where it lags behind them. This apparent governance paradox is exacerbated by the lack of engagement of civil society activity in holding the government accountable for the delivery of results.*

### Cabo Verde's Economic Growth Story

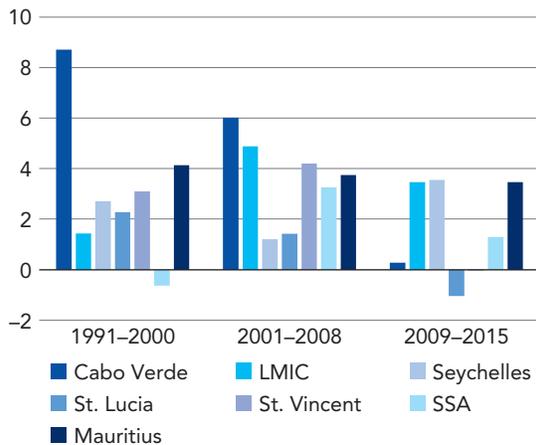
Cabo Verde enjoyed robust economic growth during the period leading up to 2008, after which growth collapsed and has not fully recovered. Since its independence in 1975

until the global financial crisis of 2008 and the subsequent European debt crisis, the country has outperformed its peers, with economic growth averaging above 6 percent per decade (see figure 5). Real GDP growth averaged a mere 1.4 percent per year between 2009 and 2016, despite the rebound in tourist arrivals after 2010, as revenue per tourist arrival has dropped. GNI per capita followed a similar pattern and has remained around US\$3,300 per capita since the global financial crisis, before dropping to US\$3,100 per capita in 2015 and US\$3,000 in 2016. This has confined Cabo Verde to the list of top five slowest growing economies in SSA, and resulted in a widening of the gap between Cabo Verde and its aspirational peers such as Mauritius and the Seychelles (see figure 6).<sup>1</sup> The details of the underlined drivers of growth before and after the crisis are presented below.

### Pre-2008

Economic growth in Cabo Verde during the pre-crisis period coincided with significant reforms to liberalize the economy. At the turn of the 1990s, Cabo Verde embarked on an ambitious political and economic liberalization plan to reinvigorate growth in the economy. Key reforms to improve the business environment included the elimination of trade barriers and the removal of wage and price controls. The public sector was also rationalized with the divestment of several SOEs, including energy, telecommunication, garment, and drug manufacturing companies. In this context, growth accelerated to almost 8 percent per annum during 1991–2000, from an average of 6 percent a decade earlier. Weak fiscal discipline triggered rising macroeconomic imbalances and an eventual debt restructuring at the end of the 1990s. Growth also decelerated sharply. However, the economy recovered quickly with the introduction of a fixed exchange rate arrangement with Portugal in 1998, along with additional reforms to anchor the country's development in tourism, including attractive incentives to foreign firms investing in the sector.

**FIGURE 5.** Real GDP Per Capita Growth (%)



Source: World Development Indicators and country authorities.

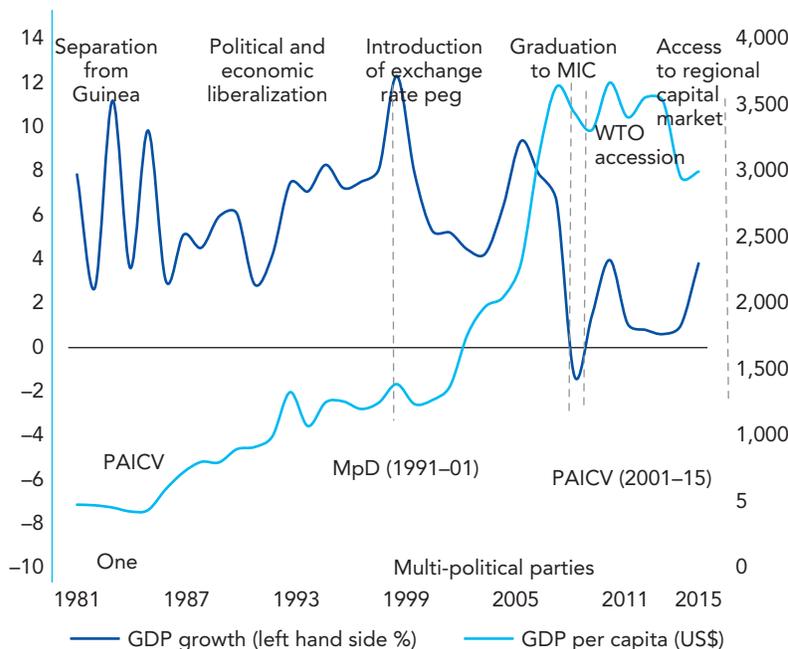
The reforms led to the emergence of the tourism sector as a central pillar of the country’s development.<sup>2</sup> Anchored in the promotion of the country as a market for European tourists, the services sector accounted for almost 80 percent of the growth in the economy over the past two and a half decades. Between 1991–2000, the sectors with the highest average annual rates of growth were financial, communication, hotel and restaurants, and transportation services. There was also a notable expansion in electricity and water production, as authorities sought to expand provision of

these services to the public. During 2001–2008, transportation, restaurants, and hotels (mostly related to tourism) recorded the highest growth rate, accounting for one-fifth of the overall growth—reflecting increased dynamism and development of the tourism sector. The contribution of the construction sector to overall growth also grew threefold during this period, motivated by increased public investment in infrastructure and FDI-related construction of hotels (see figure 7).

The tourism sector is dominated by the all-inclusive model, anchored in a few international brands (particularly RIU and Meliá) that rely on international chains of goods and services. Cabo Verde’s tourism sector developed very quickly and was backed by rapid growth in the number of hotels, arrivals, and occupancy levels (see figure 8). Approximately 80 percent of all tourist activities are confined to two small islands that host just 7 percent of the population<sup>3</sup>—Sal and Boa Vista—and linkages to domestic small and medium enterprises and the rest of the economy are weak.

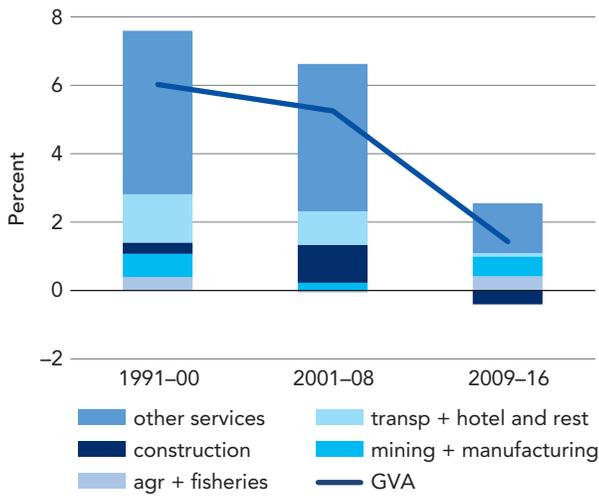
Cabo Verde’s economic performance leading up to 2008 was driven by structural factors driven primarily by investment in infrastructure. The country has enjoyed gross investment rates of above 35 percent of GDP since the 1990s, which compares favorably with 20.3 percent for SSA or aspirational peers like Mauritius, where this was 24.7 percent of GDP. It was

**FIGURE 6.** GDP and GNI Per Capita



Source: Based on World Development Indicators.

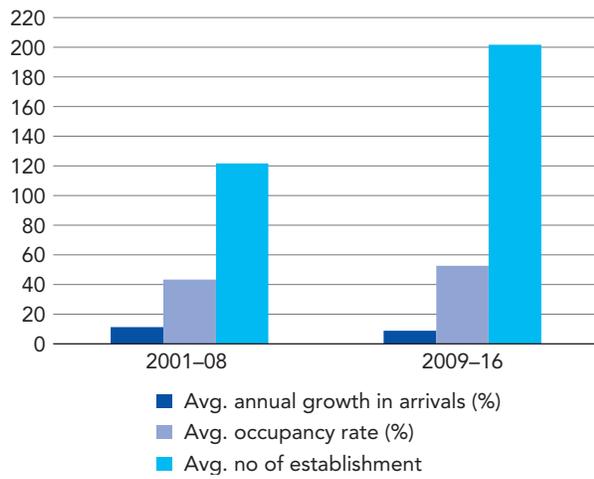
**FIGURE 7. Contribution to Real GDP Growth (Supply)**



Sources: Based on data from INE and BCV.

driven primarily by private investments (domestic and FDI) as well as official grants and concessional borrowing. The willingness to undertake reforms to ensure macro-stability allowed the country to access significant development policy financing. In this context, Cabo Verde has been among the world’s top recipients of official development assistance (ODA) per capita, although the amounts have declined since 2010 (from US\$667 in 2010 to US\$293 in 2015). Key infrastructure projects undertaken during this period include the country’s seven airports and road network, energy and purification plants for drinking water, as well as expansion in healthcare and educational facilities. For example, 89 percent

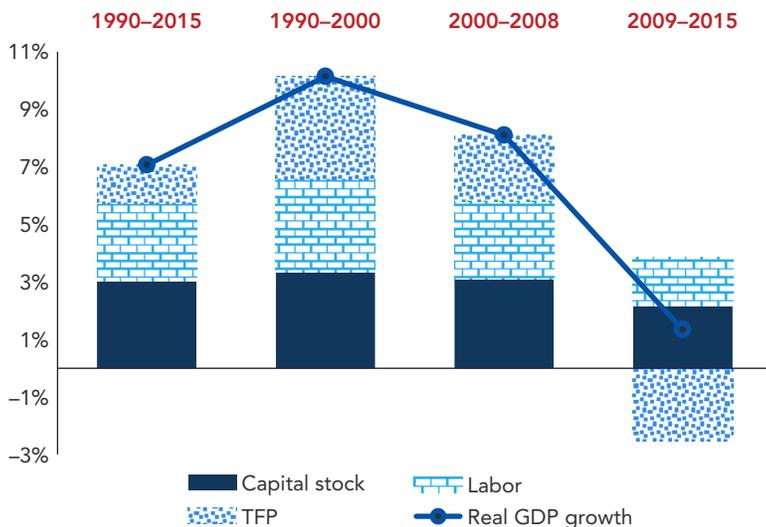
**FIGURE 8. Key Tourism Indicators**



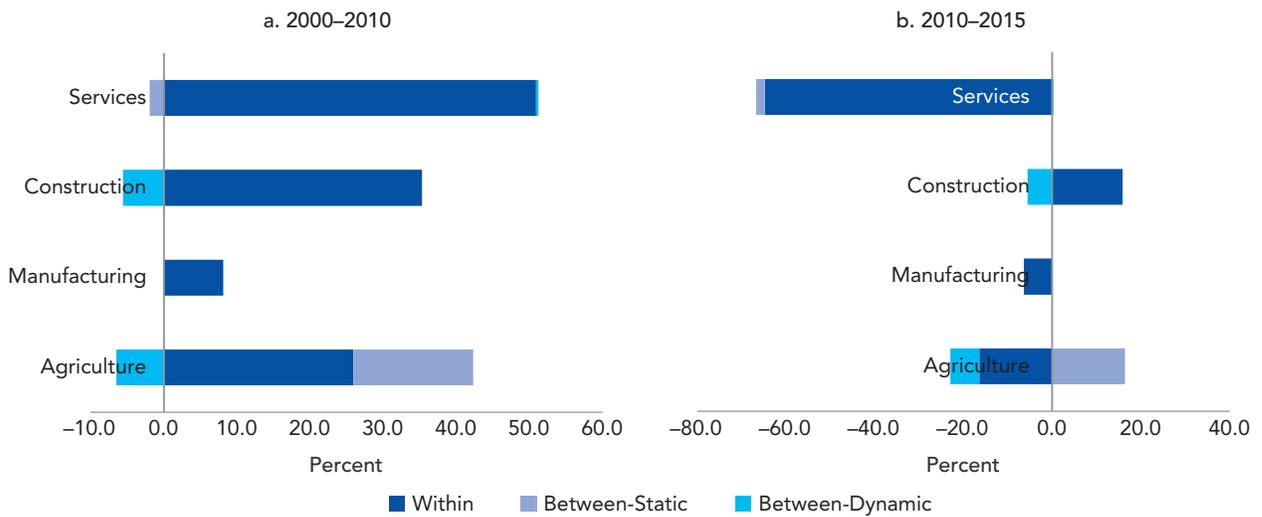
of ODA in 2010 went to transport, storage, and energy.<sup>4</sup> Public investment rates have been very high, averaging a remarkable 13 percent of GDP. Remittances also contributed to the financing of private investments.

**The economy also benefitted from significant productivity gains.** Decomposing real GDP growth into three sources—adjusted labor (labor force adjusted for employment rate and labor market participation rate), capital stock,<sup>5</sup> and total factor productivity (TFP) growth—revealed that capital and labor accumulation have been key determinants of growth over up to 2008 (see Figure 9). While the contribution from

**FIGURE 9. Decomposition of GDP Growth Since 1990**



Sources: INE, BCV, IMF, and World Bank staff estimates and calculations.

**FIGURE 10.** Sectoral Decomposition of Productivity Growth (% growth)

Note: **Within:** Productivity gains/losses within sectors. **Between-Static:** Productivity gains (losses) due to labor movements to higher (lower) productivity level sectors. **Between-Dynamic:** Productivity gains (losses) due to labor movements to higher (lower) productivity growth sectors.

capital reflects the significant investment in infrastructure, labor reflects gains from investment in education as well as benefits from demographic transition.<sup>6</sup> In the 1990s, the contribution of infrastructure was complimented by advances in education and increased access to credit by the private sector. Regarding demographic changes, the working age population as a share of the total population increased from 50 percent in 2000 to more than 65 percent in 2015, and labor force participation from 35 percent of the population to almost 50 percent.

Labor productivity growth in Cabo Verde has been mostly due to within-sector productivity growth, with limited contribution from structural change (see figures 10a and 10b). For 2000–2010, all sectors registered strong productivity growth, with the services sector having the largest impact on overall labor productivity. While there are significant productivity gaps across sectors for both pre- and post-crisis (for example, manufacturing is approximately 1.6 times more productive than agriculture, and productivity in finance is almost seven times as high) there has been limited movement from low- to high-productivity sectors such as finance and transport (see Figures 11 and 12).<sup>7</sup> Notably, although services and commerce absorbed most of the workers who moved out of the agricultural sector prior to 2010, the impact on growth was relatively small as the level of productivity in commerce is low, albeit slightly higher than that of agriculture. Productivity gaps across these sectors indicate the presence of allocative inefficiencies that reduce

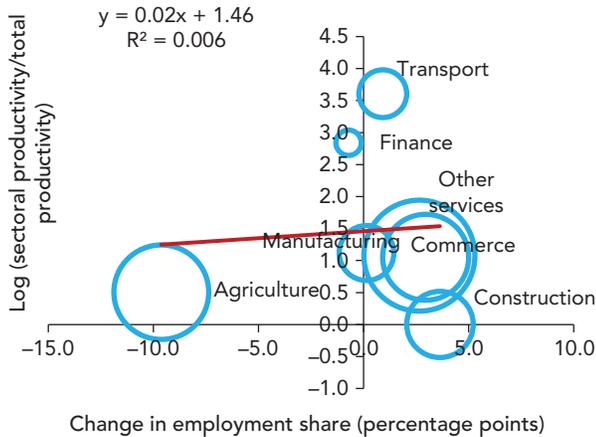
economy-wide productivity, which can, however, be turned into a key engine of growth by unleashing productivity-enhancing structural change.

## Post-2008

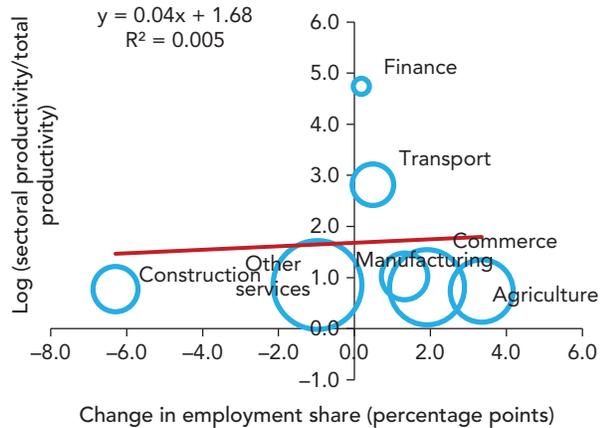
Economic growth collapsed after the global financial crisis of 2008 and has not rebounded to previous levels, although it was 3.8 percent in 2016. Given the economy's dependence on the euro area, the crisis affected the flow of funds to Cabo Verde. Notably, FDI, which peaked at 15 percent of GDP in 2008, fell by 5 percentage points of GDP in 2009 before averaging 7 percent of GDP over the past six years (see figure 13). Earnings from tourism also fell but recovered quickly, reflecting the introduction of discounts and gains from geopolitical tensions in other neighboring tourist markets (see figure 15).

The deceleration in growth since 2009 is primarily attributed to a sharp decline in the level of investments, despite increased capital spending by the government for the first five years after the crisis.<sup>8</sup> Empirical analysis used to identify turning points in long-run growth confirms that the deceleration in growth in Cabo Verde has been mainly attributable to the slowdown in capital investment (see figure 14).<sup>9</sup> After growing at annual rates of close to 10 percent for most of the 2000s, overall investments contracted at an annual rate of 1.0 percent since 2009. Gross fixed capital formation dropped from 38.5 percent of GDP in 2009 to a low of

**FIGURE 11.** Correlation Between Sector Productivity and Change in Employment Shares (2000–2010)



**FIGURE 12.** Correlation Between Sector Productivity and Change in Employment Shares (2010–2015)



Sources: INE, World Development Indicators, and staff calculations.

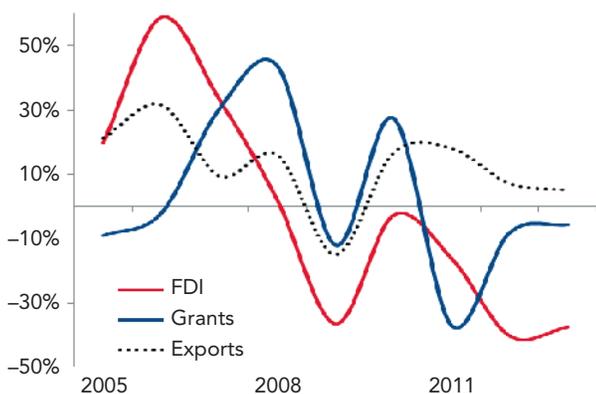
Notes: 1) The size of a circle represents the relative size of each sector (as measured by its employment share) in 2000. The estimates were obtained based on the bivariate regression:  $\ln(p/P) = \alpha + \beta \Delta Emp. share$ , where  $p$  and  $P$  denote sectoral productivity and total productivity level, respectively. The red line represents fitted values.

30 percent in 2013. Private investment accounted for most of the decline, the impact of which was partially offset by countercyclical public spending until 2013. Public investment has declined in recent years as authorities sought to rationalize the public investment pipeline, given mounting concern over the country’s debt. While lower private investment tied to FDI could have been influenced by the economic slowdown in Europe, credit to the private sector in Cabo Verde stalled because of rising nonperforming loans in the local banking sector. Other determinants of growth—such

as external conditions and institutional changes—were found to be insignificant in explaining the downward shift in Cabo Verde’s growth trajectory.

In addition to the markedly lower investment growth, the collapse in economic activities in Cabo Verde after the crisis is also attributable to lower investment efficiency, which contributed to a sharp contraction in TFP. Although overall investment levels have declined, it remains well above those of Cabo Verde’s aspirational

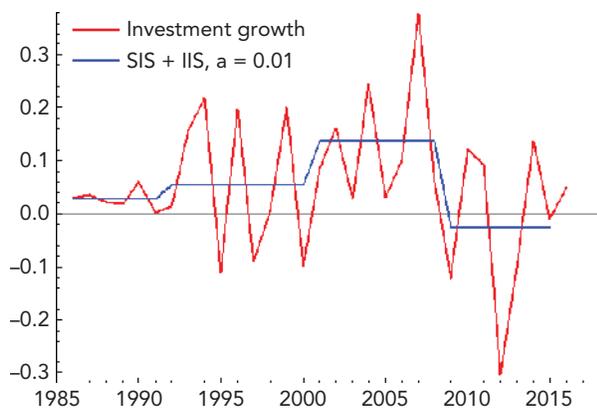
**FIGURE 13.** The Financial and Euro Debt Crisis Affected Cabo Verde Mainly through a Drop in Grants, Exports, and FDI



Sources: INE, BCV, IMF, and World Bank staff estimates and calculations.

Note: Figure 14 - Red line represent the actual growth rate. Blue line is the fitted values derived from the statistical test in Doornik et al. (2013). Structural breaks determined by Step-Indicator Saturation (SIS) and Impulse-Indicator Saturation (IIS) (with breaks selected at target size  $\alpha = 0.01$ ).

**FIGURE 14.** Growth Rate of Capital



peers since the crisis. However, the return on private and public investments have both contracted by more than 20 percentage points since the crisis. Lower investment efficiency reflects the relatively limited impact on growth of increased public investments during the immediate aftermath of the financial crisis and a missing contribution from structural reforms that would have sustained TFP growth. Notably, TFP growth was negative during 2009–2015 (see figure 9).

Many of the infrastructure projects undertaken with public funds—roads, ports, airports, electricity supply, and dams to support irrigated agriculture, undertaken to counter the impact of the global recession—generated little growth.<sup>10</sup> This was further compounded by weakening credit conditions and limited contribution from other structural factors, including education. Cost underestimates and overestimates of benefits are a common feature of large infrastructure projects.<sup>11</sup> A case in point in Cabo Verde is the US\$150 million investment in the rehabilitation of the Praia port, which experienced significant cost overruns and lower than expected benefits due to underutilization (and limited engagement of private sector users during design and construction). For small economies like Cabo Verde, the cost of inefficient infrastructure investments can have significant adverse macroeconomic impacts.

The slowdown in economic growth coincided with a sharp deceleration in the growth of the tourism sector after 2008,

despite continued rise in arrivals. Visitor arrivals recovered quickly after the financial crisis, but stagnated after 2012 and only picked up again in 2016 (see figure 15). After the crisis, the growth in tourism arrivals approximated 9 percent per annum, down from 11.5 percent before 2008, and has not been sufficient to offset the impact of lower investment and restore growth to historical levels. The rate of growth in hotel room stock has slowed (to 9 percent per annum) relative to the pre-crisis period (14 percent per annum), and the contribution of the tourism sector to GDP only grew until 2010, after which it remained constant (see figure 15).

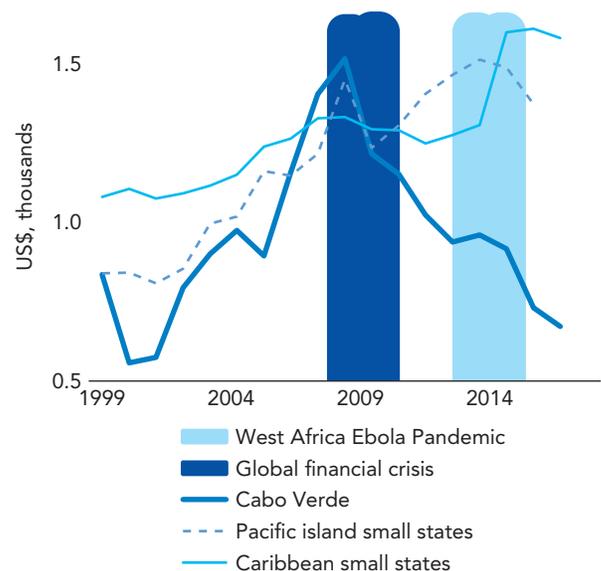
More importantly, receipts in US\$ per arrival have steadily declined. In 2007, tourism revenue was about US\$1,500 per arrival, slightly above the average for the Pacific and the Caribbean islands (see figure 16). By 2015, however, Cabo Verde had seen a steady decline bottoming at US\$800 per arrival, while small island states in the Pacific and Caribbean have maintained approximately the same level. The decrease in spending per tourist is possibly related to the falling competitiveness of the destination and the protracted use of discounts to draw visitors. The impact of falling revenues per tourist outweighed the combined effect of 22 percent growth in occupancy between 2009 and 2016 and 118 percent in the number of available rooms. Similarly, the construction sector, which was important in driving growth in the years leading up to the crisis, contracted by 0.4 percent. However, agriculture and fisheries picked up, taking advantage of investment in the sector and rural

**FIGURE 15.** Total Guests (Number) and Tourism Earnings (as a % of GDP)



Sources: Based on World Development Indicators and BCV.

**FIGURE 16.** Tourism Receipts Per Arrival



infrastructure more broadly in the years before and just after the crisis.

## Poverty and Shared Prosperity Patterns

**Growth during 2001–2015 was pro-poor.** The annual growth in per capita expenditure was higher for the poorest 40 percent of the income distribution (around 5.7 percent)<sup>12</sup> than for the top 60 percent (around 5 percent per year) (see figure 17). This is above the developing country median of 2.5 percent growth of the bottom 40 percent during 2009–2014.

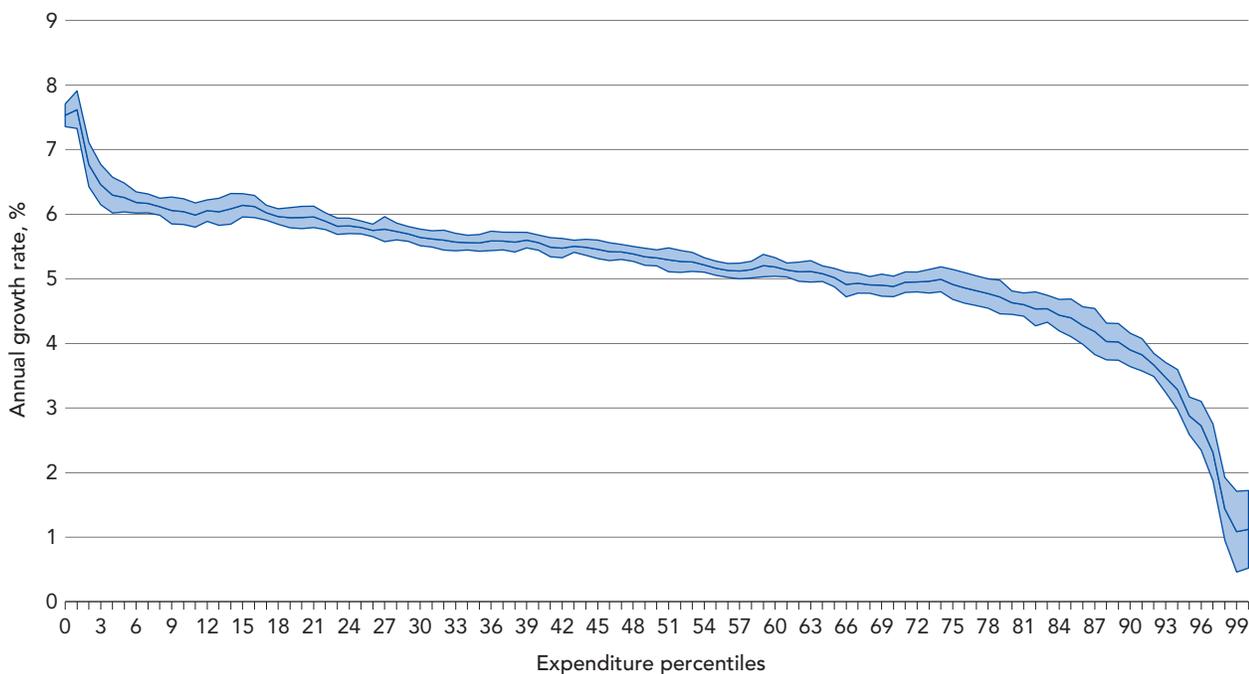
**Cabo Verde witnessed dramatic poverty reduction during 2001–2015.** Using a national poverty line (equivalent to PPP US\$5.40 per person per day in 2015 prices; see Box 1) the incidence of poverty fell from 58 percent in 2001 to 35 percent in 2015, while *extreme* poverty, defined as those below the national food poverty line (PPP US\$2.90 per person in 2015), dropped from 30 percent to 10 percent during this period (see figure 18a).<sup>13</sup> Spectacular growth rates during the period from 2002–2007 (the first six months),<sup>14</sup> when GNI per capita almost doubled, and during 2007 (the

second six months) to 2015, when it rose by more than a quarter, have led to substantial welfare increases across the country. Poverty reduction between 2001 and 2015 was the result of growth in poor household consumption; redistribution did not play in role.

**Inequality fell, and the consumption-based Gini index dropped from 53 in 2001 to 42 in 2015,** a level that is still relatively high but typical for SSA. During 2001–2015, the number of poor decreased by around 76,000 (30 percent) and the number of *extreme* poor by 82,000 (a reduction of 60 percent) (see figure 18b). As the *general* poverty rate is 35 percent, the poor overlap nearly with the “bottom 40 percent.” Therefore, in this SCD we will refer to both *extreme* poverty and *general* poverty.

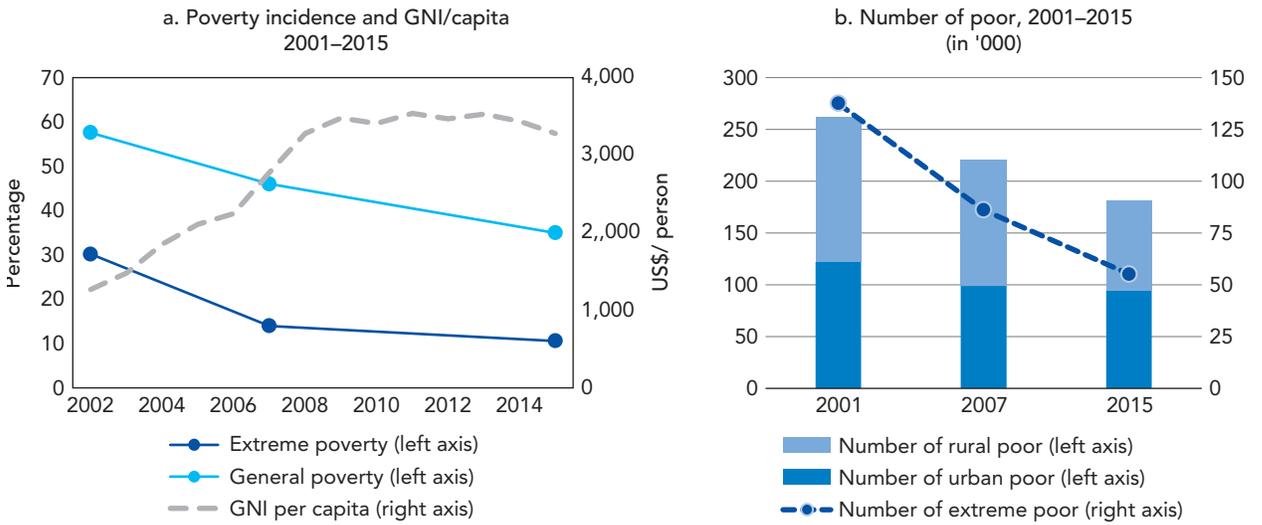
**Between 2001–2007 poverty reduction was slowest on the poorest islands, but during the following years this was the opposite.** During 2008–2015, poverty reduced fastest on the islands with the highest poverty rate, suggesting there is convergence in welfare across islands (see figure 19a). The poverty rate in Santo Antão, the poorest island in 2001 and 2007, dropped by 20 percentage points during 2007–2015, while in the capital Praia—the richest part of the country—poverty slightly increased during this period

**FIGURE 17.** Annual Growth of Consumption Expenditure, 2001–2015, Per Expenditure Percentile (1 = poorest, 100 = richest) (%) (growth Incidence curve)



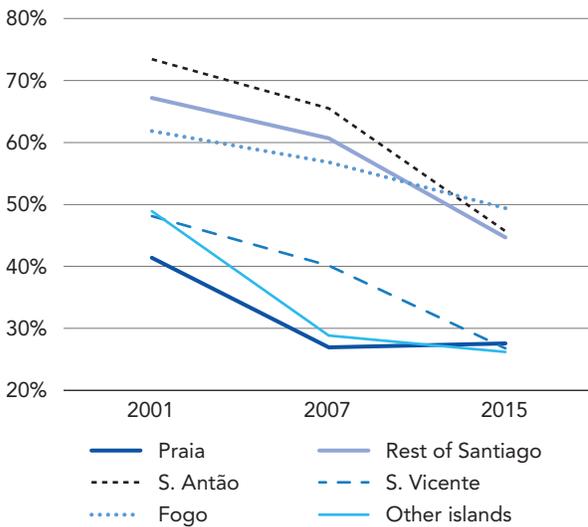
Sources: Based on IDRF 2001 and IDRF 2015 surveys (INE).

**FIGURE 18.** Poverty Incidence and Number of Poor

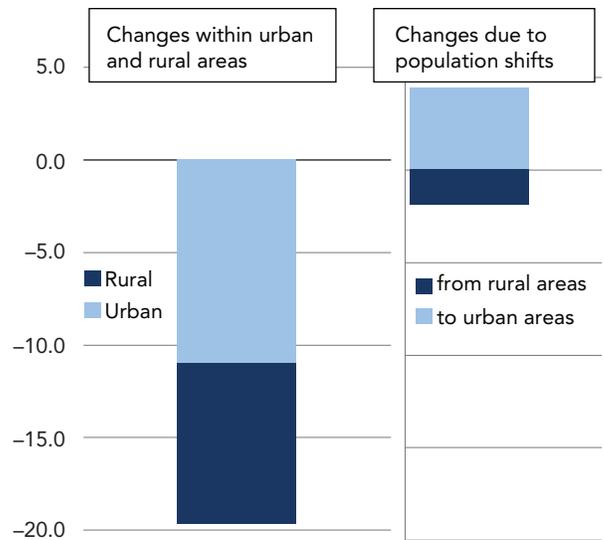


Sources: Based on IDRF 2001, QUIBB 2007, and IDRF 2015 surveys.

**FIGURE 19A.** Poverty Rates by Island, 2001-2015



**FIGURE 19B.** Decomposition of Poverty Reduction by Urban and Rural Areas, 2001-2015 (%)



Sources: Calculations based on data from IDRF 2001, QUIBB 2007, and IDRF 2015 surveys (INE).

(see figure 19a). *Extreme* poverty in Santo Antão is now almost just one-third of what it was in 2001. During the 2000s, internal outmigration, usually from rural areas to urban Praia, Sal, and Boa Vista, was highest for the poorest islands, and between 2007–2015, rural poverty reduced more rapidly than urban poverty (see figure 18b).

**Urbanization appears to increasingly work less well for poverty reduction.** The number of poor urban people barely changed during 2007–2015 (see figure 18b). Decomposition analysis of poverty reduction during 2001–2015 into changes *within* urban and rural areas, along with changes due to *population shifts* from rural to urban areas, shows that rural to urban migration increased urban poverty by 4 percentage points, slowing down overall reduction of poverty in urban areas (see figure 19b, second column). The drop in rural poverty was in part caused by migration to urban areas (see figure 19b, second column), although most of it was caused by welfare changes with rural areas (see figure 19b, first column).

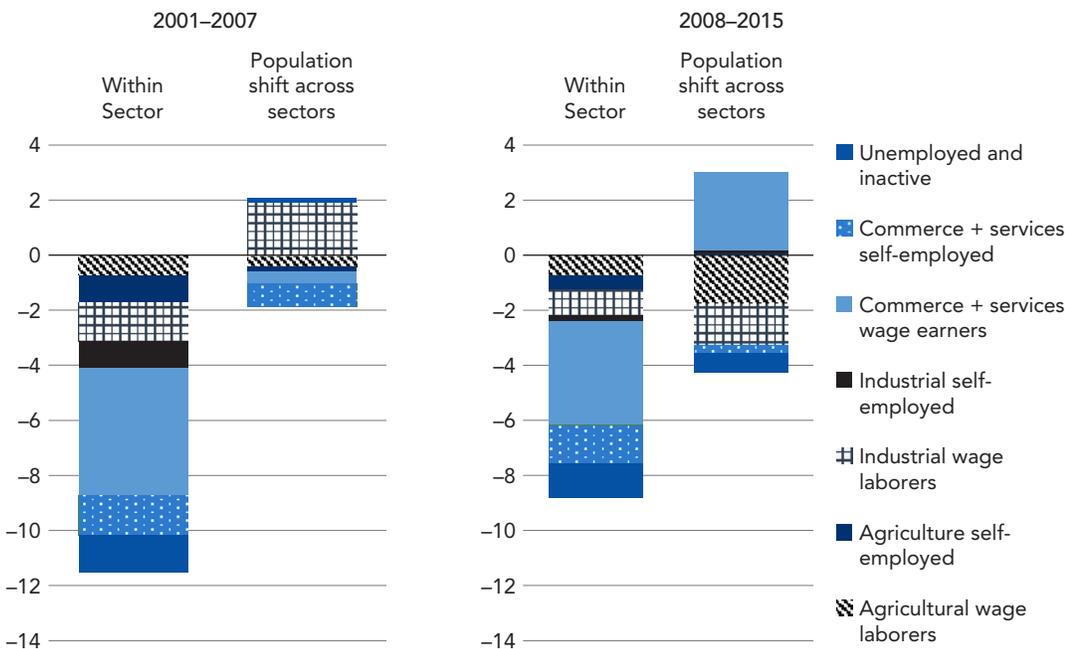
**Poverty reduction during 2001–2007 was driven by high economic growth of the services sector.** Decomposition analysis suggests that poverty levels dropped between 2001 and 2007, mainly due to fast welfare improvements of those working within the services sector, mostly wage earners, but

also household businesses (see figure 20, first bar). During this period, there was high growth in tourism-related activities, which created substantial numbers of jobs. These mostly benefited those already active in the services sector. However, a shift toward wage labor in the industrial sector (including construction) also contributed to a decrease in poverty (see figure 20, second bar).

**Between 2008 and 2015 multiple factors contributed to poverty reduction.** During this period, average annual economic growth per capita was 3.3 percent, lower than during 2001–2006 when this was 4.7 percent; this was caused by a lower growth of the services sector. However, poverty reduction continued after 2007. Low population growth due to falling fertility and continued emigration helped maintain GDP per capita during 2009–2015. Decomposition analysis of poverty reduction by income source of main provider of the household suggests poverty reduction was driven by four factors:

- i. Income growth of those active in the services sector (wage earners and household businesses) (see figure 20, third bar), and a population shift into the services sector. The latter substantially slowed down the contribution toward poverty reduction in that sector, though (see figure 20, last bar).

**FIGURE 20.** Decomposition of Poverty Reduction by Income Source of Main Provider of the Household



Sources: Calculations based on data from IDRF 2001, QUIBB 2008, and IDRF 2015 surveys (INE).

- ii. The second driver of poverty reduction during 2008–2015 was income growth of the poor who depend on the agricultural and fisheries sector for their livelihood. These include agricultural laborers, farmers, and fishermen. The agricultural sector grew at an annual average of 4.6 percent per year during 2007–2016. Income growth was most likely facilitated by public investments in rural infrastructure, including roads, electricity, dams, and small-scale irrigation systems, funded by ODA and concessional loans. The expansion of small-scale irrigation systems,<sup>15</sup> together with the introduction of new technologies—in particular in horticulture—has raised income-earning opportunities in rural Santa Antão and rural Santiago. Movement of poor agricultural laborers out of the sector also contributed to poverty reduction (see figure 20, last bar).
- iii. Third, growth of the industrial sector (including construction, fish canning)—which was on average 3.2 percent per year (higher than the 1 percent per year of the services sector)—likely led to welfare increases of workers in this sector during 2008–2015.
- iv. Finally, improved welfare among the unemployed and inactive—most likely due to robust remittances (which grew from US\$139 million in 2007 to US\$212 million in 2015, or from 9 percent to 13 percent of GDP)—also played an important role. The amount of remittances Cabo Verde receives per year is equivalent to total government spending on health and education.<sup>16</sup>

Although there was a considerable reduction in poverty, it declined less than expected given the spectacular growth in GNI per capita during 2001–2008. High initial welfare inequality and a weak connection of the tourism sector to the local economy are likely important reasons. The elasticity of poverty reduction to growth for the 2001–2015 period was low (0.25) by international standards.<sup>17</sup>

There are large differences in *extreme* poverty rates across geographical areas. Municipality level *extreme* poverty rates in 2015 varied between 1 and 32 percent (see figure 21). About 90 percent of the *extreme* poor live on four of the nine inhabited islands: the interior of Santiago (with 45 percent of the *extreme* poor), followed by Santo Antão (13 percent), Fogo (12.5 percent), the capital Praia (12 percent), and Sao Vicente (8.5 percent). This distribution is somewhat like the distribution of the population as a whole, as high (extreme) poverty pockets occur on each of the highly populated islands. However, the interiors of Santiago, Fogo, and Santo Antão are overrepresented among the extreme poor: they contain 71 percent of the *extreme* poor while they only harbor

44 percent of the population. Most of the rural *extreme* and moderately poor live in municipalities where small-scale agriculture and fisheries are the main sources of income. Many of the urban extreme poor live in Praia (7 percent of all *extreme* poor live there) and the town of Mindelo on Sao Vicente (7 percent). As can be seen in figure 21, Paúl on Santo Antão has the highest *extreme* poverty rate (32 percent), followed by São Filipe on Fogo (29 percent) and Santa Cruz on Santiago (27 percent).

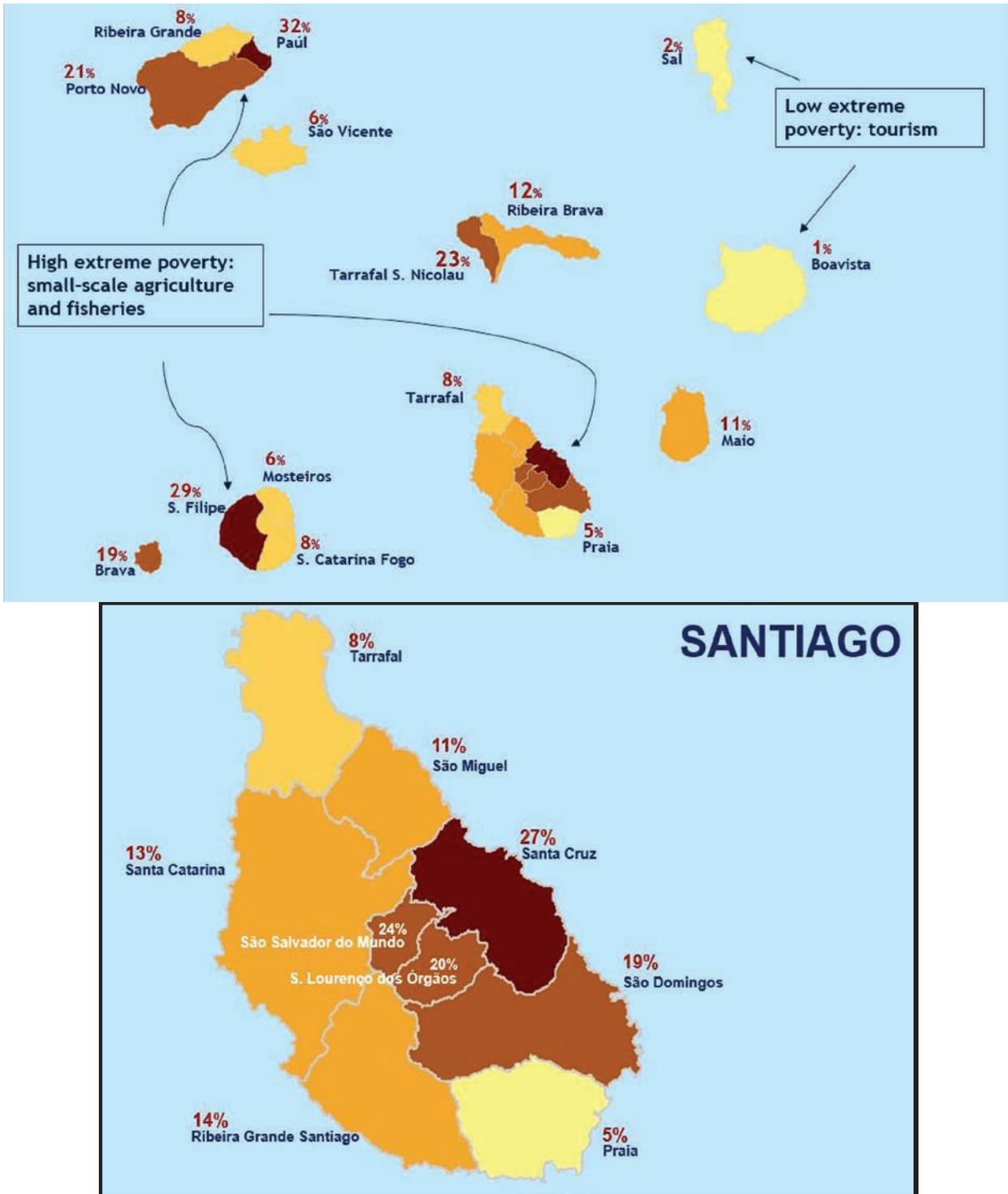
## Poverty Profile

The “inactive” constitute the largest group of the extreme poor. In 2015 the largest group of the *extreme* poor (38 percent) and the poor (34 percent) was formed by those living in a household where the main provider was “inactive”—that is, not conducting paid work *and* not looking for work. This is followed by those working in the agricultural sector, which constitute 24 percent of the *extreme* poor and 16 percent of the poor. A fifth of the *extreme* poor and 28 percent of the *general* poor depend on the services sector for their main income source. The sectoral distribution of the *general* poor and *extreme* poor has not changed much since 2001 (see figure 22a).

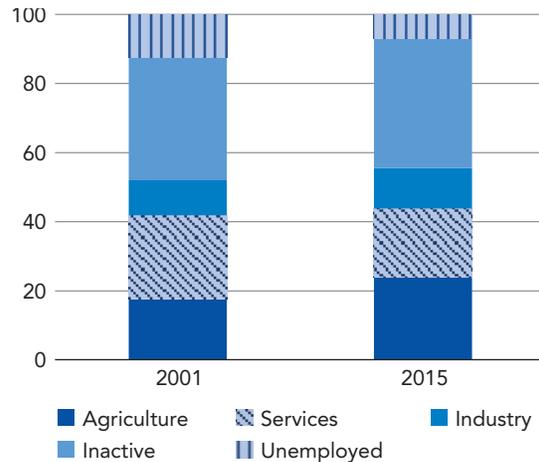
*Extreme* poverty incidence is highest among those whose main provider works in the agricultural sector. In 2015, 24 percent of this group was *extremely* poor, down from 42 percent in 2001. This is followed by the “inactive,” 14 percent of whom were *extremely* poor in 2015, compared to 32.5 percent in 2001. However, poverty reduced fastest for those who depend on the services sector for their income. The proportion of this group that is *extremely* poor fell from 19 percent in 2001 to 4.5 percent in 2015 (see figure 22b).

Of the unemployed, 40 percent are poor, which is only a somewhat higher proportion than the population as a whole (35 percent); the *extreme* poverty rate is similar for both groups (13 percent and 10 percent). Similarly, the *extreme* poverty rate among those living in a household whose main provider is “inactive” is only somewhat higher (14 percent) than for the entire population (10 percent). The proportion of unemployed and the inactive who are *extremely* poor has come down fast since 2001 (see figure 22b), which could be related to the fast rise in remittances. The unemployed can afford to remain without paid work only if they receive some transfers from family members or others, which in 2007 was the case for two-thirds of the unemployed. Data from

**FIGURE 21.** Municipality Extreme Poverty Rates (proportion of inhabitants that are poor), 2015



Sources: INE 2017b, based on IDRf 2015 survey.

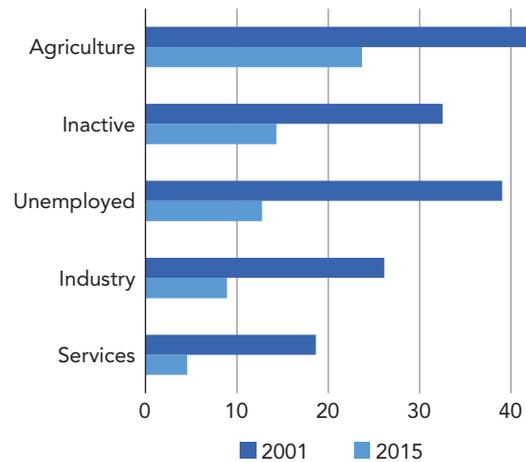
**FIGURE 22A.** Occupational Distribution of Extreme Poverty, 2001 and 2015 (%)

Sources: Calculations based on IDRF 2001 and IDRF 2015 surveys.

the 2010 population census revealed a positive correlation between remittances and unemployment, suggesting that the reservation wage for individuals receiving remittances is higher, and that remittance income allows them to stay unemployed for longer periods.

Poverty also has a gender dimension: 43 percent of the extreme poor live in households where a single mother is the only breadwinner, whereas 29 percent of all Cabo Verdeans do. Many children grow up in situations of *orfão de pai vivo*, an expression used to depict the case in which a child has a living father but receives no support from him. This situation particularly affects children in poor households. As is common elsewhere, the poor often also have lower education levels.

Achieving the World Bank's objective of reducing *extreme poverty*<sup>18</sup> below 3 percent by 2030 is feasible in Cabo Verde. It would require an annual GDP per capita growth rate of around 4 percent. While this may be attainable, in order to eradicate extreme poverty it will be important to ensure that growth adequately benefits the *extreme* poor. This will require providing the *extreme* poor with assets such as human capital by making advanced education more attractive, affordable, and relevant to the labor market. In rural areas—where two-thirds of the extreme poor live—they will need irrigated land and opportunities to participate in value chains of horticulture and livestock production. Providing access to production technologies and markets will be essential to build their resilience. Box 2 presents simulations of various drivers of economic growth to assess their impact on growth and reduce *extreme* poverty in Cabo Verde.

**FIGURE 22B.** Proportion of Each Occupational Group that is Extremely Poor, 2001 and 2015 (%)

## Nonmonetary Poverty

The substantial progress in poverty reduction has been accompanied by even more impressive improvements along nonmonetary poverty indicators (see figure 23a). Many of these show levels that are above those of countries with similar income per capita levels. At 73, life expectancy at birth is the highest in all of SSA, together with Mauritius and the Seychelles. Solid performance has been demonstrated for different health indicators (infant mortality rate, proportion of births attended by skilled health staff—although the prevalence of anemia is relatively high),<sup>19</sup> education (primary school completion), providing piped water to premises and expanding coverage of the electricity network. Access to electricity rose from around 50 percent of households in 1999 to 98 percent today. Only 3.9 percent of children were underweight in 2009.<sup>20</sup>

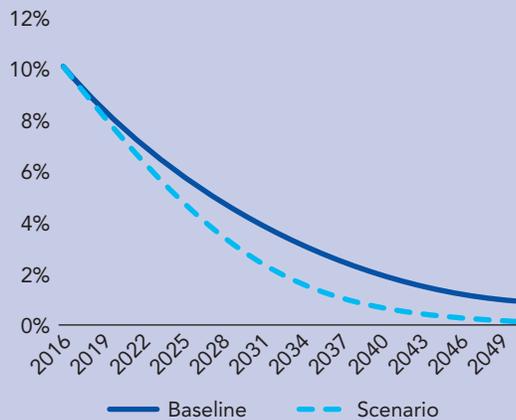
Gender gaps in human capital are minimal and Cabo Verde tops the global gender gap index in the “health and survival” and “school enrollment” dimensions. The fertility rate dropped spectacularly from 5.3 in 1990 to 2.4 children per woman in 2015. Unmet demand for contraception is relatively low (17 percent in 2005) and, as mentioned, maternal mortality is currently also relatively low at 42 per 100,000 live births, below the average of upper-middle-income countries (54) and all of Cabo Verde's aspirational peers. Only 4.4 percent of births were estimated to be unassisted in 2014. The gender parity index of secondary school enrollment has been above 1 since 1990 and is currently 1.12, which implies that drop-out rates are higher for boys than girls. The gender parity index for primary

**BOX 2.** Cabo Verde’s Growth and Poverty Prospects in the Long-Term

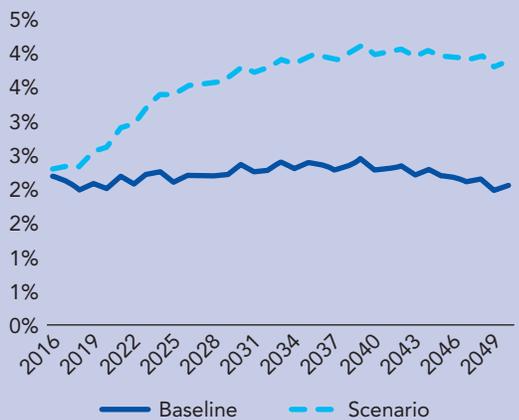
This box present results from simulations of various drivers of economic growth to assess their impact on growth and further reduction of extreme poverty in Cabo Verde. The analysis uses the long-term growth model (LTGM) developed at the World Bank and is based on the celebrated Solow-Swan growth model, but is extended to include human capital, demographics, and other growth drivers that are important in developing countries. In each simulation, investment is assumed to remain at 33 percent of GDP. This is similar to rates maintained in Cabo Verde during the past two decades, despite the global financial crisis and the euro debt crisis. The model also tracks the effect of changes in growth on poverty rates.

A scenario with higher productivity growth and more effective capital investment results in a faster growth and a steeper decline in poverty than envisaged under business-as-usual with almost stagnant productivity growth. In the higher productivity scenario, growth in TFP is allowed to increase from its historical rate of close to zero (as in the baseline), to the average for most small states (1.3 percent). In addition to increasing growth directly, faster productivity growth in the higher productivity scenario also increases the effectiveness of investment by around 20 percent over the forecast horizon, by reducing the capital-to-output ratio. This accelerates per capita growth to around 4 percent (see figure B2), which reduces extreme poverty (at PPP US\$2.90 per day) from 10.5 percent in 2015 to 3 percent in 2030, and close to 0 percent in 2050 (see figure B1).

**FIGURE B1.** Extreme Poverty Rate (%) Under the Baseline Situation and a Scenario of Faster Productivity Growth



**FIGURE B2.** GDP Per Capita Growth Rate (%) Under the Baseline Situation and a Scenario of Faster Productivity Growth



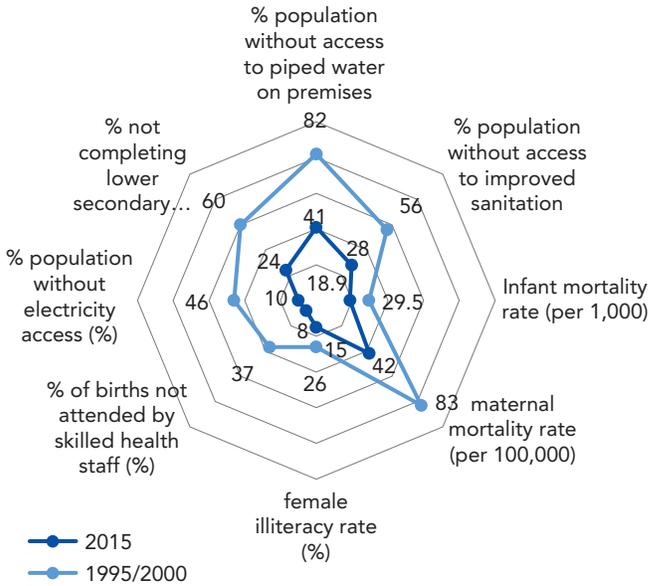
In order to approach the government’s growth target of 7 percent per annum, greater efficiency in capital and an improvement in TFP growth are necessary. It should be stressed that this is an overambitious and unlikely outcome: sustained 7 percent per capita growth is unrealistic, as even under favorable assumptions, simulations using the LTGM can only produce sustained per capita growth of 4 percent (see figure B2). Moreover, these assumptions include maintaining the current high rates of investment, which may be unsustainable given the country’s state of indebtedness.

enrollment has been between 0.95 and 1.0 since 1990 and is presently 0.95. Female literacy is 85 percent, up from 53 percent in 1990.

Cabo Verde is in the global top 30 countries in terms of achievement of the Millennium Development goals (MDGs)<sup>23</sup>. However, progress along the indicators of the Sustainable Development Goals (SDGs) has been uneven so far. The country scores particularly well on SDG 4 (Education) due to relatively high school enrollment and literacy,

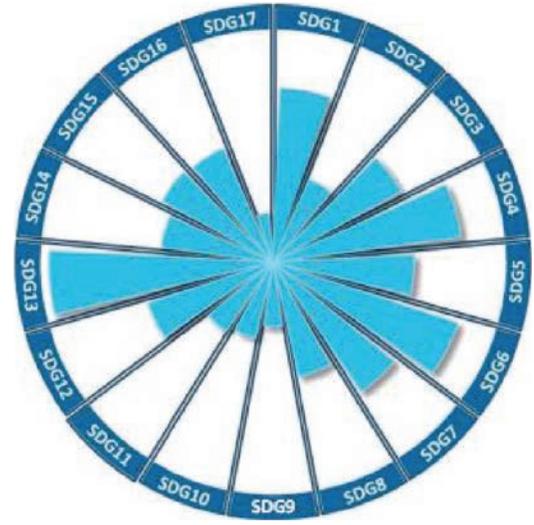
SDG 6 (drinking water; less well on sanitation), SDG 13 (Climate Action, driven by low CO<sub>2</sub> emission) (see figure 23b). To some extent, the country also performs well on SDG 5 (Gender Equality) and SDG 12 (Responsible Consumption, due to good performance on the municipal waste per capita indicator). The country’s greatest challenges in terms of reaching SDG targets are in SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry Innovation and Infrastructure) as expenditures on Research & Development are low, SDG 10 (Reduced Inequalities)<sup>24</sup>, and

**FIGURE 23A.** Progress Along Human Capital and Living Conditions Indicators, 1995/2000–2015

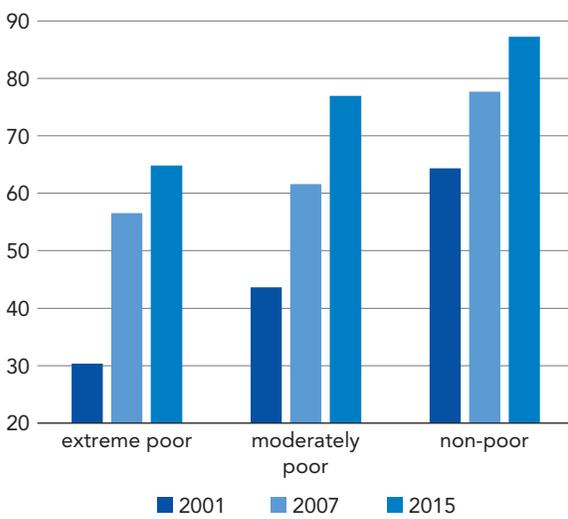


Sources: World Development Indicators and Sachs et al. 2017.

**FIGURE 23B.** Relative SDG Performance (average of indicators of each SDG)

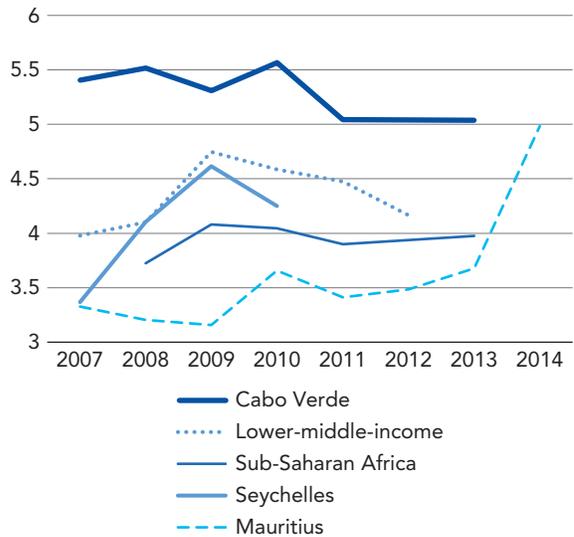


**FIGURE 24A.** Proportion of 19- to 24-Year-Olds with at Least Secondary School (%)



Sources: Based on INE's IDRF 2001, QUIBB 2007, and IDRF 2015 surveys.

**FIGURE 24B.** Government Expenditure on Education (% of GDP)



SDG 11 (Sustainable Cities and Communities). Cabo Verde ranks 96th out of 144 countries along the SDG index.

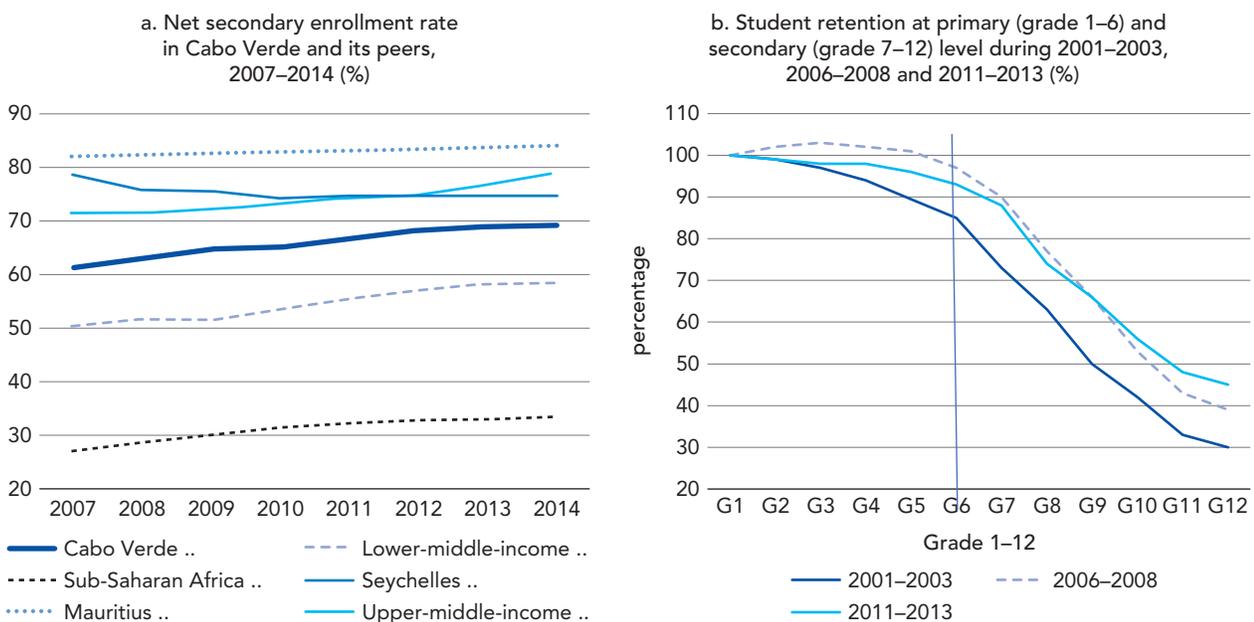
While there has been steady progress in increasing access to improved sanitation facilities, reaching 72 percent of the population in 2015, Cabo Verde lags behind its aspirational peers on this indicator.<sup>25</sup> Moreover, following rapid growth in the number of internal migrants attracted by tourism-related jobs, the main tourist islands, especially Boa Vista but also Sal, have faced difficulties in providing adequate housing and proper water and sanitation services (including treatment of solid residues), in addition to the supply of electricity and an adequate road network.

Gaps in coverage of education services among wealth groups are lower than typical for SSA. Educational attainment improved considerably for the poor during 2001–2015, and the gap with the nonpoor has narrowed substantially, although some differences persist (see figure 24a). The proportion of the extreme poor that have completed secondary education has more than doubled since 2001 and grown from 30 percent in 2001 to 65 percent in 2015. The gap with the nonpoor has reduced from 35 percent to 23 percent, according to INE’s IDRF household survey data (see figure 24a). Cabo Verde’s government expenditure on education as a percentage of GDP has been consistently higher than that of its aspirational peers (see figure 24b), and spending appears to have been progressive, benefitting many of the

extreme poor and moderately poor. A funding program for poor students that subsidizes transport, uniforms, and fees appears to play a role, although the evidence base for that is weak, as these programs are not well monitored. Twelve percent of the student population receives school fee subsidies through funds that are allocated to municipalities using a formula that reflects where needs are greatest. Those are typically large, rural geographic areas with only one or two secondary schools serving the area.<sup>21</sup> Inequality in terms of basic health service coverage also seems to be low.<sup>22</sup>

While primary education is universal, learning outcomes are suboptimal and contribute to relatively high drop out and repetition rates in secondary school. Primary education has been universal for the past 25 years with a primary net enrollment rate of 98–99 percent, which is higher than Cabo Verde’s aspirational peers (it is 95 percent for upper-middle-income countries). However, the *Aferida* national sample-based test conducted in 2010 revealed poor learning outcomes in mathematics and Portuguese for around 40 percent of students in grade 6. The *Aferida* test scores were lower for children from poor families and for those in single-headed households. Although transition rates to secondary school are high (85 percent), inadequate primary school learning appears to have contributed to high levels of repetition and drop outs at lower secondary. The secondary net enrollment was 69 percent in 2014 (see figure 25a), lower than those of its aspirational peers.

**FIGURE 25.** Student Retention and Net Secondary Enrollment



Sources: World Development Indicators and Ministry of Education.

Only 65 percent completed grade 9 and only 44 percent of the relevant age cohort completed grade 12 in 2013 (see figure 25b). The quality of teaching is likely to be affected by the fact that 23 percent of teachers in secondary school are without a degree<sup>26</sup>—*nao licenciados*<sup>27</sup>—a figure that differs substantially across schools, which would imply unequal opportunities for children to learn. In addition, there is little systematic tracking of learning outcomes and no standardized national tests exist, making it hard to take timely corrective action when schools or classes underperform.

Many students leave school without sufficient skills to meet the needs of a competitive services sector, and entrepreneurs state that the inability to obtain adequately trained personnel is an important constraint for them (see figures 32a and 39a).<sup>28</sup> Unemployment among school leavers is high and returns to secondary education and to university education have dropped significantly over time, according to data from the IDRF 2001 and the IDRF 2015 household surveys. In 2015, the consumption expenditure of those with a secondary education was 3.4 percent higher than those without, everything else remaining the same. This was 9.5 percent in 2001. For university education, these figures were 23 percent in 2015 compared to 29 percent in 2001.

Technical and vocational education and training (TVET) has a low coverage and accounts for just 5 percent of secondary level enrollment. The current TVET is characterized by a dispersed offering of professional and technical trainings and does not constitute a true system that is well articulated and meets job market demands. Higher education has limited relevance for the labor market, with 70 percent of university students enrolling in humanities and social sciences, 20 percent in sciences and engineering programs, and 10 percent in life, environment, and health sciences programs. In 2016, 21 percent of those with post-secondary education were unemployed, compared to 17.3 percent in 2012.<sup>29</sup> An additional 13.5 percent were inactive.<sup>30</sup> Even though the proportion of Cabo Verdean students seeking higher education abroad decreased from 8 percent in 2005 to 4 percent in 2013, around 0.5 percent of the population leaves the country annually, many of whom will be qualified workers.

Gross enrollment rates at the tertiary level are at 22 percent, above aspirational peers such as the Maldives (16 percent) and the Seychelles (14 percent), but lower than Mauritius (37 percent). Tertiary enrollment has been increasing in recent years, reflecting a lower number of young individuals

departing Cabo Verde to pursue education abroad, as well as the emergence of new tertiary education institutions. A closer look at enrollment patterns reveals that the poorest quintile accounts for only 9 percent of tertiary enrollment, while individuals from the highest quintile account for 31 percent. While this is a more equal distribution than in many other countries, it suggests that opportunities to obtain a tertiary education are not equal for all Cabo Verdeans.

Cabo Verde has suffered from a “brain drain,” but some research suggests that massive emigration from Cabo Verde also has significantly encouraged the accumulation of human capital in the country. The prospect of obtaining a qualified job abroad can also be an incentive and raise the returns on getting an education. Batista and others, for example, find that an increase in the probability of someone’s future migration by 10 percentage points raises the average probability of completing intermediate secondary schooling by nearly 4 percentage points.<sup>31</sup> Moreover, emigrants comprise an important group of investors in the country.<sup>32</sup> A proportion of them invest in Cabo Verde when they return to the country after having worked abroad, using their savings as their main source of finance. This also contributes to the build-up of foreign reserves and job creation.

Health indicators for Cabo Verde are among the best in SSA, but several concerns around the public health system remain. MDG 4, which focused on reducing child mortality, and MDG 5, which focused on improving maternal health, were both achieved. However, a recent report by the World Health Organization (WHO) on specific risk-prone populations suggests that the country is facing a concentrated HIV epidemic, even if national overall infection levels remain below 1 percent.<sup>33</sup> In 2009–2010, Cabo Verde faced a dengue epidemic for the first time, and in October 2015 a Zika virus outbreak was declared. The vulnerability of the country concerning vector-borne diseases is a major public health concern and a challenge for health security.<sup>34</sup> It also impacts the tourism industry. Total health expenditure as a percentage of GDP was 4.8 percent in 2014, which is above the figure for the Seychelles but similar to Mauritius’s and the average for lower-middle-income countries. It is below the mean of upper-middle-income countries (6.2 percent). Out-of-pocket expenditures comprise 22 percent of total health expenditures, which is much more than the Seychelles but much less than Mauritius and the average for upper-middle-income countries.

The country is moving toward an epidemiological transition and is facing the double burden of communicable (41 percent of all deaths) and noncommunicable diseases (46 percent).<sup>35</sup> Infectious diseases coexist with noncommunicable and chronic diseases, which are linked to lifestyles and deeply marked by social and gender issues. The leading causes of premature death in 2010 (in terms of years of life lost, YLLs) were cerebrovascular disease, HIV/AIDS, and ischemic heart disease. Three risk factors accounted mostly for the disease burden: high blood pressure, dietary risks, and child and maternal malnutrition. The leading risk factors for children under 5 and for adults aged 15–49 were suboptimal breastfeeding and occupational risks, respectively.<sup>36</sup> Additionally, the country is struggling to fight alcoholism, a complex social and public health problem.<sup>37</sup> The health system is traditionally oriented toward maternal and child health and medical and hospital care, and will need to strengthen extension work and basic attention across people’s life cycle, while making the health promotion components more robust, in order to stimulate healthy behavior and lifestyles.<sup>38</sup> In addition to stress-related illnesses, emerging concerns include substance abuse and mental health issues, especially young men’s, and violence and its impact on young people’s mortality.

**Gender-based violence is prevalent, but the stigmatization of victims has decreased.** In 2005, one in five women in Cabo Verde reported to have experienced intimate partner violence, and in 2015 gender-based violence formed about one-quarter of all crimes reported to the police.<sup>39</sup> It is the second most common crime against individuals. However, Cabo Verde has developed an increasingly comprehensive legal framework to address gender-based violence,<sup>40</sup> and police forces have created specialized offices to receive complaints. In addition, civil society initiatives have raised awareness of the problem. All these elements are probably behind a significant increase in the number of official complaints reported to the police.

## Governance

Cabo Verde has been described as a model of good governance, political rights, and civil liberties in Africa, representing a fundamental pillar of the country’s development progress.<sup>41</sup> Political openness, initiated in the 1990s, heralded political stability, respect for majority rule, and the building of institutions to maintain the rule of law. Since the first elections in 1991, Cabo Verde has had three peaceful government transitions. Cabo Verde’s leaders have always

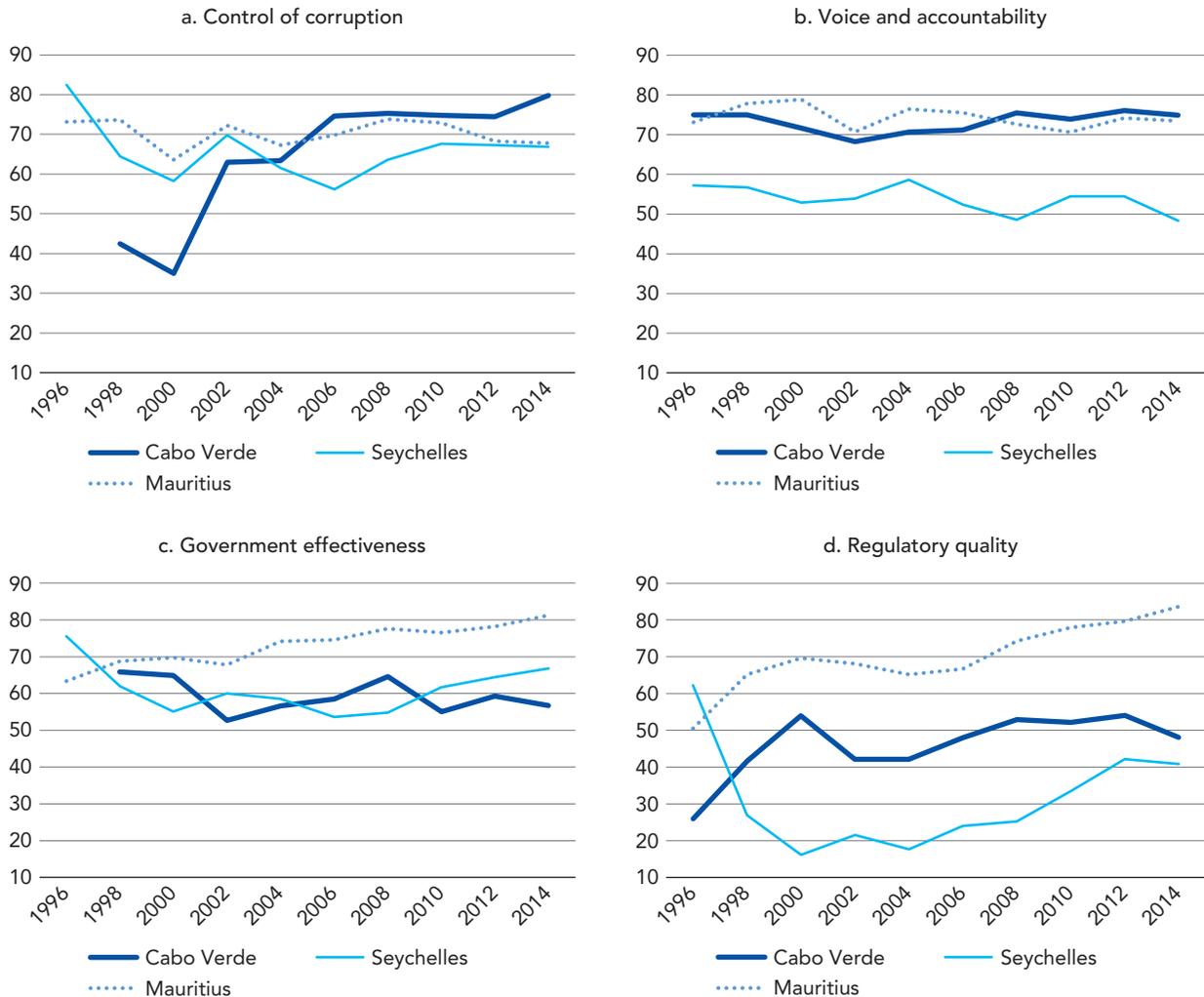
emphasized the importance of public participation in major policy decisions, ensuring adequate representation from each of the islands.<sup>42</sup> The transition to a pluralistic democratic state has been successful at the political level, and decentralization has created a vibrant local democracy.

**The country consistently performs better than the benchmark for lower-middle-income countries with respect to key dimensions of governance.** For four out of the six World Governance Indicators (WGIs), Cabo Verde even scores higher than upper-middle-income countries, including its aspirational peers Mauritius and the Seychelles. In 2015, the country ranked 3rd out of 54 states in the Ibrahim Governance in Africa Index,<sup>43</sup> behind Mauritius and Botswana. The integrity of Cabo Verde’s institutions is unmatched in West Africa. Cabo Verde’s Polity IV score—which reflects qualities of governing institutions<sup>44</sup>—is 10, which is higher than South Africa’s (9) and matches African star performer Mauritius (10).

**Cabo Verde is relatively free of corruption.** On Transparency International’s Corruption Perceptions Index (2016), Cabo Verde ranks second in SSA behind Botswana. On the WGIs, Cabo Verde ranks in the 79th percentile on Control of Corruption, relative to the SSA average of 30th, and well above the average rank of 50th for upper-middle-income countries. It also scores above Mauritius and the Seychelles (see figure 26a). It is close to the OECD average ranking of 85. There is no law providing immunity from prosecution to top ranking officials (political appointees or civil servants) and suspected corruption is closely scrutinized. Top government officials are required to disclose income and assets and are not immune from being prosecuted under the law for malfeasance. Furthermore, rules on conflict of interest are observed and enforced. It is worth mentioning though that the perception of corruption in the country has gone up in recent years. While in 2002–2003 only 5.6 percent of the population thought that *all* or *most* politicians are involved in corruption, this had risen to 15.3 percent of the population in 2013–2014. During this period the proportion of the population that thought that *some* politicians are involved in corruption rose from 27 to 39.5 percent. These percentages are highest among younger age groups.

**Free and fair elections, at the national and local level, and democratic transitions of government are the norm.** According to Freedom House, Cabo Verde is classified as “free” both on their “Freedom of the World” and “Freedom of the Press” surveys, attesting that the country serves as a model for political rights and civil liberties in Africa.

**FIGURE 26.** Trends of Four Governance Indicators for Cabo Verde and Its Aspirational Peers (percentile ranking among all countries, 100 = best)



Source: World Governance Indicators.

Its scores along the WGIs for voice and accountability are above those for the Seychelles and similar to Mauritius (see figure 26b).

However, the country underperforms along the governance dimensions of “government effectiveness” as it receives a relatively low WGI for this criterion. Cabo Verde appears to be relatively weak in designing and implementing reforms (see figure 26c). The quality of policy formulation and implementation, the credibility of the government’s commitment to such policies, as well as the management of public investment has deteriorated over time, reducing the government’s effectiveness. This is also corroborated by the progressive weakening in Cabo Verde’s Country Policy and Institutional Assessment (CPIA) scores since 2008.<sup>45</sup>

The overall CPIA score has decreased by 0.5 points, with significant deteriorations in most areas, with exception of structural policies.

Cabo Verde also scores relatively low on indicators that relate to policies and regulations for promoting private sector development. Along this latter criterion (“regulatory quality”) the country is consistently situated below the 50th percentile in WGI rankings, much lower than its rankings along other governance dimensions (see figure 26d). In recent years, the government has adopted several reform measures<sup>46</sup> to accelerate the country’s competitiveness and create a more enabling environment for the domestic private sector. These indicators include advances in time and procedures to start a business and registering property, backed by progress in

the use of ICT and digital platforms, in addition to the harmonization of public service front offices. However, reforms have been slow and much remains to be done.

**Despite political stability and successive development plans emphasizing the need to create space for greater private sector participation, the state remains dominant in most sectors of the economy.** While SIDS typically have a relatively large public sector, Cabo Verde's public sector footprint in the economy is larger than its aspirational peers, and has increased over the past decade with the reacquisition of select utility firms that were privatized in early 2000s. The state is the largest employer in Cabo Verde, and the benefits provided to public sector employees are regressive and costly.<sup>47</sup> The wage bill, at 32 percent of expenditures and 43 percent of revenues, is relatively large, even when compared with other small island states or other countries with small populations. Central government expenditures make up a third of GDP. The dominance of the state in economic activities has been a key impediment to private sector development and access to finance, as banks choose to lend to larger SOEs. Private sector credit contributed only around 0.15 percentage points to growth post-2008.

**The SOEs that are essential to the delivery of public services are beset by weak corporate governance.** There are 32 SOEs in Cabo Verde that cover services such as electricity, water, transport, postal services, and real estate. The five largest enterprises account for 80 percent of state-owned capital and hold assets equivalent to 36 percent of GDP. While the authorities have introduced legislative<sup>48</sup> and institutional changes to strengthen the role of the government in SOE management, significant weaknesses remain. Monitoring and reporting remains sporadic, and there is a lack of compliance with current laws and performance agreements.

**The country is also confronted by weaknesses in the public financial management (PFM) system, which undermines government effectiveness.** A joint World Bank/IMF public financial management assessment carried out in 2013 found that the lack of an overall strategic vision for PFM reforms and poor coordination has in many cases led to partial reforms and rather modest results from an ambitious reform program. The 2016 PEFA assessment confirmed these findings, highlighting: (1) limited progress in commitment controls—i.e., the lack of a system to control, record, and report outstanding financial commitments; and (2) long delays in the preparation of government accounts and external audit reports, as well as subsequent delays in parliamentary discussions, has compromised their use for

holding the authorities accountable for public resource use. A World Bank assessment of the Public Investment Management System (PIMS) in Cabo Verde found significant weaknesses in the preparation, screening, selection, implementation support, and monitoring of public investments.<sup>49</sup> As a result, the expected returns on several large investment projects have not materialized. The involvement of civil society in holding the government accountable for delivery of results is relatively weak.

**Some Cabo Verdean sociologists have suggested that the governance paradox—of having strong democratic institutions, rule of law, and control of corruption, yet relatively low government effectiveness, weak civic engagement, and poor private sector development policies—is the pervasiveness of the bipartisan political system that has paralyzed civil society and pressure groups.**<sup>50</sup> Some argue that leaders and other members of civil society organizations—including private sector interest groups—usually have been “coopted” by either one of the two political parties that dominate the political system. In that role, civil society becomes “servile” to those parties and their vested interests, and either vigorously defends the position of the party in government, or join the univocal critical voice of the opposition. It leads to polarization and undermines civil society's ability to lobby for the cause of their interest group in a politically neutral manner.

**Civil society organizations are used or taken over by political parties leading to civic weariness against a pervasive state,**<sup>51</sup> instead of enhancing the quality of democracy, promoting debate, and demanding accountability. This has led to a form of clientelism in which political loyalty is demanded from civil society organizations in exchange for various favors, such as the prospect of obtaining public sector jobs. The main political parties appear to not allow much space for open and free internal debate or criticism, making it difficult to change the policy positions of those parties from within.

**The inability of civil society interest groups to open up debates around government shortcomings is an important constraint.** Their failure to adequately represent the interests of the domestic private sector and influence decision-makers is likely to be one of the reasons for the relatively poor investment climate. It probably has also contributed to the low efficiency of public investment, as owners of small- and medium-sized businesses are not sufficiently consulted on the design and use of these investments. The relatively small population where family networks run across interest groups also plays a role.

## Manifestations of a Development Model That Needs Adjustment

Despite remarkable achievements, a number of challenges have emerged that suggest the country's traditional development model no longer functions adequately and exposes the country to substantial risk. Growth in GNI per capita has stalled<sup>52</sup> and the country's traditional drivers of growth, the tourism sector, in combination with FDI and public investment in infrastructure, have run out of steam (see also appendix C). In addition, there is a mismatch between aspirations and opportunities for excluded groups such as unemployed youth and women with children. Cabo Verde has entered a dangerous fiscal trajectory and its exposure to trade volatility is high. At this juncture, it is clear that a shift in Cabo Verde's development model is needed.

### THE TOURISM SECTOR IS NO LONGER A STRONG DRIVER OF GROWTH

A deeper look at the tourism sector reveals several challenges that affect the prospects of sustained inclusive growth in the coming years. The sector is poorly diversified in terms of products, operators, and geography. The country is overwhelmingly sold as a “sun, sea, and sand” destination, anchored around a few international brands, and depending on a handful of tour operators for tourism inflows (notably, as mentioned, a very dominant and vertically integrated foreign group, TUI). As indicated above, two of the nine inhabited islands claim an 80 percent market share. As a result, local small and micro enterprises (which comprise 92 percent of the 9,400 firms in Cabo Verde) are not sufficiently participating in tourism services or involved in tourism supply chains. Over-reliance on a few international hotel chains for tourism also exposes the economy to substantial risks.

Spillover effects of the dominant all-inclusive type of tourism toward the rest of the economy are too low. In Cabo Verde, all the larger accommodation establishments are foreign-owned, and therefore many of the profits are sent abroad. Surveys of large all-inclusive resorts indicate that currently, average discretionary spending is only €7 to €13 per tourist per day. Typically, only between one-third and one-half of this spending takes place outside the hotel. Moreover, as noted, even though labor is predominantly provided by nationals (an estimated 87 percent overall), management positions are still dominated by foreigners. The weak link to the rest of the economy is partly caused by

the lack of scale that characterizes small island economies like Cabo Verde, which may also have a dampening effect on the benefits of FDI by limiting the positive spillover effects resulting from interaction between foreign and domestic firms.

**Large resort hotels import most of their food and beverage needs.**<sup>53</sup> Hotels import an annual total of €26 million in fish and fresh fruit and vegetables, and only an estimated 20 percent of fish and 10–12 percent of fruits and vegetables are sourced domestically. Hotel operators attribute this to the national agricultural and fisheries supply chains' lack of production volume and reliability, in addition to a lack of accepted international food handling and safety certifications. Connectivity is likely another reason. Despite substantial public investment in transport-related infrastructure in recent years, inter-island logistical services remain unaffordable for many and are often unreliable, representing a significant constraint for the integration of local markets. All this lowers the national marginal earnings of each additional tourist who visits Cabo Verde.

The 2015 rankings compiled by the Travel & Tourism Competitiveness Report of the World Economic Forum (WEF) illustrate the difficulties Cabo Verde faces in terms of its tourism sector's competitiveness. Although relatively well ranked in the SSA region (6th), the country is positioned 86th out of a total of 141 countries. The sub-criteria on health and hygiene (96th), ICT readiness (90th), natural resources (138th), and cultural resources and business travel (137th) are the most problematic. Comparable small island countries like the Seychelles, Mauritius, or Barbados fare considerably better on their overall ranking: 54th, 56th, and 46th, respectively.

### A GROWING GROUP OF EXCLUDED GROUPS LACK OPPORTUNITY

The high unemployment rate, especially among the youth, women, and in Praia potentially undermines social cohesion and leads to behavioral problems among young people. In 2016, 41 percent of 15- to 24-year-olds were unemployed, and among the latter group in Praia this was 63 percent. In 2016, around four-fifths of the unemployed lived in urban areas.<sup>54</sup> Overall, unemployment rates for women (17 percent) are higher than for men (13 percent). The unemployed are relatively well educated and unemployment rates are highest among those with secondary education (21 percent) followed by those with post-secondary education (12 percent). As noted earlier, the unemployed are on average not much poorer than the rest of the population,

as they can afford to be unemployed. However, lack of participation of the labor market can lead to feelings of social exclusion and not belonging to mainstream society, and that their lives don't matter.

**The lure of urban gangs to poorly schooled youngsters competes with school attendance, and juvenile criminality is growing.** According to the 2009 enterprise survey conducted in Cabo Verde, 62 percent of firms identified crime as a major constraint (see figure 27). In 2017, the UK issued a safety warning for visitors to Cabo Verde.<sup>55</sup> Persistent lack of opportunity and high unemployment among youth are likely to be behind this, which lead to feelings of frustration and subsequent behavioral problems. In 2016, robberies, burglaries, and break-ins in Praia increased by 285 percent over 2015, with 3,289 reported cases, according to police records. Young people commit more than 75 percent of crimes in Praia, and in 2012 almost 90 percent of the jailed population in Praia was under 23 years old. A recent study among youth in Praia revealed that a quarter of all 12- to 21-year-olds had committed at least one violent crime.<sup>56</sup> In 2014–2015, 33 percent of inhabitants of Praia reported that they always felt unsafe when walking in their neighborhood, up from 15 percent in 2011–2013 (see figure 28).

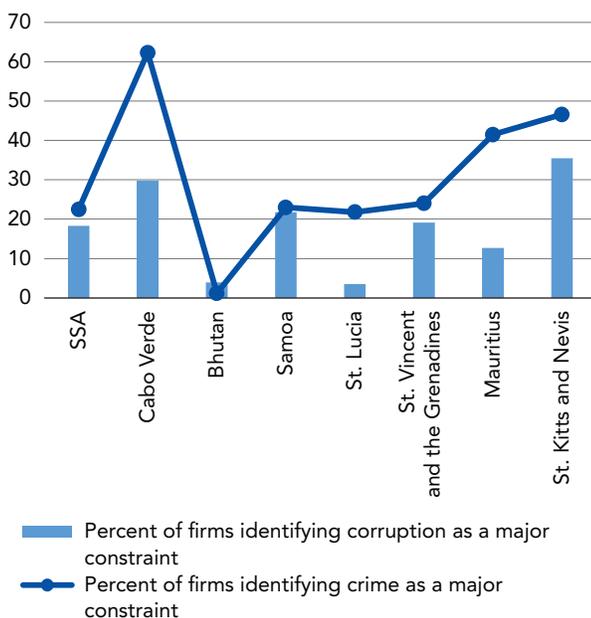
Loose family ties also contribute to school drop out and youth gang violence. A quarter of the working age population

(15+ years old) live in a household led by a single female, and various studies demonstrate that these youths' weak links to their father contributes to their behavioral problems, especially young males.<sup>57</sup> Single parenting is also associated with lower learning outcomes.<sup>58</sup> While teenage pregnancies have dropped over the past 20 years, they still comprise around 20 percent of all pregnancies in Cabo Verde<sup>59</sup> and are an important cause of the persistence of single female-headed households. Teenage mothers are not allowed to attend school after they have given birth.

**There is some evidence that discontent and dissatisfaction are rising.** This is especially the case among the population in the interior of Santiago Island and among the youth in Praia. For example, in 2014–2015, 49 percent of the latter group believed the country was heading in the wrong direction, which is more than double the proportion in 2011–2012, when only 23 percent supported this statement.<sup>60</sup> Rising unemployment, especially among the youth in Praia, as well as perceptions that economic opportunities are not equally available for everyone, are likely to fuel these sentiments.

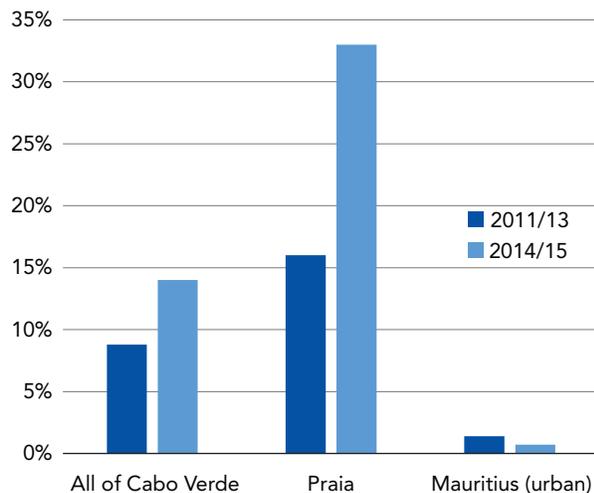
Existing gender norms grant women almost exclusive responsibility for domestic chores, children's education, and family care, restricting their participation in the labor market and severely reducing their agency.<sup>61</sup> A time use survey conducted in 2012 by INE showed that on average, women

**FIGURE 27.** Proportion of Firms Identifying Crime as a Major Constraint (%) In 2009



Sources: WBG Enterprise Surveys and Afrobarometer.

**FIGURE 28.** Proportion of the Population Always Feeling Unsafe when Walking in Their Neighborhood, 2011–2013 and 2014–2015



spent 3.5 hours more per day than men on unpaid work. Available evidence suggests that this plays an important role in explaining many women's late entry into the labor force. This increases the likelihood of informality and job vulnerability. The proportion of women that are employed (conduct paid work) is lower than men (48 vs. 61 percent in 2016), even if disparities in human capital are minor,<sup>62</sup> and girls currently perform better in schools than boys. This difference is especially pronounced in rural areas, where only 42 percent of women are involved in economic activities compared to 59 percent of men.

**Differences in human capital play only a minor role in explaining women's lower probability of being employed.<sup>63</sup> Most of the difference can be explained by discriminatory factors and lack of affordable child care services.** Even if women's rights are well anchored in the law and most Cabo Verdeans support equal rights,<sup>64</sup> these discriminatory norms undermine the ability of women to participate more fully in the labor market and raise the welfare of their family.<sup>65</sup> Although Cabo Verde performs well on other gender indicators, it ranks only 115th on "economic participation and opportunity for women" in the global gender gap index. Few employers provide child care services, including the large foreign-owned hotels.

**Poorer population groups face the highest unpaid workloads, limiting the time they have available to do productive work, improve their skills, or look for employment, which creates a poverty trap.<sup>66</sup>** As mentioned, households headed by single females face consistently larger poverty rates compared to male-headed ones. As mentioned, in 2015, 29 percent of people lived in a household headed by a single female breadwinner while they comprised 37 percent of the poor and 42 percent of the extreme poor.

**Of equal concern is the presence of poor excluded groups in rural areas that lack access to productive assets and are also affected by the insufficient coordination of rural production and weak logistical and marketing arrangements.** Women are particularly affected, e.g., through unclear land rights in irrigated areas. The poorly coordinated value chains of agricultural and fisheries are partly due to lack of effective support strategies to access high value markets (such as the tourist market) and development of these value chains, e.g., through better coordination of stakeholders, improvement of logistics (including cold chains), and better maintenance of quality standards. Lastly, weak monitoring of the performance of programs targeted to the poor prevent an assessment of their effectiveness and are a barrier for

strengthening programs that aim to build the asset base of the poorest groups. The IFAD/GoCV Rural Poverty Reduction Programme is a case in point.<sup>67</sup> While this program funded substantial rural infrastructure investments and is likely to have had an impact on poverty reduction, concrete information on achievements and impact is unavailable due to lack of monitoring.

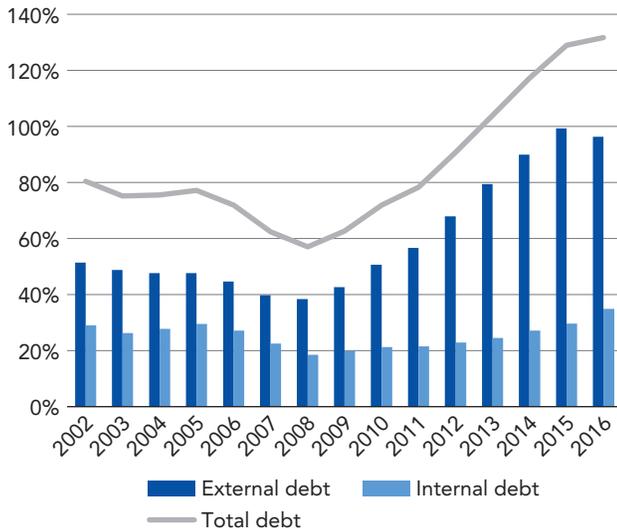
## **FISCAL SPACE IS CONSTRAINED AND EXPOSURE TO TRADE VOLATILITY IS HIGH**

**The authorities are facing elevated pressures on public sector finances due to weak fiscal discipline.** Fiscal consolidation and growth resulted in a fall in debt leading up to 2008. However, Cabo Verde's debt has increased sharply since the global financial crisis in 2008, partly because of a significant increase in debt-financed public investments as part of the government's countercyclical response. Since the crisis, Cabo Verde's debt increased by close to 70 percentage points to 130 percent of GDP in 2016 (see figures 29a and 29b). Except for 2014–2016, when adverse exchange rate movements accounted for an increase of approximately 25 percentage points in the debt stock, the evolution of the country's debt has been intricately tied to the performance of primary deficits. The slowdown in growth has also not favored the country's debt dynamics.

**Cabo Verde is highly exposed to trade volatility.** Its export structure is concentrated mostly in tourism and depends on a small number of European countries. This exposes the country to terms of trade shocks or other shocks that impact economic activities in the euro area. During the 2008–2009 global financial crisis, the country suffered from a fall in tourism receipts and FDI. Similarly, the Ebola pandemic crisis in West Africa of 2014 and 2015 reduced tourism receipts by 1.7 percentage points as a percentage of GDP (see figure 30). The country is also heavily reliant on food imports. While the country boasts a reserve coverage of six months of prospective imports, this could be depleted easily in the face of a protracted terms of trade shock.

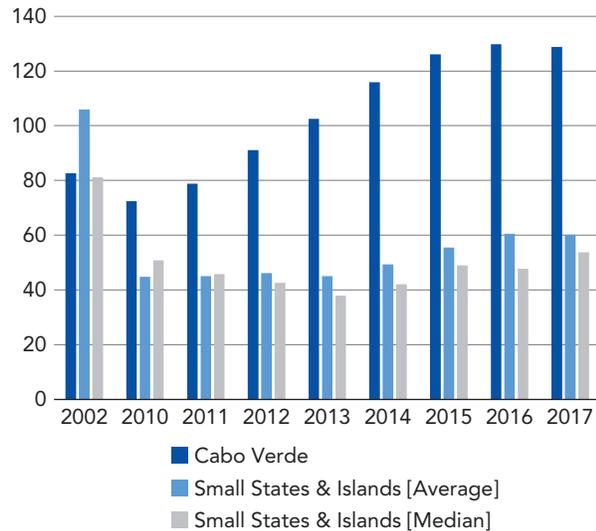
**Drop in tourism receipts have a significant effect on household welfare, according to an empirical exercise using a computable general equilibrium model for Cabo Verde.** It simulated a drop in tourism receipts per traveler, from its current level of US\$800 per arrival to US\$720. The impact on GDP was a reduction of 3.3 percent in 2030. Household welfare was negatively affected (–7.8 percent) but the impact was felt more drastically by the richest decile (–8.5 percent)

**FIGURE 29A.** Total Debt has Increased Sharply (% of GDP)

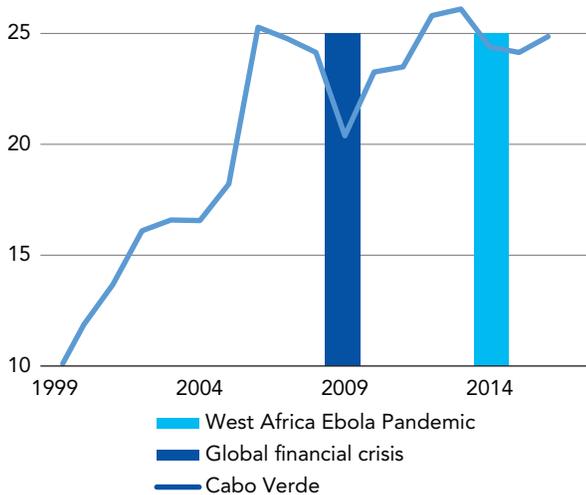


Sources: MoF and World Bank 2018.

**FIGURE 29B.** Cabo Verde's Debt is More than Twice the Average for Small States and SSA (% of GDP)



**FIGURE 30.** Tourism Receipts in Cabo Verde (% of GDP)



Source: World Development Indicators.

than households in the bottom 40 percent of the income distribution (-7.6 percent). This is not surprising, since the more skilled and better-off tend to be employed in the more dynamic and export-oriented sectors of the economy.

**NOTES**

1. See INE 2015.
2. The government's Economic Transformation Strategy of 2003 and successive Growth and Poverty Reduction Strategy Papers (GPRSPs) have consistently identified seven clusters to be prioritized: (1) tourism;

- (2) air transportation; (3) maritime economy, including port transport and fisheries; (4) financial services; (5) ICT; (6) agriculture; and (7) local products and services.
3. Sal and Boa Vista have seen a combined 3 percent increase in their population to 7.1 percent of the total population between 2000 and 2010, partly associated with internal migration of people attracted by tourist-related jobs.
4. OECD and WTO 2013.
5. Capital stock is calculated using the "perpetual inventory method," following the procedure in Hall and Jones (1999). Annual capital stock is estimated based on information on gross fixed capital formation (GFCF) and depreciation rate of capital, where initial capital stock was estimated using data on initial GFCF, "steady-state" growth rate of output and rate of depreciation of capital. Average rate of depreciation of the capital stock was set equal to 4.7 percent per year based on data from the Penn World Tables.
6. Subsectoral data on employment is not available prior to 2010. However, employment information from the 2000 census is used in the analysis to provide an overall picture.
7. These sectors are relatively small and highly specialized. The analysis considers the following main sectors: agriculture (including fishing, hunting, forestry, mining, and quarrying), manufacturing, public utilities (electricity and water), construction, commerce (comprising wholesale and retail trade, and hotels and restaurants), transport and communications (hereafter referred to as "transport"), finance, and "other services" (including public administration, education, health, real estate, renting and business activities, and community, social, and personal services).
8. Appendix C examines the link between Cabo Verde's economic growth and its fundamental determinants in further detail to understand turning points (including the sharp downturn after the 2008 crisis) in the country's growth experience.
9. This is similar to work done by Hausmann, Pritchett, and Rodrik (2005); Jones and Olken (2008); and Gebregziabher (2015); they identify episodes of sustained shifts in growth rates and examine explanations for such transitions.
10. Although rural investments appeared to have stimulated rural poverty reduction.
11. Flyvbjerg 2009.
12. This puts Cabo Verde in the global top 6 in terms of annualized growth in mean per capita income of the bottom 40 percent, together with China, Mongolia, Paraguay, Bolivia, and Bhutan (Poverty and Data Portal).
13. Extreme poverty, using PPP US\$1.90 per day, halved between 2001 and 2007 (from 16 to 8 percent in 2007). The 2015 IDRF household

- expenditure survey suggests the extreme poverty rate based on PPP US\$1.90 per day is already below 3 percent (the benchmark for eradication). However, there is some uncertainty around the 2011 PPP for Cabo Verde. We therefore propose using the national definition of extreme poverty for poverty projections in this SCD.
14. In 2007, GNI per capita grew by 23 percent, as the 2007 household survey was conducted that year.
  15. Between 2004 and 2015, the number of farms that used irrigation increased by 21 percent and the number of irrigated plots by 18 percent, according to the agricultural censuses.
  16. Regression analysis shows that, on average, households for whom remittances are the main income source have per capita expenditure levels that are 18 percent higher than other households, keeping other household characteristics the same.
  17. The average elasticity of extreme poverty reduction in SSA has typically been between 0.8 and 1.1. See Ram 2013.
  18. Using a national extreme poverty line of PPP US\$2.90 per person per day.
  19. Anemia prevalence in 2011 was 61 percent among children younger than five, which is close to the average for SSA, higher than its structural peers (other lower-middle-income countries). No recent data for malnutrition are available.
  20. The latest official data are from 1994, when 7 percent of children younger than five were underweight (wasted) and 21 percent were stunted. The 2015 MDG report for Cabo Verde puts the proportion of underweight children in 2009 at 3.9 percent (Ministério das Finanças e Planeamento 2015). An official survey-based estimate will be available from the IDRF 2015 survey data and the DHS 2018 survey.
  21. Longenecker and Barnum 2017.
  22. Ministry of Health data from 2015 suggest that 90 percent of all children below 1 year had received all required vaccinations. However, in some municipalities this figure is much lower: Ribeira Grande de Santiago (47 percent), S. Salvador do Mundo–Santiago (69 percent), Sal (75 percent), and S. Domingos–Santiago (79 percent) (INE 2016, table 3.10.).
  23. A full assessment of the MDGs was prevented by lack of data.
  24. Based on evidence before the IDRF 2015 became available, which suggested inequality has come down.
  25. Mauritius, the Seychelles, Maldives, and Saint Lucia all have figures above 90 percent.
  26. World Development Indicators.
  27. Atchoaréna, Da Graça, and Marquez 2008.
  28. World Economic Forum 2015a.
  29. INE 2015.
  30. According to data from the 2013 IMC survey (UNICEF 2015).
  31. Batista, Lacuesta, and Vicente 2012.
  32. For example, emigrants hold 17 percent of investors' licenses in the tourism sector.
  33. Modeled estimate.
  34. Inforpress 2017.
  35. WHO 2016.
  36. Complemented by injuries (13 percent).
  37. Institute for Health Metric and Evaluation 2012.
  38. WHO 2016.
  39. Ministry of Health 2015.
  40. Personnel communication, police department, Praia.
  41. ICIEG 2014.
  42. Freedom House 2011.
  43. AfDB 2012.
  44. Pedro Verona Pires, a former president of Cabo Verde, won the US\$5 million Mo Abraham African governance award in 2011.
  45. See the Center for Systemic Peace for more on polity scores, database, and annual reports.
  46. See World Bank Group 2017.
  47. E.g. *mudar para competir*, the Investment Law, and REMPE (Regime Especial das Micro e Pequenas Empresas) aims to improve the business environment for SMEs.
  48. World Bank 2013a.
  49. The legal framework for SOEs was strengthened in early 2016 to provide clearer guidance and limits on SOE debt, among others, and reporting responsibilities of SOEs to the state have been expanded beyond standard financial reporting to include detailed information on company corporate governance.
  50. See World Bank 2013a.
  51. Costa 2013.
  52. Costa 2013.
  53. Even if GDP per capita has picked up somewhat in recent years.
  54. World Bank 2013c.
  55. INE 2017a.
  56. Santos 2017.
  57. Dias 2015.
  58. Alves 2014.
  59. UNICEF 2013.
  60. INE 2016, table 60.
  61. Afrobarometer R5 2011/13 and R6 2014/15.
  62. According to a survey (INE 2013) on family practices, in 80 percent of the families the primary caregiver was the mother, followed by 10 percent where it was the grandmother, 6 percent where it was another family member, 3 percent where it was both parents, and 1 percent where it was the father.
  63. Some difference in work experience exists, but plays a minor role.
  64. According to decomposition analysis using the 2010 census data; see World Bank 2013a.
  65. For example, more than 90 percent of Cabo Verdeans believe that women should have the same chance to be elected to political office as men (Afrobarometer 2015).
  66. Marone 2016.
  67. Marone 2016.
  68. Ministério da Juventude 2013.



## Key Constraints

*The previous chapter presented Cabo Verde's past achievements in terms of economic growth, the reduction of monetary and nonmonetary poverty, and the development of institutions for good governance. It concluded that achievements in all these areas have been impressive. However, it also noted the slowdown in growth the country has witnessed since 2009, and the emergence of excluded groups which, in combination with high public debt, exposes the country to substantial risk. It concluded that the country's development model is in need of adjustment.*

*This chapter presents a set of underlying constraints that are causing Cabo Verde's current challenges. It starts by presenting an analytical framework that identifies three drivers of poverty reduction: raising economic growth, strengthening social inclusion, and improving resilience. These have guided the analysis of binding constraints for realizing Cabo Verde's opportunities. The chapter subsequently presents the 11 constraints that have emerged from the analysis.*

### Analytical Framework

The key constraints for realizing Cabo Verde's potential were assessed using an analytical framework that identifies three drivers of progress toward reducing poverty and raising shared prosperity. Poverty is defined here by low levels of consumption and sustainable solutions to poverty that require lifting the budget constraint of extremely poor households through income growth and increasing the stability of household income. Shared prosperity refers to raising the consumption levels of the bottom 40 percent. Three drivers or pillars for sustaining poverty reduction and further enhancing shared prosperity are identified: (1) raising economic growth and creating jobs; (2) strengthening social inclusion; and (3) improving resilience (see figure 31).

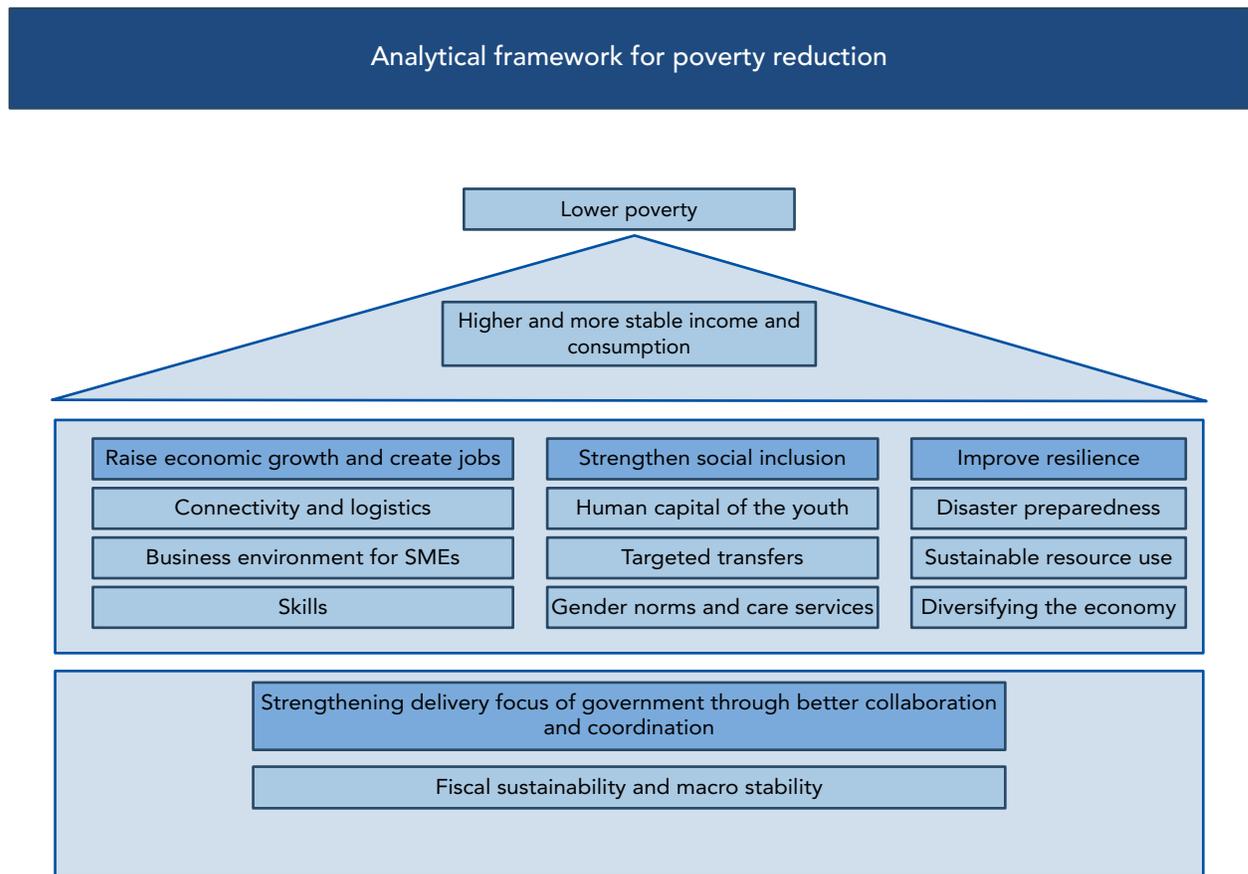
Economic growth will be essential to completing Cabo Verde's path toward achieving upper-middle-income country status, boosting household incomes, and achieving

the World Bank's twin goals. Key constraints here can be grouped under connectivity, logistical services/trading infrastructure, the broader investment climate, and the skills of its workforce. Second, social inclusion requires that all population groups—including low-income groups, marginalized youngsters, and excluded women—benefit from development. This necessitates tackling constraints related to improving their human capital, strengthening targeted transfer to build their assets, and addressing the needs of households in which a single mother is the only breadwinner. Third, to improve resilience of the economy and households, macroeconomic stability is needed, as well as sustainable resource use and a diversified economy. Realizing economic growth, social inclusion, and building resilience all require strengthening the functioning and delivery focus of government, including improving collaboration across government agencies and with the private sector. These tasks cut across the three pillars, together with the need to tackle the high public debt to maintain macroeconomic stability.

The approach adopted in this SCD—to identify the most important constraints that prevent Cabo Verde from realizing its opportunities—relies on the systematic benchmarking of key performance indicators against the country's aspirational peers. In addition, a review of existing studies, expert interviews, and an analysis of available data were used to assess the impact that removing these constraints would have on the twin goals. The views of World Bank staff experts were used to further prioritize and fine-tune the list of top 11 constraints. The constraints are grouped under five broad categories: lack of human capital, weak connectivity, risks to macroeconomic stability, underperformance of the public sector, and lack of resilience.

### Human Capital Constraints

Improving human capital will be of vital importance for realizing Cabo Verde's pathways for economic prosperity, sustaining poverty reduction, and tackling social exclusion. The following specific constraints are identified.

**FIGURE 31.** Analytical Framework for Poverty Reduction

### RELATIVELY HIGH SECONDARY SCHOOL DROP-OUT RATES

Although higher than most other African countries, secondary completion rates are below those of Cabo Verde's aspirational peers. This is despite primary education being universal and the existence of relatively high transition rates to secondary school (85 percent). The percentage of repeaters in lower secondary is high (23 percent), while the survival rate to the last grade of lower secondary is only 77 percent, close to 8 percentage points lower than international standards. Reasons for not completing secondary school include (1) inadequate primary school learning; (2) inadequate curriculum and low quality of educational services that insufficiently motivate adolescent learners; (3) absence of fathers and lack of affordable care services, which lead to lack of adult supervision of children; (4) lack of opportunities for pregnant teenagers/teenage mothers to stay in school; (5) lack of household resources to pay for schooling (including transport); and (6) lack of job prospects for school leavers, undermining motivation. Further research is needed to confirm that these are indeed the

most important reasons that children do not complete secondary school.

Teenage pregnancies are relatively high,<sup>1</sup> limiting many young women's ability to complete their secondary education and prepare for the labor market. As mentioned, teenage girls who are pregnant or have given birth are not allowed to continue secondary school, which undermines their ability to build their human capital and find decent work. A recent analysis of service delivery in Health Centers (2015)<sup>2</sup> shows that services targeting teenagers and young people are underused. Constraints associated with low demand include poor adaptation of physical space and service delivery, as well as the confidentiality issues and the overall approach. The method continues to focus on pregnancy and prevention of sexually transmitted infections, instead of more positive and holistic approaches.

### LACK OF SKILLS

Inadequate qualification of the workforce is a major constraint for business: 40 percent of firms identified this as a

**major constraint** (see figure 32a). The quality of the labor force, especially in job applicants' core skills (mathematics, sciences, and language training), in addition to misalignment between education supply and the needs of the current and prospective labor market, are priority constraints that need to be addressed going forward. Many students who complete school do not possess sufficient skills to meet the needs of a competitive services sector. Efforts to address this deficiency have not yielded sufficient results. Notably, technical and vocational education and training (TVET) has low coverage and accounts only for 5 percent of secondary level enrollment. It is not well integrated into the education system and does not meet job market demands. A better articulation between general and TVET course diversity and supply is especially important in this context.

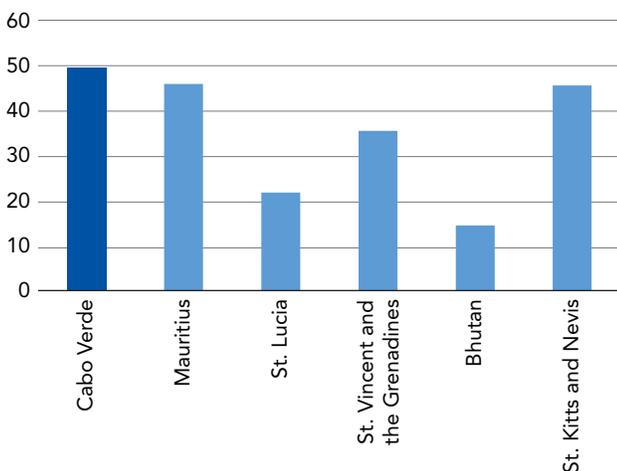
There are no standards of quality that are recognized and enforced throughout the system, and substantial difficulties exist in the teaching of core subjects (mathematics and Portuguese). This was also seen in the University of Cabo Verde access tests for 2013, with poor performance in areas such as mathematics, physics, and chemistry (with average scores of 4 out of 20) and in Portuguese (average scores of 6 out of 20). The institutional coordination between all actors at several levels is lacking, and TVET education supply suffers from low diversification, with a focus on civil construction and tourism services. This has translated into an unsatisfactory supply of workers to the job market, often misaligned with the concrete needs of Cabo Verdean businesses. Higher education has limited relevance for the

labor market, with 70 percent of university students enrolling in humanities and social sciences. Greater hiring and redundancy flexibility through the amended Labor Code also constitutes a key pillar to enhance competitiveness of the formal job market.

The quality of education service delivery varies across schools and there are large disparities in the amount of resources a school receives. The national student-teacher ratio is 17.8, but varies from 7 to 25 per school. It is estimated that 23 percent of teachers at the secondary level do not have the equivalent of a bachelor's degree but this proportion varies from 11 to 75 percent across schools, which suggests a high variation in learning conditions for students. Most urban secondary schools are well equipped in terms of library, offices, canteen, and sport facilities, but rural schools are reportedly less well foreseen.

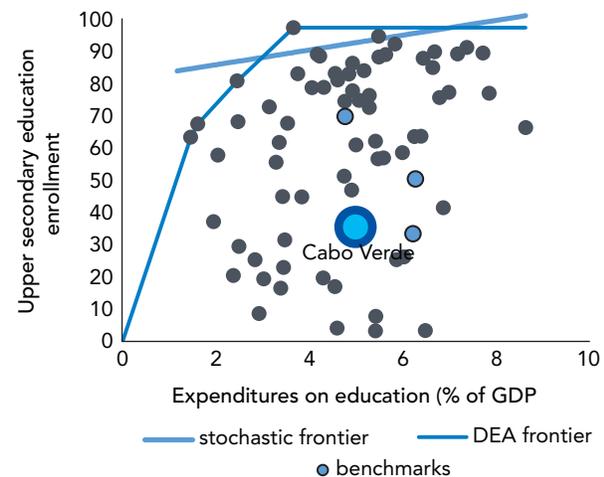
Secondary school students are expected to pay tuition fees according to their family income and grade level. The most underprivileged students (11 percent) receive free education. 90 percent of the collected fees remain at the school level while 10 percent go to the central administration and decentralised agencies. This negatively impacts equity, since schools that enroll disadvantaged populations have fewer resources and there is no compensation from the state. Education outcomes relative to the amount spent are lower than most other countries, in particular for secondary education (see figure 32b). Cabo Verde's education system could also benefit from increasing resources for pedagogical improvement.

**FIGURE 32A.** Percent of Firms Identifying an Inadequately Educated Workforce as a Major Constraint (%)



Sources: WBG Enterprise Surveys and World Development Indicators.  
Note: Data Envelop Analysis (DEA) is used for nonparametric estimation of efficiency frontiers.

**FIGURE 32B.** Education Efficiency Frontier of Countries, Latest Value Available (Cabo Verde is the big dot in red)



**Weak linkages between education and work and the absence of apprenticeships prevents students from acquiring adequate skill sets that meet the needs of a service economy.** In addition, the education system does not sufficiently strengthen entrepreneurial capacity and few students can create their own employment following their graduation. Cabo Verde hotel and tourism schools are unable to address all the needs of the tourism industry, especially for basic hotel services such as waiting tables, housekeeping, and small repairs. Moreover, as mentioned, many of these schools are unaffordable for low-income households. The Cabo Verde government is currently undertaking various measures to address the shortcomings mentioned above.

**Increases in educational attainment would boost GDP with overall progressive distributional consequences, as suggested by a global general equilibrium model.**<sup>3</sup> For the case of Cabo Verde, the distributional aspects of this policy remain to be seen, as they would largely depend on who can get access to the upper secondary and tertiary education systems. If access to higher levels of education continues to be largely determined by income status, then the overall effects, while remaining positive on the aggregate, can still be less advantageous for the poor.

**Discriminatory social norms against women leave them with a disproportionate share of domestic and child caring duties, and prevent them from realizing their full potential,** contributing to the economy, or improving their living conditions. Analysis suggests that closing the gender gap in labor market participation could increase GDP by as much as 12 percent.<sup>4</sup> Without addressing this constraint, reducing extreme poverty for the 42 percent of the *extreme* poor children that live in a household that is headed by a single female breadwinner will be hard to achieve.

## Connectivity Constraints

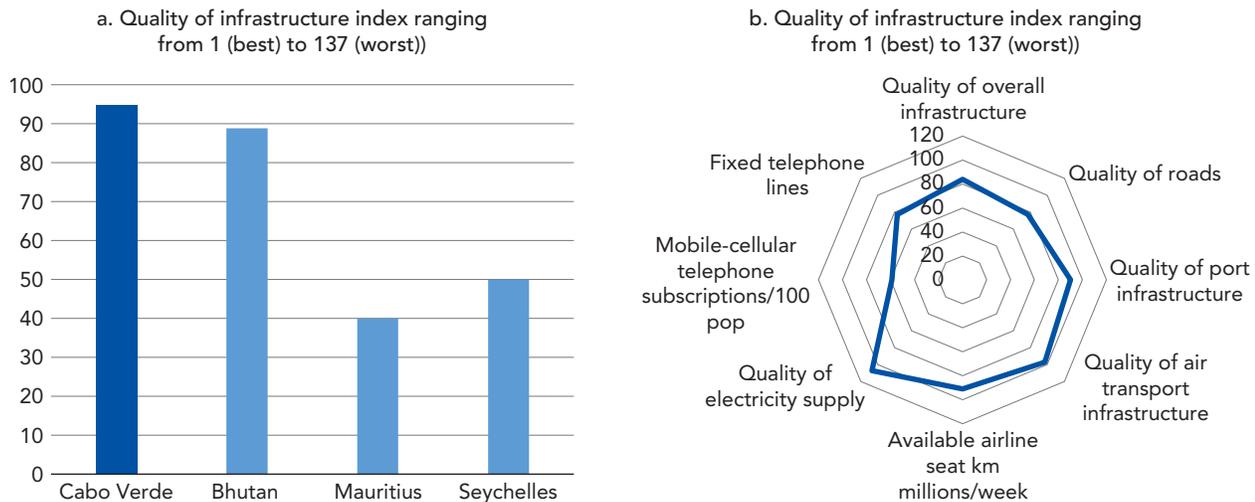
**As an archipelago consisting of nine inhabited islands that are dispersed and surrounded by rough seas, connectivity is an important constraint for unlocking Cabo Verde's potential.** It is essential for all three pillars of poverty reduction and shared prosperity presented above: strengthening economic growth, addressing social inclusion, and building resilience. Improving transport, ICT, and electricity services is needed to integrate the domestic market for goods and labor and to enable rural products and workers from across the archipelago to better tap into the tourism industry. While the diversification of the tourism sector offers important

opportunities for progress, this will not be possible without strengthening connectivity. Improving transport, ICT, and electricity provision also holds important promise for strengthening the quality of education and health care, a more efficient service delivery, and rapid monitoring of outcomes.

### LACK OF RELIABLE INTER-ISLAND TRANSPORT

**The country's peculiar economic geography poses enormous challenges from the standpoint of infrastructure development.** The fragmented territory requires that key infrastructure such as roads, energy, and ports are duplicated, magnifying build-up and maintenance costs. Despite improvements following large investment during the past 15 years, the overall supply and quality of the infrastructure network remains unsatisfactory, below that of Cabo Verde's peers, and possibly limiting returns on investment by the private sector (see figure 33a). The 2017 Global Competitiveness Index ranks an inadequate infrastructure as the 5th major problematic factor for the country; the Doing Business assessment for Cabo Verde points to similar issues. The country ranks 95th out of 137 countries along the quality of infrastructure index, and many of its sub-scores are between 80 and 100, except for mobile phone subscriptions. Costs of inter-island maritime transport are high, eroding the competitive advantage of local horticultural, dairy, and fishery products and interrupting their supply chains. Diversifying tourism requires efficient and reliable inter-island transport services. A key constraint is insufficient government capacity to regulate the sector and develop and manage transport concessions. Cabo Verde also scores relatively low on the quality of electricity supply (see figure 33b), which is partly due to inadequate planning and management of the sector.

**The road network is dense in relation to the regional average, but high maintenance costs threaten the connectivity of rural and isolated communities.** Cabo Verde has invested heavily in the current road network, which consists of approximately 1,350 kilometers of road spread among its nine inhabited islands. There are currently 334 km/1,000 km<sup>2</sup>—compared to 81.5 km/1,000 km<sup>2</sup> for Africa, as a whole—consisting of major roads, secondary roads, and municipal roads and tracks. The World Bank estimates that the value of the country's base road infrastructure is approximately US\$535 million (over 31 percent of GDP). This ration of road value to GDP is moderately high when compared to the African average (25 percent). However,

**FIGURE 33.** Global Competitiveness Report, 2017–2018: Quality of Infrastructure Indicators

Source: World Economic Forum 2017.

Note: The scores are ranked on a scale from 1 (best outcome) to 137 (worst outcome).

given its unique geographical conformation (steep slopes and unstable and crumbly terrain conducive to landslides and rock falls), the current road network has high maintenance costs and does not have the capacity to tolerate large volumes of traffic. Rural communities are particularly susceptible. Additionally, the drainage structures are currently inadequate to cater for heavy rainfall.<sup>5</sup>

To meet the government's objective to transform Cabo Verde into an international logistic hub, it will be essential to address structural deficiencies in existing maritime infrastructure. Despite significant achievements, the quality of inter-island sea transport is not meeting the requirements for a dynamic service economy.<sup>6</sup> Deficiencies include (1) an aging cargo ship and passenger ferry infrastructure; (2) an inadequate port infrastructure; and (3) a weak logistics and limited inter-modal infrastructure network. While the government has privatized inter-island shipping, the maritime fleet remains partially obsolete and has not adapted to inter-island traffic, providing insufficient and unreliable services. This has kept the costs of inter-island maritime transport high, eroding the competitive advantage of local niche market products, including horticultural products across the various islands, which constitutes a key barrier to greater integration of the domestic economy. Diversifying tourism away from Cabo Verde's sea, sun, and sand destinations (Sal and Boa Vista) requires efficient and reliable inter-island transport services to other islands such as Fogo, Santo Antão, and Sao Vicente. The 2017 Global Competitiveness Index gives

Cabo Verde's quality of port infrastructure (see figure 33b) a score of 90, which is above (and thus worse than) peers such as Mauritius (65) and the Seychelles (53).

Cabo Verde is heavily dependent on air service for its domestic and international transportation. The country's domestic air transport market appears large relative to its West African neighbors due to the use of air travel to interconnect the archipelago. Cabo Verde makes very intensive use of air transport, with 2.4 seats available per capita, compared to 0.2 seats in Senegal.<sup>7</sup> The country boasts four international airports and three aerodromes, but the status of aviation services is unsatisfactory.

The national airline company TACV has been a significant burden on the budget, with recurring financial support from government. In addition, the airline is saddled with about €90 million in debt, most of it short term, while assets are worth less than €5 million. The airline is overstaffed and its fixed costs are excessive. Poor management decisions have repeatedly failed to address these weaknesses. Repeated consultancy assessments have concluded that the company has no real future as an independent entity, and that it will likely continue to pose a major drain on government revenue. Binter Airlines (from the Canary Islands) started operating on domestic routes in 2016, replacing TACV. In parallel, the authorities have been looking for private sector investors to take over TACV's international business.

Overhaul of the governance of key sectors such as sea and air transport will be key to overcoming the currently unreliable and expensive inter-island transport. Government concessions for inter-island maritime transport services need to make sure there is adequate risk-sharing between the private and public sector, and that the concession is fair and balanced. This would reduce transaction costs for domestic products, service supply chains, and catalyze the creation of a dynamic national marketplace. The pursuit of public-private partnerships to explore more opportunities and heighten efficiency in infrastructure services—as exemplified by the success of the wind-power production company Caboeólica—remains an avenue with high potential.

### INADEQUATE ICT INFRASTRUCTURE

A well-functioning ICT sector is essential for realizing Cabo Verde’s ambition to become a services hub. It comprises a focus area of its new Strategic Plan for Sustainable Development (PEDS by its Portuguese acronym), 2017–2021. A well-functioning ICT sector will be crucial for Cabo Verde to improve government service delivery, including education and health, make transport logistics more efficient, and offer value-added services to their tourism sector. Access to the Internet and digital technologies can provide substantial “digital dividends,” that is, the broader development benefits from using these technologies. In many instances, digital technologies have boosted growth, expanded opportunities, and improved service delivery. It is important to ensure that impacts are evenly distributed across population groups.<sup>8</sup>

Broadband Internet access is widespread and has benefited from recent reform, but available bandwidth per Internet user is relatively low in Cabo Verde (17,000 bits per second),<sup>9</sup> which is about half the amount available

to users in the Seychelles or Mauritius. Cabo Verde currently ranks 4th in Africa, just behind its aspirational peers Mauritius and the Seychelles (see table 2), and 97th globally along the ICT development index. Cabo Verde was among the first nations in SSA to connect to a submarine cable when it linked to the Atlantis-2 cable in 2000, but capacity is now insufficient. Cabo Verde stands out for its relatively cheap entry plan that offers theoretical speeds of 12 Mbit/s and includes 5 GB of data. Handset-based mobile broadband is also relatively cheap. Consequently, mobile broadband subscriptions are relatively common (73 per 100 inhabitants, while for the Seychelles this is 19 percent and Mauritius 37 percent). However, only 43 percent of the population uses the Internet (compared to 50–58 percent for Mauritius and the Seychelles, respectively) and only 27 percent of households have access to the Internet at home (compared to 60 percent in both the Seychelles and Mauritius).<sup>10</sup>

However, there are problems with the access and quality of ICT infrastructure, and regulation is weak. A key difficulty in Cabo Verde is the sustainability of competition in the ICT sector, due to weak enforcement of the regulatory regime and a regulator that is insufficiently reactive to anticompetitive practices. The current concession contract for the management, maintenance, and commercialization of the Public Infrastructure Network may need to be amended to strengthen the competitiveness of the country’s telecommunications sector. 3G Internet access is currently provided by two mobile operators. The firm currently in charge of operating the Public Infrastructure Network—Cabo Verde Telecom—also engages in retailing ICT services. This provides it with an economic incentive to discriminate against competing providers of retail services, especially by leveraging market power.

**TABLE 2.** Access and Use Indicators in Selected Countries in Africa

	Mobile-cellular subscriptions per 100 inhabitants	Active mobile broadband subscriptions per 100 inhabitants	Percentage of individuals using the Internet
Mauritius	140.6	37.0	50.1
Seychelles	158.1	19.1	58.1
South Africa	159.3	59.5	51.9
<b>Cabo Verde</b>	<b>127.2</b>	<b>72.9</b>	<b>43.0</b>
Côte Ivoire	119.3	40.4	21.0
Senegal	99.9	26.4	21.7
Nigeria	82.2	21.0	47.4
Kenya	80.7	15.5	45.6

Source: ITU 2016.

A separation of these two powers would seem logical to provide opportunity for market participants to compete, which is important for innovation.

**ICT sector governance would need to be revisited in order to clarify the role and responsibilities of the actors in the sector.** There is a need for the government to update the national strategy for the digital economy (“Digital Cabo Verde”) that establishes clearer policy orientations to promote competition and establish an improved governance model for the ICT sector. The strategy would commit the government to the principles of deepening the liberalization of the Internet broadband sector in line with international best practices, and would also create an umbrella governance body for the ICT sector that gathers both public and private stakeholders, whose role would be to make recommendations to the government regarding key sector issues, including on the implementation of the strategy in all its dimensions.

**The development of e-governance has been a priority for the government since 2003, but meaningful impact has yet to be realized.** The aim is to develop software for export, especially in electronic and integrated governance. Efforts are led by the state agency for the information society (NOSI). However, in 2016 Cabo Verde still only ranked 103rd globally on the United Nations E-Government Index, and, despite progress, its ICT infrastructure continues to lag behind its aspirational peers. Currently the challenge is whether the private sector has the capacity to compete in a sustainable manner, once innovation in the sector has been introduced, mainly by NOSI. There are few skilled workers in the sector and much work remains in cultivating the conditions for the development of a culture of innovation that helps entrepreneurs formulate and develop ideas and projects.

## **WEAK MANAGEMENT OF THE POWER SECTOR**

**Access to electricity has nearly doubled, from 50 percent in 2000 to 95 percent today; recent investments have started to contribute to a marked improvement in the quality of electricity services,** reflected by a significant decrease in interruptions of services. For instance, in Praia, the average length of interruption dropped from an average of 39 hours per year in 2011 to less than 5 hours per year in 2016. Some, mostly low-income, households in remote rural areas are not connected to the grid.

**Energy and desalination costs for drinking water are one of the highest in Africa.** They are US\$0.25-0.33 per kWh

and US\$3.16 per m<sup>3</sup>, respectively, for residential use.<sup>11</sup> High costs are caused by small isolated systems (every island has its own independent network unable to apply economies of scale), high distribution, and transmission losses of 25 percent (a high level by regional standards—for SSA it is 12 percent), and dependency on imported fossil fuels for electricity generation (around 80 percent). In Santiago, island losses reached 38 percent in 2016 (from 32 percent in 2015). This is mainly due to very high losses in Praia, where energy theft is rampant, despite recently approved legislation criminalizing it.

**ELECTRA’s very weak commercial performance is undermining the utility’s ability to maintain the grid, which will have impacts in the medium term.** Systematic planning of investments is needed in all segments of the electricity supply chain to respond to demand, ensure sufficient quality and reliability, and develop least-cost electricity generation. An efficient and well-functioning power sector will be crucial for lowering the costs of power to improve the business climate and making power and drinking and irrigation water more affordable for poor households.

**The high commercial losses also reflect weak capacity to monitor consumption and payments at the level of the electricity consumers.** ELECTRA’s retained earnings were at a negative US\$76 million in 2016, resulting in negative equity. In addition, ELECTRA holds the largest stock of government guaranteed debt, although it has not needed any guarantees or any other form of government support since 2013. Another area of concern is the large stock of current liabilities (approximately US\$55 million, as of the end of 2016) and outstanding receivables (approximately US\$30 million as of the end of 2016), but public sector arrears have decreased remarkably (from US\$19 million in 2012 to US\$4 million in 2016). Until 2015, a performance agreement between ELECTRA and the government established financial and operational targets. However, ELECTRA has been unable to meet commercial targets, and the government has not enforced “penalties” for it. The new current government terminated the performance contract in 2016 to update new targets, but it has not yet been concluded. In 2017, the government decided to privatize ELECTRA and has set up a path to implement a series of measures—revenue protection program, regulatory accounting, market sounding, etc.—conducive to privatization by the end of 2019.

**Cabo Verde’s grid-connected power generation is mainly based on fossil fuels, but the government aims to obtain 50 percent renewable energy penetration by 2020.** The

policy commitment to renewable energy has already been translated into significant utility-scale renewable generation investments. Renewable generation went from less than 2 percent of the utility's generation mix in 2010 to about 22 percent in 2014, mainly due to the first major wind power investment in Africa to be developed and operated privately by an independent power producer. Nevertheless, increasing renewable energy in the energy mix in Cabo Verde remains constrained by the lack of scale, the need for procedures for renewable energy to access the grid, support distributed generation, and the government's insufficient capacity to launch and supervise renewable energy independent power producer transactions. There is a lack of strategy for the development of an energy efficiency program in Cabo Verde, which could contribute to reducing peak demand and lowering the need for additional installed capacity.

## Risks to Macroeconomic Stability

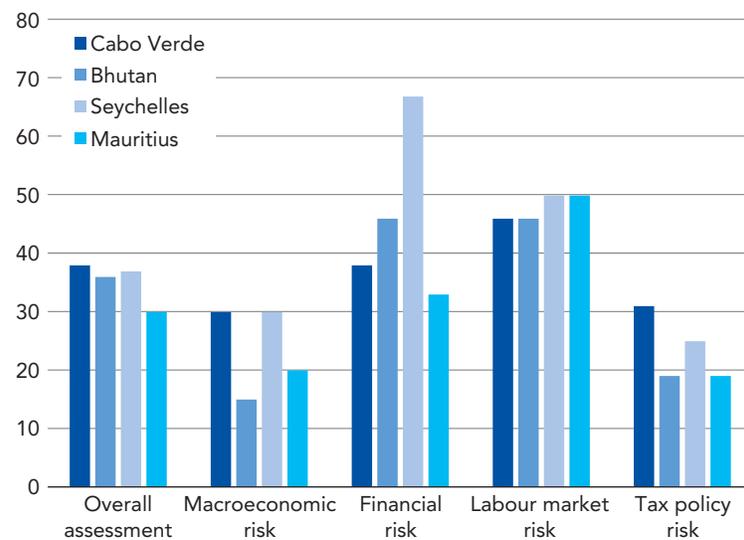
Cabo Verde is at high risk of debt distress constraining government spending and its ability to respond to shocks. The country's exposure to adverse economic shocks is substantial, even when compared to other SIDS. With a public debt of approximately 127 percent of GDP, Cabo

Verde is among the most indebted countries on the continent. Progress on debt management reforms has also been slow, despite broad agreement that this is crucial. Like many SIDS, the country has an open and undiversified economy and narrow export market, which exposes it to economic volatility and undermines its resilience to terms of trade shocks.

### HIGH DEBT

Cabo Verde's public debt has continued to increase despite fiscal consolidation in recent years, limiting fiscal space for development spending. Although there has been an uptick in growth since 2016, and the primary deficit, which averaged 8.5 percent of GDP between 2009 and 2016 has been decreasing gradually since 2013, Cabo Verde's overall macroeconomic risk is higher than that of Mauritius and about equal to the Seychelles (see figure 34a, second set of four columns). Public debt remains elevated and the risk of distress is high (see figure 34b). This represents a major constraint to the country's existing development model, which requires significant capital investment by the state. Given the level of indebtedness and sustainability challenges, the authorities have sought to contain the situation by rationalizing their investment pipeline.

**FIGURE 34A.** Risk Indicators

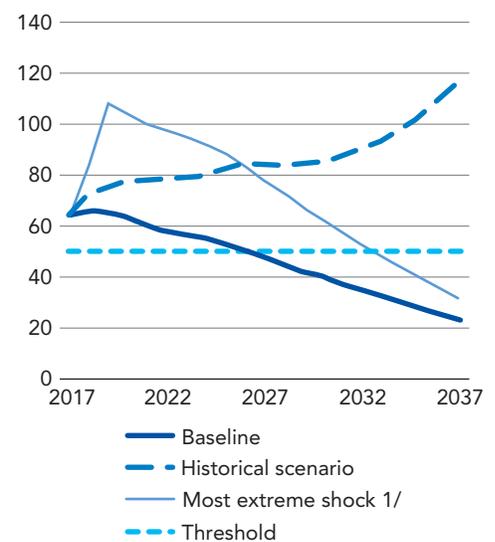


Sources: IMF and WBG calculations.

Note figure 34a: The risk index runs from 0 (zero risk) to 100 (maximum risk).

Note figure 34b: "Extreme shock" refers to the most extreme stress test that includes a shock to GDP and the exchange rate. This case builds on the assumption of a 30 percent depreciation on the exchange rate. The "baseline" forecasts refer to a business-as-usual case without reform. The "historical" scenario looks at fiscal performance over history.

**FIGURE 34B.** Present Value of Debt-to-GDP Ratio



**While Cabo Verde's debt is overwhelmingly concessional, which has kept debt service low, weaknesses in fiscal and debt management practices cause sustainability concerns.** Over 75 percent of Cabo Verde's debt is external, with multilateral institutions accounting for approximately 50 percent. Bilateral and commercial loans (mostly from Portugal) are semi-concessional, with original maturities of 20 years and interest rates between 1.4 percent and 1.7 percent.

**Cabo Verde's domestic debt portfolio is mainly comprised of Treasury Bonds, which has helped keep the debt service-to-export ratio just below 10 percent. However, the level of debt has created much uncertainty about the economy's prospects.** This undermines FDI, and will most likely raise the cost of credit in the economy. The situation has become precarious, as the government has been repeatedly and unexpectedly called upon to cover operational expenses of insolvent SOEs from the budget.<sup>12</sup> In 2016, this support approximated 2 percent of GDP. The problem is further compounded by weaknesses in existing debt management practices. The authorities have been preparing a basic medium-term debt management strategy but have stopped short of preparing an annual borrowing plan to assist in its implementation and monitoring. There is also room for improvement in making public debt reporting more risk-oriented and focused on compliance with the strategy.

**Macroeconomic risks are mounting, requiring prudent fiscal management to avert a crisis.** Given existing debt levels and significant risks in the SOEs sector, there is an urgent need to stem the debt generation process. The performance of SOEs vary, but, on aggregate, the SOE portfolio has been loss-making, with some entities requiring assistance from the budget, undermining the already fragile fiscal situation. At the end of 2016, the total debt stock for the three largest SOEs reached 34 percent of GDP (US\$550 million), with the largest debt held by the social housing, electricity, and airline companies. The national airline (TACV) is the most critical risk in the short term, given that it poses the largest burden on the budget and continues to need financial support from government. The latest report on contingent liabilities from the Ministry of Finance (2016) classifies debts held by TACV as high risk given its operational and financial performance and profitability prospects in the short to medium. Other SOEs have also requested direct support from the authorities to deal with their cash flow problems.<sup>13</sup> Persistent losses for some of these entities are covered by financial transfers, guarantees, and/or accumulating arrears with providers. In some cases, they are also allowed to contract debt without guarantees. Therefore, the

effective contingent liabilities generated are much higher than the SOE debt officially guaranteed by the state. The government simply does not have the capacity to continue bailing out loss-making SOEs, and urgently needs to put in place measures to improve their operational and financial performance to reduce their fiscal burden.

**The authorities have published plans to divest interest in 23 SOEs to reduce fiscal risk and control public sector balances while furthering greater private sector participation in the economy.** The list of entities announced in 2017 includes TACV, the electricity and telecommunications companies, ports, and others. Many of these entities have been in the pipeline for privatization for decades, while others are added or dropped depending on the political party in power, suggesting limited political consensus on what services the heavily indebted state should provide.

**Restoring fiscal sustainability requires overall macro-economic and fiscal discipline, complemented by efforts to bolster technical and operational efficiency in government spending.** Reducing debt levels implies a smaller fiscal envelope, which suggests that growth-enhancing fiscal policies will not come from higher public investment levels, but mainly from expenditure reallocations and public service delivery. Additionally, falling development assistance must be offset by increased efficiency in revenue collections. However, the authorities have been slow to implement measures, which involve expenditure reallocations and improving efforts to boost efficiency in public service delivery, including in energy, transport, and education.

**A debt sustainability assessment (DSA) carried out for this SCD finds that even under baseline conditions gross public debt is excessive, breaching acceptable thresholds.<sup>14</sup>** The baseline macro framework for the DSA is based on the government's Medium-Term Fiscal Framework (MTFF) for 2018–2022, which assumes growth of 4 percent for 2018–2022. The baseline also assumes an average fiscal deficit above 6 percent, reflecting the MTFF for expenditure plans and projection of revenue in line with current policies.<sup>15</sup> Under this scenario, the present value of external debt to GDP breaches the 50 percent threshold by a significant margin and is expected to gradually decrease to below 50 percent by 2027 (see figure 34b). Debt service indicators, however, remain below the threshold throughout. The present value of total public debt exceeds the 74 percent benchmark and remains above it throughout the projection period. The expansion of public debt is most pronounced under the scenario, which keeps real

growth and the primary balance at historical averages. However, a primary balance as high as that over the past decade seems unlikely, given that the primary balance over 2005–2014 reflects a temporarily high level of public investment. Debt sustainability remains sensitive to exports and depreciation shock.

**Public debt sustainability is also vulnerable to contingent liabilities associated with the debt of SOEs.** At the end of 2016, SOE-related contingent liabilities amounted to 7 percent of GDP. Should the financial situation of the SOEs deteriorate such that the central government would have to take on all this debt and respect the existing rule of limiting domestic financing to 3 percent of GDP, debt sustainability would be further jeopardized.

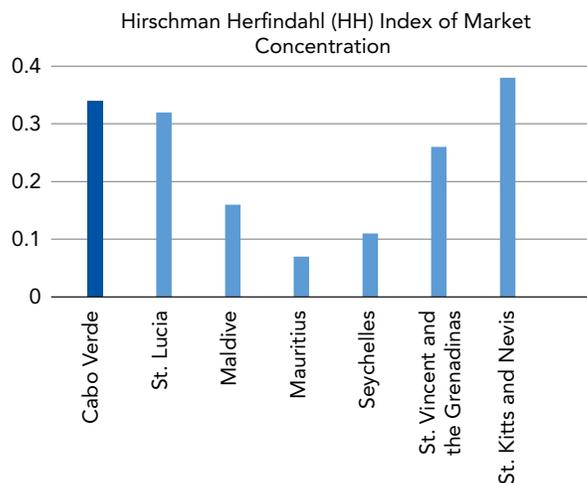
**Reforms to key SOEs are likely to stem the debt-generating process but will most likely increase the stock of debt, limiting the government’s ability to institute growth-enhancing reforms.** The national airline company (TACV) is one of the largest SOEs in the country and puts a significant burden on the budget, requiring 2 percent of GDP per year to cover operational expenses. The government withdrew from the domestic aviation business in August 2017, and initiated plans to renegotiate the debts of the company (approximately 7.0 percent of GDP). A little over half the existing workforce is to be retrenched. Regarding international operations, the authorities have since signed a management contract with Iceland Air to position the country as a transport and logistic hub connecting Europe, North and South America, and Africa.

## HIGH ECONOMIC VOLATILITY

The country is beset by several circumstances that predispose it to numerous external and natural shocks. Like many other SIDS it has a narrow economic base and a high concentration of their export markets, which may be related to increased growth volatility, as shocks in trading partner countries impact the home market. In 2016, 85 percent of tourists to Cabo Verde came from five countries in Europe. The dependence on tourism and the high concentration of visitors from just a few countries inextricably ties the economy’s performance to the fortunes of that continent. Cabo Verde’s economy contracts when Europe is in recession, and vice-versa. Cabo Verde’s goods exports are less diversified than its peer countries (see figure 35).

**Cabo Verde has been susceptible to sudden stops in FDI.** The paths of development, growth, and crisis among

**FIGURE 35.** Weak Diversification of Cabo Verde’s Exports



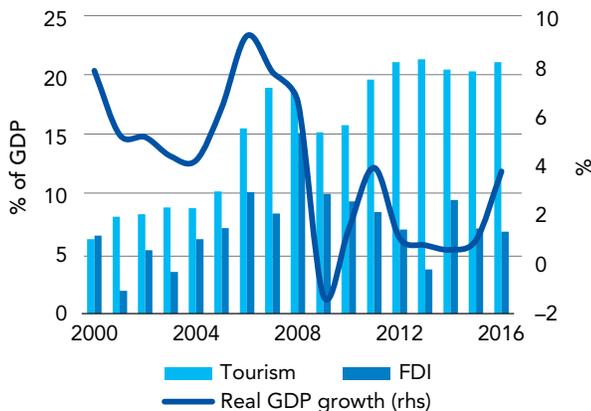
Source: World Bank Trade Outcome Indicators.

Note: The Herfindahl index is a measure of the dispersion of trade value across an exporter’s partners. The index ranges from 0 to 1, where 0 indicates that a country has a perfectly diversified trade portfolio.

developing countries have been tightly related to patterns of abundance and scarcity in foreign financing.<sup>16</sup> The sharp deceleration in growth in Cabo Verde, which took place after the global financial crisis, was tied to the falloff in FDI (see appendix C). Sudden stops in financial flows tend to trigger or occur around crisis episodes, with deleterious effects on economic performance.<sup>17</sup> When driven by a sharp decline in gross inflows, sudden stop episodes may render the domestic economy vulnerable to the decisions of foreign investors.

Consistent with many middle-income small states, the financial system in Cabo Verde is relatively developed, but remains challenged by lingering financial sector vulnerabilities, most notably concentration risks for the banking sector.<sup>18</sup> The World Bank 2013 report on macrofinancial sector vulnerability in Cabo Verde concluded that the global financial crisis—through adverse shocks to FDI, tourism, and official transfer—had a negative impact on growth (see figure 35). An exchange rate peg, deteriorating net foreign exchange inflows, and an expansionary fiscal policy under the government’s ambitious public investment program forced the central bank to raise interest rates. Jointly, these developments contributed to decelerating credit as the economy slowed, investment opportunities dwindled, loan recovery fell, banks grew more conservative, and the public sector crowded out lending to the private sector.<sup>19</sup> Consequently, bank performance deteriorated. Nonperforming loans (NPL) rose quickly given exposure

**FIGURE 36.** FDI, Tourism Revenues in % of GDP and GDP Growth, 2000–2016



Source: Based on data from BCV.

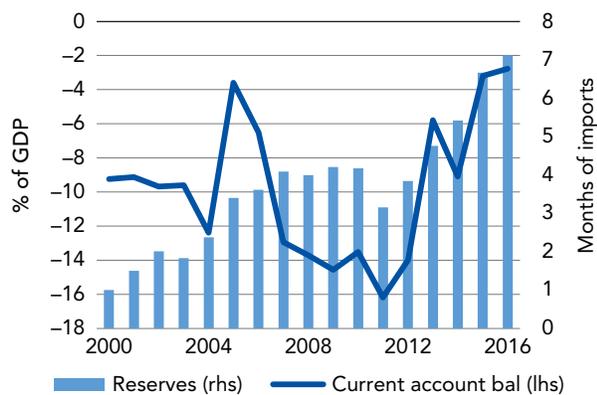
to the tourism sector and in 2017, NPLs were still high at 17 percent. Credit to the economy still has not recovered. Finally, Cabo Verde's banking system has a sizable component of emigrant deposits which could be influenced by external conditions.

While Cabo Verde's external position has improved somewhat, the country remains vulnerable due to its increasing external debt and challenges to competitiveness (see figure 37). The level of international reserves has recovered, and at the end of 2017 approximated six months of prospective imports, and are projected to remain around this level over the medium term. This reflects a healthy outlook for goods and services exports, and continued official financing. The assumption regarding official financing presupposes that the authorities address some of the current fiscal challenges. The IMF's latest assessment of exchange rate (undertaken in January 2018) suggest that the rate is broadly in line with fundamentals.

As a small island state with a high level of imports, the country is vulnerable to food and fuel prices through the balance of payments. Cabo Verde imports most of its food and fuels, and as such is extremely susceptible to adverse terms of trade movements. The use of subsidies is not widespread, which limits the impact of the fiscal accounts.

Cabo Verde also appeared vulnerable to outbursts of vector-borne diseases, leading to a brief dengue epidemic in 2009–2010 and a Zika virus outbreak in October 2015. As mentioned, inadequate capacity to undertake early detection and surveillance, assessment, and response to major epidemic and pandemic-prone diseases is a concern.

**FIGURE 37.** The External Position Fluctuates with Global Developments, 2000–2016 (% of GDP)



The WHO identifies strengthening national preparedness, response, and recovery for Zika and other arbovirus outbreaks as a key priority for Cabo Verde.

## Public Sector Performance

Given the inherent disadvantages of being a small island nation, and the many inevitable market failures due to Cabo Verde's small size, a well-functioning public sector is essential for all three pillars of sustained poverty reduction and shared prosperity. However, Cabo Verde faces several challenges in this respect. As was mentioned, Cabo Verde scores relatively low along the criteria of "government effectiveness" and "regulatory quality." Fixing these shortcomings and delivering reforms will be important for creating jobs, diversifying the economy, promoting innovation, and addressing social exclusion. Making decentralization work will be an essential component of this agenda.

### INSUFFICIENT DELIVERY OF REFORM

Despite its quality institutions, the government has difficulties delivering policy reform, promoting and regulating the private sector, and selecting and managing public investment that meets user needs. It is relatively weak in coordinating action across government entities and coherent sector strategies are often missing. Implementation capacity is weak, especially at the local level, possibly due to an inefficient allocation of human resources. Urban infrastructure development is increasingly inadequate and inflexible labor laws undermine enterprise efficiency.

Systems for tracking results of government programs are not functioning adequately, despite considerable investments in ICT systems for this purpose by NOSI, which limits learning of what works.

**An inefficient public sector is the second most important impediment for doing business in Cabo Verde, after access to financing and tax rates, according to the Global Competitiveness Report 2017–2018.** A range of constraints prevent changing the public sector from a dominant player that crowds out the domestic private sector, to a regulator and facilitator, and to one that develops effective partnerships with the domestic private sector, addresses their concerns, and designs and implements effective policies. These constraints include: (1) antiquated government norms and procedures, and the current orientation around “process” rather than “results;” (2) lack of coordination<sup>20</sup> between agencies; (3) low technical capacity and high turnover of highly qualified personnel staff; (4) limited performance tracking and evaluation of key programs and lack of timely statistics for evidence-based policy making, including of the tourism sector and learning outcomes; and (5) lack of effective public private dialogue. The civil courts have large case backlogs, which causes significant delays in resolving labor disputes. The slow pace of public financial management (PFM) reforms and weak fiscal discipline—particularly in the SOE sector—has undermined macroeconomic resilience.

**Cabo Verde has recently made improvements along several Doing Business indicators.** The country has made dealing with construction permits easier by publishing all regulations related to construction online, free of charge. The government has also made exporting and importing easier by implementing an automated customs data management system. In addition, resolving insolvency has become less complicated due to the adoption of a law that introduces a reorganization procedure and facilitates continuation of the debtor’s business during insolvency proceedings. The law also allows creditors greater participation in important decisions during insolvency proceedings. Other important recent reform initiatives include the Casa do Cidadão unified front office for public services; the digitization of the land property registry, and the recent launch of the single investor window seeking to streamline FDI management.

**However, Cabo Verde’s overall business environment remains weak.** Once considered a top reformer on the African continent (specifically in 2011), Cabo Verde’s relative ranking along the Doing Business Index has suffered in recent years. According to the 2018 Doing Business report, the country is now ranked 127th out of 190 countries,

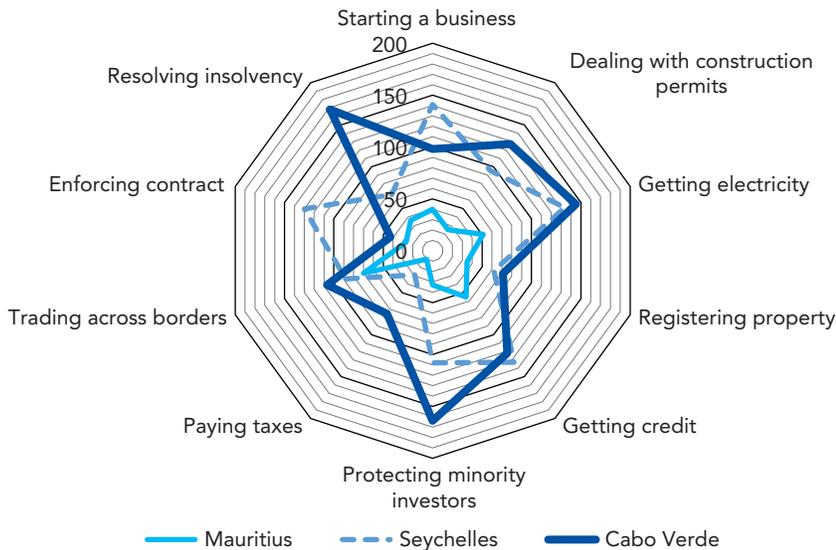
lower than its best ranking of 119th, which occurred in 2012. The momentum of reforms in Cabo Verde has clearly stagnated.<sup>21</sup> The country’s rank is below the average of its structural peers—i.e., other lower-middle-income countries, which have an average rank of 118.3. Cabo Verde compares even more unfavorably with its aspirational peers such as Mauritius (ranked 25th) and the Seychelles (95th), who have improved on the Doing Business Index since the 2008 global financial crisis. Chronic difficulties remain in several indicators, namely resolving insolvency (ranked 168th), protecting minority investors (164th), getting electricity (145th), getting credit (122nd), trading across borders (107th), and starting a business (8th)(see figure 38).

**For an open economy, the ease of trading across borders is an important criterion. Yet the Doing Business report from 2018 demonstrates that Cabo Verde lags behind some of its peers along several aspects.** This includes the cost of border compliance to export and to import, and, to some extent, the time to export (see table 3).

**Competitiveness has not kept pace with the growth in the economy, and the problems identified in the Doing Business Index correspond with responses obtained through the Executive Opinion Survey conducted in Cabo Verde for the WEF’s report on global competitiveness.** The most problematic factors they identified are access to finance, an inefficient government bureaucracy, tax rates, and an inadequately educated workforce (see figure 39a). Cabo Verde ranks 110th in the WEF’s Competitiveness Index, just behind the Seychelles (107th). It is outperformed by that country on a number of factors, including quality of infrastructure, macroeconomic management, labor market efficiency, and business sophistication (see figure 39b).

**Access to financing is considered the most problematic factor for doing business by the Global Competitiveness Report 2017–2018 (see figure 39a).** Domestic credit to the private sector has declined from 66 percent of GDP in 2011 to 60 percent of GDP in 2016, as banks increased the share of their assets deposited with the central bank and lent to the government and SOEs. Micro and small enterprises face significant financing constraints. A 2014 survey showed that only 26.5 percent of total credit to enterprises goes to micro and small enterprises. Banks indicate that poor business prospects, limited collateral, lack of proper accounting, and the general macroeconomic environment are the main reasons for restricting credit. Although a third of registered firms (representing 96 percent of total turnover) report having accounting practices, banks believe

**FIGURE 38.** Global Rank Along Doing Business Indicators, 2018  
(lower rank = better)



Source: Doing Business 2018.

that most of these financial reports are not credible, not audited, and prepared primarily for tax purposes. Confusion between personal and business bank accounts and financial flows is common, and accounting standards are not enforced. The average cost of finance in real terms is high, with one-year lending rates of up to one year around 10 percent in real terms.

**In addition to access to finance, inefficient government bureaucracy is an important impediment for doing business in Cabo Verde (see figure 39a).** Tourism operators and other foreign investors are frustrated by the long

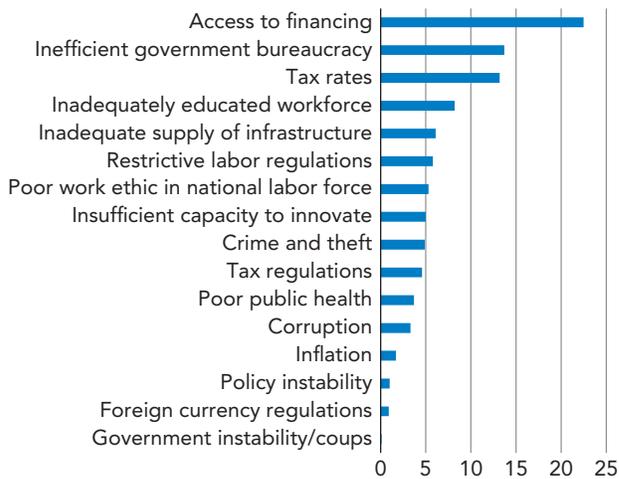
delays in processing VAT refunds (several years in some cases). Failure to handle such basic processes can have negative consequences for private investment, on which the country depends. The authorities have been relatively weak in coordinating action across government entities and in collaborating with the private sector to deliver results. Notably, the government appears to have difficulties designing and implementing a coherent sector strategy for the tourism, fisheries, transport, and logistics sectors, or around environmental protection, that brings all public and private sector stakeholders together around a common goal and leads to coordinated action.<sup>22</sup>

**TABLE 3.** Doing Business 2018, Trading Across Borders Indicators: Performance Across Key Indicators of Cabo Verde and Its Peers

Indicator	Cabo Verde	Seychelles	Mauritius
Time to export: Border compliance (hours)	72	82	38
Cost to export: Border compliance (US\$)	780	332	303
Time to export: Documentary compliance (hours)	24	44	9
Cost to export: Documentary compliance (US\$)	125	115	128
Time to import: Border compliance (hours)	60	97	41
Cost to import: Border compliance (US\$)	588	341	372
Time to import: Documentary compliance (hours)	24	33	9
Cost to import: Documentary compliance (US\$)	125	93	166

Source: Doing Business 2018.

**FIGURE 39A.** Competitiveness Constraints According to Cabo Verdean Entrepreneurs, 2016



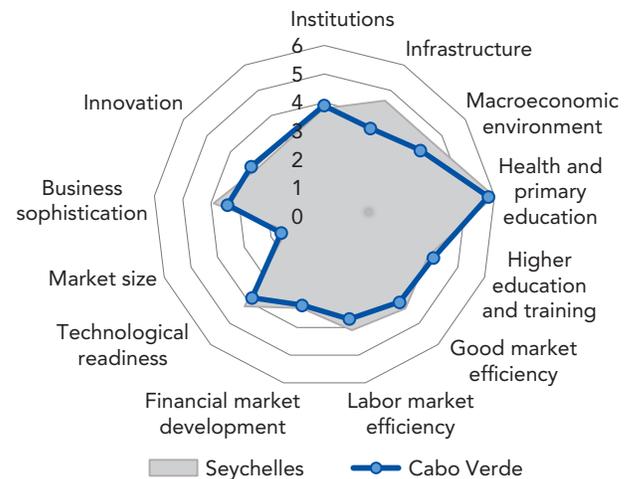
Source: World Economic Forum 2017.

Note: From the list of factors, respondents to the World Economic Forum's Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

Cabo Verde lacks a culture of accountability for results at all levels of government, and even of civil society entities. Monitoring and evaluation of government programs is weak and limited use is made of statistics for planning purposes, according to a recent evaluation of the national poverty reduction and growth strategy from 2012–2016 (DECRP 3).<sup>23</sup> The civil courts have large case backlogs, which causes significant delays in resolving labor disputes among other things.

The formal labor market has been historically rigid, and reform has just recently been enacted. The lack of flexibility of the formal labor market has been among the top concerns of the Cabo Verde business community.<sup>24</sup> In February 2016,<sup>25</sup> the government responded by amending the Labor Code after prolonged discussions with a federation of labor unions. The amendments include a series of measures that enhance flexibility to increase formal labor market competitiveness. These include: more flexibility for overtime ceilings, simpler procedures for redundancy in certain cases of absence or lack of adaptation to the job post (including in the case of collective redundancies), reduced redundancy severance pay in certain conditions, and the creation of a framework for temporary work. Transferring staff from one island to another allegedly still faces regulatory complications. However, it is probably too early to assess the impact of these reforms to the labor code.

**FIGURE 39B.** Competitiveness Subscores of Cabo Verde and the Seychelles Along a Range of Constraints; Scores Range from 1 (Worst) to 7 (Best)



The country is also confronted by deficiencies in available human capital,<sup>26</sup> suggesting that the education system needs reform. According to the 2009 Investment Climate Assessment,<sup>27</sup> almost 50 percent of firms surveyed consider a lack of adequately qualified workforce as a problem for doing business, among the highest percentage among peers. Similarly, the Global Competitiveness Index 2016 shows that an inadequately educated workforce is the 4th most problematic factor in doing business in the country (see figure 39a). As mentioned, many students leave secondary school before completion, and even those who finish school lack the skills to compete in a dynamic service sector. At the same time, the low coverage and poor quality of the TVET systems prevent individuals from meeting the demands for knowledge and skills of private and public employers.

The tourism sector—the country's main engine of growth—has lacked strategic guidance, particularly in relation to integrating SMEs into the sector. While resorts experience healthy room occupancy rates, smaller establishments in Cabo Verde struggle to attract tourists. The existing practice in the country favors large external operators. Smaller establishments, largely domestic, are disproportionately unable to benefit from the generous incentive packages offered to all-inclusive foreign investors. This impairs their ability to compete and creates significant disparity in the quality of tourism offerings by SMEs,

and ultimately the attractiveness of the destination. This is largely due to the lack of an integrated strategy for the sector, resulting in scarce promotion outside the major brands, lower quality of construction and amenities in smaller establishments, and a shortage of qualified staff to service the sector. Beyond attracting FDI, the country lacks a clear approach for a diverse tourist services sector that better exploits the unique natural beauty and cultural offerings of each island, generates higher returns per visitor, and creates more employment across the country. The latest consolidated approved tourism strategy dates from 2010, and the associated tenure and implementation period terminated in 2013.<sup>28</sup> No evaluation of its implementation or impact is known, and a new strategic master plan has not been in effect since then. In recent years, institutional arrangements for coordinating and promoting the tourism sector have changed frequently.

**The need for institutional stability and for increasing staff capacity in the tourism governance framework remain some of the key challenges on the table.** There is a lack of regular public-private dialogue (PPD) and meetings of the Tourism Chamber (an association of private sector tourism operators) with local and national government officials have occurred irregularly, with no measurable results. Data collection on the tourism sector remains insufficient, which is underscored by Cabo Verde's 2015 ranking of 111th (out of 141 countries) in "Comprehensiveness of Travel & Tourism Data" by the WEF. Gaps in vocational and other training are corroborated by Cabo Verde's 82nd ranking in "Human Resources and Labor Market" of the WEF's Travel & Tourism Competitiveness Index. The Cabo Verde Hotel and Tourism School has not yet been able to address all of the tourism industry's needs, and is present only on the island of Santiago, outside of the main tourism poles of Sal and Boa Vista.

**The inability of civil society interest groups to adequately represent the interests of the domestic private sector and influence decision-makers is likely to be an important constraint.** It is possibly one of the reasons of the low investment efficiency, where investment decisions are made without sufficiently involving owners of small- and medium-sized business owners. As mentioned in Chapter 2, the relatively small population, in which family networks run across interest groups, has also played a role. Instead of enhancing the quality of democracy, promoting debate, and demanding accountability, civil society organizations are used or taken over by political parties, which leads to "civic lethargy" against a pervasive state.<sup>29</sup>

## DECENTRALIZATION

Given Cabo Verde's geography, decentralization of decision-making around service delivery is unavoidable for ensuring it can be tailored to local circumstances. Yet this has considerable cost implications and requires substantial capacity improvements at the local level. The 22 municipalities—the only level of government below the central government—have a fair amount of autonomy. Their expenditures have grown substantially over time<sup>30</sup> and they appear to have built significant arrears, although reliable figures are lacking. A transparent and rules-based system for horizontal allocation from central to local level of government exists, but municipalities suffer from severe capacity constraints, and oversight, supervision, and monitoring of municipalities at the central government level is weak.

Sal and Boa Vista islands, which receive the bulk of the tourists, are struggling to match infrastructure development to the growth trend. There are challenges in providing proper water and sanitation services, problems in the supply of electricity, gaps in the road network, and scarcity of adequate housing for the growing number of tourism workers. Building regulations are not always maintained, and together with the weak treatment of solid residues, this negatively affects Cabo Verde's landscape and natural environment. Underlying constraints include weak local governments' capacity to enforce regulations and possible inefficiencies in staff allocation.

**Monitoring and assessment of the effectiveness and efficiency of territorial and urban planning, land management, and social service delivery (such as social protection programs) have been limited, and the magnitude of municipal debts is unclear.** Lack of analysis of municipalities' spending needs and tax income potential affect the design of a suitable fiscal transfer mechanism. Recently, government has decided to transfer the management of the social housing program (Casa Para Todos) to municipalities. This will require significant additional support to smaller and weaker municipalities.

## Lack of Resilience

As a SIDS, Cabo Verde is highly vulnerable to economic and climate shocks, and high youth unemployment undermines its social fabric. In addition, inadequate protection of its natural capital threatens the tourism sector and other livelihood sources. Its lack of resilience constitutes an important risk to further progress.

## LIMITED HOUSEHOLD RESILIENCE AGAINST SHOCKS

Given its geographical characteristics and its location in the mid-Atlantic, Cabo Verde is highly exposed to natural disasters, including droughts, extreme storms, sea level rise, and volcanic eruptions. Climate change is expected to rapidly increase Cabo Verde's exposure to extreme weather events, while disaster response options remain insufficient. Historical data show that Cabo Verde has always suffered from recurrent severe droughts, which have taken a high toll on the livelihoods of the people and affected their resilience. Prior to its independence in 1975, the cycle of droughts caused widespread famine and forced migration. It is estimated that 30,000 people needed urgent assistance during the most recent drought of 2014, with many having lost all or a large part of their cereal crops in the most affected islands.<sup>31</sup> In 2017 the country suffered another severe drought.

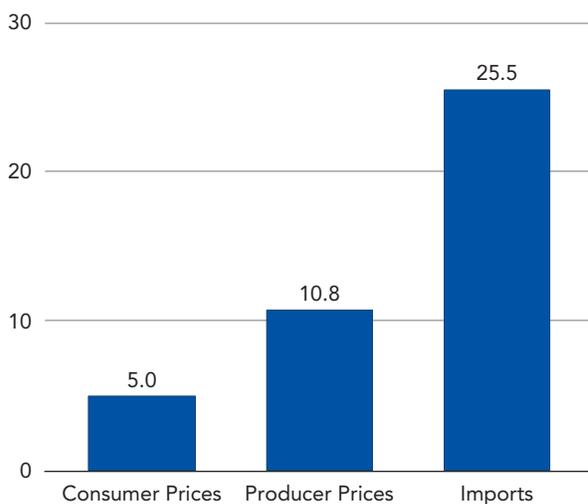
Cabo Verde is also affected by periodic heavy rainfall that—in combination with high elevation steep slopes—causes flash floods and leaves a trail of destruction in coastal zones and low-lying urban settlements. The country is also exposed to other hazards such as landslides and coastal erosion. Sea level rise and volcanic eruptions also threaten the country's development progress. Such repeated

shocks affect the resilience of households—in particular the poor—making it increasingly hard for them to recover from such weather events.

The negative effect of an agricultural productivity shock has an immediate negative effect on GDP. Simulations of an agricultural output shock of 10 percent and a loss of value added in agriculture of around 12 percent suggested this would reduce GDP by 0.5 percent (see figure 40b). The main effect of the shock will come from a reduction in agricultural and food production and an increase in agricultural prices. To replace domestic output, imports of agricultural products increase from 4.8 to 6.0 percent as a share of total imports (see figure 40a).

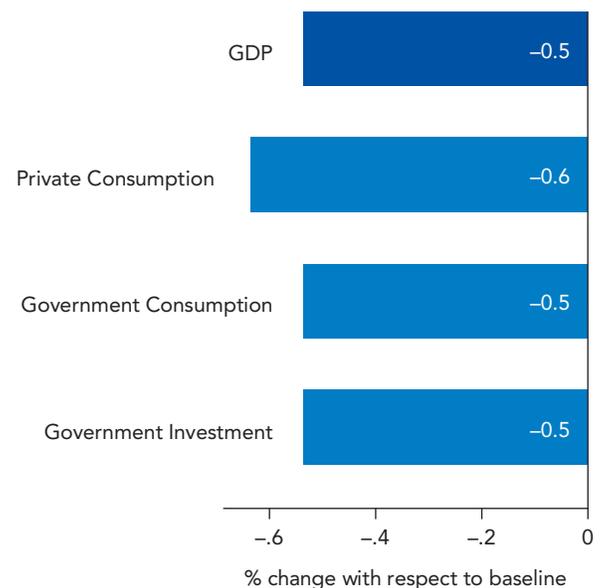
These risks are expected to worsen, as Cabo Verde is one of the countries that is most vulnerable to climate change. The 2016 World Risk Report ranked Cabo Verde at 141<sup>st</sup> of 173 countries in terms susceptibility to natural disasters.<sup>32</sup> In addition, the country is ranked 117th out of 182 countries on a global index<sup>33</sup> that measures a country's exposure, sensitivity, and capacity to adapt to the negative effects of climate change (a lower rank means higher vulnerability). The country ranks 79th on a climate change readiness score. Cabo Verde's rankings on these scores are lower than its aspirational peers, including the Seychelles, Mauritius, and

**FIGURE 40A.** Changes in Agricultural Prices and Imports as a Consequence of a Simulated Drought Shock



Source: Simulations using national accounts data.

**FIGURE 40B.** Effect of Drought on Main Economic Aggregates, % Change Compared to Baseline



Saint Lucia, but higher than the Maldives. International experience shows that poor and other vulnerable groups—such as female-headed households, young children, and the elderly—are the most impacted by natural hazards due to their tendency to live in disaster-prone marginal areas and urban slums, their reduced safe housing options, and their low capacity to recover from shocks.<sup>34</sup>

**Climate change risks have the potential to significantly derail both growth and equity objectives in Cabo Verde.** Extreme weather events have become more frequent, which adds to the vulnerability of low-income households. Droughts occur with a periodicity of about 5 years. As recently as 2014, Cabo Verde experienced another drastic reduction of rainfall, leading to water shortages and major harvest loss, severely impacting rural livelihoods. The Food and Agriculture Organization (FAO) reported that the January 2015's maize harvest in Cabo Verde was the lowest ever recorded in the country's history, following a downward trend over the last few years.<sup>35</sup> The country suffered another serious drought in 2017. Intense rainfall events caused by strong storms and tropical cyclones, such as the extraordinary passing of Hurricane Fred through Cabo Verde on August 31, 2015, can lead to significant and damaging floods across the country. Shoreline erosion caused by sea level rise is already a significant problem to Cabo Verde's coastal ports and beaches. Critical infrastructure such as seaports and roads are at risk. Repeated shocks undermine the resilience of households to recover and pick up their livelihoods, which particularly affects the poor.

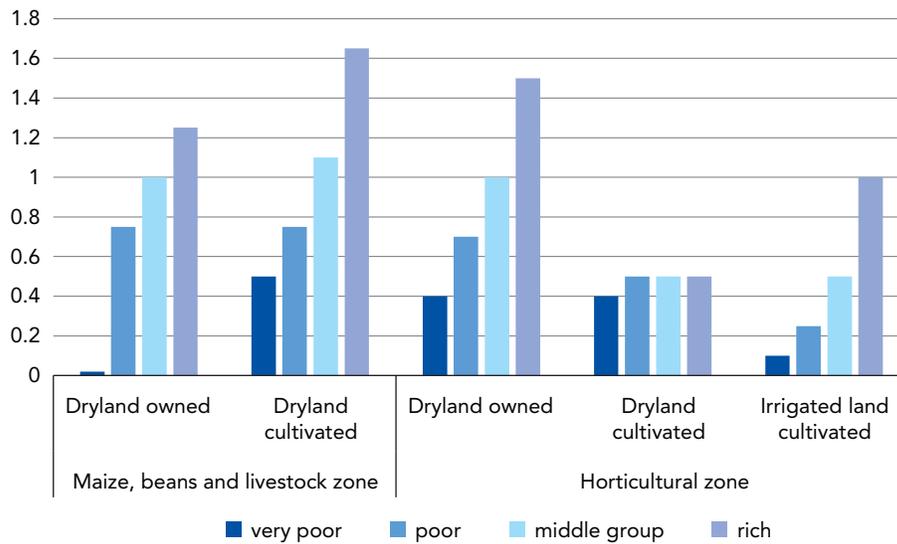
**Cabo Verde is also highly vulnerable to geological hazards. This is evidenced by the historical record of volcanic activity of the Pico de Fogo Volcano, which has erupted 29 times since the discovery and settlement of Fogo island 550 years ago.** The average frequency has been one eruption every 19.2 years. Most recently, Pico do Fogo erupted in 1951 and 1995, and again in November 2014. The last time the eruption lasted 88 days, more than twice the duration of the previous two eruptions, which destroyed the livelihoods of the two communities of Chã das Caldeiras. The volcanic eruption also impacted air quality, prevented normal flight operation, and negatively affected the tourism industry.

**To enable the rural poor to benefit from agricultural growth, several structural constraints need to be addressed.** A poorly functioning land market due to an incomplete cadaster exacerbated by absentee land ownership has sometimes led to unclear land rights, which particularly affects the poorest households and female farmers. Access to land—especially

irrigated land—is highly unequal, with the poor owning little or no land. This severely limits the opportunities of the poor to benefit from agricultural development and support programs, according to a livelihoods assessment conducted in 2016.<sup>36</sup> The study covered three livelihood zones in rural Santiago: a maize, beans, and livestock zone, an irrigated horticultural zone (in valley bottoms), and a fisheries zone. In each zone, households in sampled areas were asked to divide themselves into four wealth groups that ranked from “rich” to “medium” to “poor” and “very poor.” The poor and very poor typically each included about 30 percent of the households, while the medium and rich covered 20 and 10 percent, respectively. For each of these groups, information was collected regarding asset ownership, income levels, and food sources. It was found that the “very poor” in the maize, beans, and livestock zone have very few assets. They own no land (see figure 41) and have little livestock. They meet their consumption needs through sharecropping arrangements with rich farmers (who typically own 1.2 ha) as well as casual wage labor for other farmers. In the irrigated horticultural zone the “very poor” cultivate only 0.1 ha of irrigated horticultural land, compared to 1 ha of the rich. The wealthiest group (about a quarter) of rural households own up to 10 times more irrigated land than the poorest quarter (see figure 41).

**Incomes of the “very poor” in rural areas, especially in the maize, beans, and small livestock livelihood zone, are very low and their weak asset base makes them extremely vulnerable to weather, price, and other shocks.** These households can make ends meet only through remittances they receive. Incomes for the “very poor” typically consist of around CVE 50,000 per year per household (around US\$500) obtained from casual wage labor, and CVE 15,000 (around US\$150) from sharecropping on dryland, according to the livelihoods study. This translates to around US\$0.30 per capita per day. Remittances add another US\$0.30. Typical incomes of the “poor” are around double that.<sup>37</sup> The study suggests that dryland is not very productive, with yields of maize (the main home grown staple) between 600 and 700 kg/ha. In the irrigated horticultural zone and in the fisheries zone, annual household incomes of the very poor are somewhat higher (CVE 175,000, or around US\$1 per person per day, excluding remittances) and about double that amount for the “poor.” The “rich” in these areas make around six times as much. Unless “very poor” households (especially those headed by a single woman) have access to more irrigated land and capital to make it productive, or other local income-earning opportunities, their resilience to droughts and other shocks will remain low and they

**FIGURE 41.** Land Ownership and Use by Rural Wealth Groups (ha) in Two Livelihood Zones in Rural Santiago



Sources: Save the Children and Ministry of Agriculture 2017a and 2017b.

will be unable to escape from *extreme* poverty. Appendix D presents more detail of the livelihoods assessment that was conducted for the SCD.

**Raising the resilience of poor fishing households is hampered by the weak net value generated in the fisheries sector and weak links to high value markets.** With fish stocks deteriorating due to inadequate overall management of the sector, fishing in the artisanal segment has extended to previously untargeted, lower-value species. Lack of coordination among fishers and weak fish stock management has led to “race to fish” problems associated with open-access fisheries regimes. In addition, weak integration of the artisanal segment into the local and national economy, along with limited collaboration with the high value tourist markets, appear to limit the creation and retention of net value. As an archipelago nation with limited logistical connection between islands and a limited development of cold chains, arbitrage opportunities with other islands are limited. Hotels spend an estimated €12 million on imported fish each year. Even if local fish costs about a third of the price of imported fish and tends to be of higher quality, it is estimated that only about 20 percent of hotel fish consumption is bought locally. If hotels here were to source a larger proportion of fish locally, this would likely increase the revenue of local fishers, save hotels sizable expenses each year, and improve the tourist experience.

Although Cabo Verde’s social protection system is more advanced compared to other countries in SSA, it remains

challenging to extend coverage to the poorest, to socially excluded youth, also to those in rural areas. Existing targeted programs that transfer subsidies to the poor and help them build their productive assets are essential for building resilience, addressing the unequal distribution of assets, and strengthening social inclusion. Many of the poor are not yet covered by social assistance, especially poor families with working age members. The government of Cabo Verde intends to design a productive safety net program that combines the provision of cash transfers, productive assets, and care activities to the informal youth and the poor, especially in rural areas. However, in a very decentralized context, technical capacity in municipalities to implement social protection programs is insufficient. They are understaffed and underfinanced. In addition, coordination between the many different social programs being implemented at central and decentralized level is weak. Moreover, these programs are not adequately monitored, preventing an understanding of what works and what does not. In addition, investing in a single social registry would be key to reducing fragmentation, improving coordination, and improving targeting of the extreme poor and other socially excluded groups.

## INSUFFICIENT PROTECTION OF NATURAL CAPITAL

Cabo Verde’s performance along indicators related to its policies and institutions for environmental sustainability have lagged in recent years and are relatively low. They are

the lowest among all its World Bank's Country Policy and Institutional Assessment (CPIA) indicators. Given Cabo Verde's reliance on its natural capital for its tourism-based economy and the importance of preserving the resource base upon which many poor households depend, the inadequate protection of its natural environment against pollution and damage is a concern. Healthy natural resources are equivalent to a social safety net.

**There is insufficient preservation of Cabo Verde's natural capital, undermining the tourism industry.** Cabo Verde ranks only 78th out of 141 countries on the "enforcement of environmental regulations" in the Travel & Tourism Competitiveness Index<sup>38</sup> (see above). Cabo Verde is considered one of the world's 11 most endangered marine biodiversity "hotspots." A total of 22 dolphin and whale species can be found in its waters, which are also an important nesting ground for several endangered sea turtles. Yet Cabo Verde's biodiversity is under severe pressure from irresponsible hotel construction and tourist practices. Overfishing, limited enforcement of environmental and building regulations, and various forms of pollution all pose a significant threat to the quality of the country's natural environment. Furthermore, unregulated coastal sand extraction for construction purposes remains one of the main preventable environmental issues increasing the risk of sea water intrusion in aquifers and coastal lands. Environmental issues are particularly pertinent for Cabo Verde, as the health of the tourism industry depends largely on the natural beauty of the archipelago.

**Despite considerable progress in defining the legal framework and drafting environmental action plans, regulation enforcement remains inadequate,** particularly in clusters that are strongly environmentally dependent such as agriculture, fisheries, and tourism. Environmental management in Cabo Verde has suffered from the unclear assignment of roles and responsibilities and is a manifestation of the government's coordination failure.

**Poor management of solid waste generated by tourist resorts, and various forms of pollution, pose a significant threat to the country's natural environment.** Systems and rules for the management of solid waste are suboptimal across the country. Regulation seems to be poorly enforced, with entire communities dumping waste in unapproved areas, including the sea, which affects the country's environment. Fish stocks, which represent another of Cabo

Verde's important natural resources, also depend on a healthy coastal aquatic environment. Uncontrolled waste disposal also affects the quality of ground water, with a direct impact on poor communities.

## NOTES

1. The rate was 18 percent in 1998 (World Development Indicators). A more recent estimate is 20 percent, which is higher than many other African countries (Panapress 2015).
2. Panapress 2015.
3. Ahmed et al. 2017.
4. Marone 2016.
5. World Bank 2013b.
6. Ibid
7. Ibid
8. World Bank 2016b.
9. ITU 2016.
10. ITU 2016.
11. National Implementation Unit, Enhanced Integrated Framework, and Ministry of Tourism, Industry, and Energy (MTIE) 2013.
12. SOEs play an important role in implementing the government investment programs.
13. IFH manages a large social housing project (Casa Para Todos) financed out of a €160 million credit line from Portugal.
14. As Cabo Verde is strong performer based on its CPIA results, the thresholds for external public debt for high risk under the DSA includes, among others, a present value of external debt of 50 percent of GDP and an external debt services ratio of 25 percent of exports. The benchmark for total debt is 74 percent of GDP.
15. Cabo Verde – IMF Staff Report for the 2018 Article IV Consultation.
16. Calderon and Kubota 2011.
17. Becker and Mauro 2006; Cerra and Saxena 2009.
18. See IMF Country Report no. 13/292. Selected issues paper on the challenges of small middle-income countries in SSA.
19. World Bank 2013a.
20. The 2017 *World Development Report* speaks to the importance of coordination among institutions to spur a results culture.
21. Centro de Políticas Estratégicas 2015.
22. It should be noted that in 2015 the government established a steering committee to promote stakeholder coordination on "blue growth" related activities, following the adoption of a Blue Growth Charter (*Carta a favor da promoção do crescimento azul em Cabo Verde*). However, it is probably too early to assess its impact.
23. Ministério das Finanças e Planeamento 2016.
24. World Bank 2010.
25. Legislative-Decree 1/2016, published on the Official Bulletin on February 4, 2016.
26. See appendix E for more detail on the simulation.
27. World Bank Enterprise Surveys.
28. Ministry of Economy Growth and Competitiveness 2010.
29. Costa 2013.
30. They comprised on average 5.5 percent of GDP during 2002–2010.
31. FAO 2015.
32. United Nations University Institute for Environment and Human Security (UNU-EHS) 2016.
33. Developed by the Notre Dame Global Adaptation Initiative. The Vulnerability score measures a country's exposure, sensitivity and capacity to adapt to the negative effects of climate change. The Readiness score measures a country's ability to leverage investments and convert them to adaptation actions. (University of Notre Dame 2018)
34. Skoufias, Rabassa, and Olivieri 2011.
35. Sanchez 2015.
36. Save the Children and Ministry of Agriculture 2017b.
37. Save the Children and Ministry of Agriculture 2017b.
38. World Economic Forum 2015b.



## Opportunities/Possible Pathways to Growth and Poverty Reduction

*The previous chapter outlined the binding constraints that prevent Cabo Verde from realizing its potential. This chapter discusses the country's opportunities and pathways for further raising the welfare of the bottom 40 percent of its population and reducing extreme poverty. It concludes that a diversified and more inclusive tourism sector will be Cabo Verde's most likely pathway to progress. In addition, the range of agricultural goods that are produced offer the potential to better exploit niche markets, such as organic, ethnic, fair trade, and nostalgia products. Cabo Verde's geographical location in the middle of four continents also offers the potential to develop a logistics or ICT hub, but key constraints may need to be addressed first.*

Cabo Verde's recently completed **Strategic Plan for Sustainable Development 2017–2021** positions it as a *Pais Plataforma no Atlântico Médio*, a hub in the mid-Atlantic. The strategy presents seven priority hubs, or *plataformas*, that will spearhead the country's future growth: (1) a maritime platform to provide supplies and services to freighters, cruise ships, and other vessels; (2) an air transport hub for passengers from countries bordering the Atlantic; (3) a commercial and industrial hub that transforms Cabo Verde into an international business center; (4) a financial hub, creating an international financial platform; (5) an investment hub for Cabo Verde's diaspora; (6) the development of a tourism sector that benefits all islands and is grounded in the national environment, culture, and history; and (7) a digital and innovation hub.

Analysis of the available evidence suggests that in the short-term, Cabo Verde has three main opportunities to boost growth, reduce extreme poverty, and promote shared prosperity: diversified and more inclusive tourism; agricultural niche products that could feed into high value tourist and export markets; and possibly the development of Cabo Verde as a logistics hub. Other opportunities may exist in the medium term, but currently face a set of constraints that have yet to be tackled.

### Diversified and More Inclusive Tourism

This SCD concludes that a diversified and more inclusive tourism sector will be Cabo Verde's most likely pathway to growth and poverty reduction. In the last fifteen years, international tourism to Cabo Verde has grown substantially, and in 2016 tourism output was US\$0.7 billion and comprised 45 percent of GDP. It is the main source of foreign exchange earnings and directly and indirectly supports around 39 percent of total employment. As mentioned, this situation is largely attributed to "all-inclusive" package holidays run by Europe's largest tour operators. Findings suggest that despite weak links to the rest of the economy, tourism has played a central role in lifting people out of poverty in past years. Although according to the IDRF surveys, the proportion of the population that earn their living in the services sector grew from 34 percent in 2001 to 44 percent in 2015, the proportion of people in this sector who are extremely poor has dropped faster than other occupational groups: from 19 to 5 percent during this period (see figure 22b). However, to sustain this progress and create the jobs that are urgently needed for Cabo Verde's youth, the nature, direction, and form of future planning and investment in the tourism sector needs to change and diversify. It requires the delivery of greater complementarities, balance, and diversity to the overall tourism product and brand.<sup>1</sup>

The image of Cabo Verde as a single product, "sun, sand, and sea" destination is unjustified. Beyond its impressive beaches and sand dunes, the variety of Cabo Verde's total tourism product embraces a wealth of diversity. This illustrates a serious branding and marketing challenge for the industry.<sup>2</sup> Unknown to many, Cabo Verde offers coral reefs for snorkeling and diving, one of the world's three main sea turtle nesting sites, game fishing, water sports (including sailing, yachting, wind, and kite surfing), hiking and trekking in rich hill ecosystems, volcano exploration, birdwatching, and

canyoning. Similarly, its famous music, festivals, cultural heritage are relatively unexplored as tourist products. For the most part, these have yet to be packaged and promoted to the international tourism market. Cabo Verde could also tap into the retirement or senior citizens market. For this, access to high quality medical care, affordability, safety, ease of international and local connectivity, and tax status are important considerations. Diversification is likely to further increase tourism investment while spreading the benefits more widely across the country.

Forecasts by the World Travel and Tourism Council suggest that added value from tourism—including wider effects from investment, the supply chain, and induced income impacts—could grow further and double to CVE 143 billion, or US\$1.5 billion, in 2027 (see figure 42a). Direct and indirect employment could grow from 97,000 jobs in 2017 to 152,000 jobs in 2027 (see figure 42b), and the World Travel and Tourism Council predicts that annual employment growth in Cabo Verde’s tourism industry during the next 10 years could be 4.5 percent per year, the 7th highest in the world.

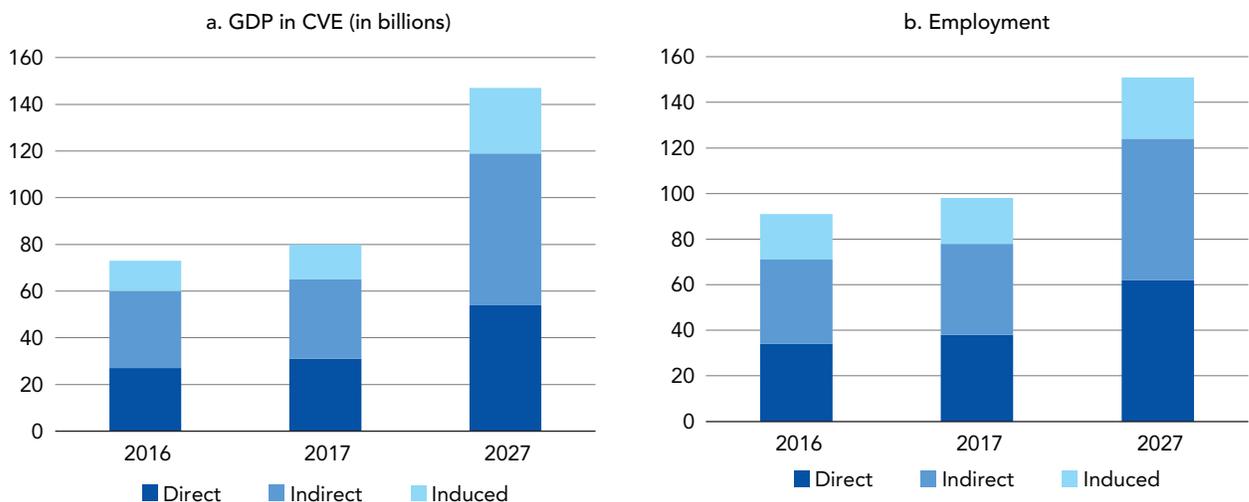
Cruise ship tourism represents an emerging and interesting niche with high potential. Given its position in the mid-Atlantic, home-basing cruise ships could generate significant benefits to the country and open new markets. Having invested in several ports in recent years, exploring opportunities to have a major cruise line based out of Cabo Verde, similar to Jamaica and islands in the Pacific, could grow the country’s tourism business. Not only would

this bring benefits to the homeport country, but it would also bring more cruise arrivals to West Africa. The latest available data shows that 2013 was the strongest year on record for cruise ship tourism, with 157 ships making stops in Cabo Verde, carrying a total of 75,643 passengers, up from 22,909 in 2008 (see figure 43). The port of Mindelo (Porto Grande) is Cabo Verde’s leader with 57 cruise ship port calls in 2013, followed by Praia with 39, and Santo Antão with 15. There are no official estimates on the number of passengers that exit the ships—which typically dock for 1–2 days—to tour the respective islands, but ENAPOR (the national port operator) estimates that number to be about 70 percent, with raw projections placing expenditures per tourist at about €45 during a day in a city.<sup>3</sup>

Broadening tourism offerings to include culture would allow Cabo Verde to tap one of the fastest-growing segments of the tourism industry worldwide. Close to 50 percent of all international leisure tourism has a cultural component. Gore island in Senegal, for example, has marketed itself as a heritage destination by turning its slave trade monuments into tourist destinations. Exposing Cabo Verde’s visitors to its rich traditions in music, art, and cuisine offers a significant opportunity to connect a broader segment of the population to the tourist market. In addition, community-based tourism has considerable potential to make the sector more inclusive, provided some of its challenges can be overcome.<sup>4</sup>

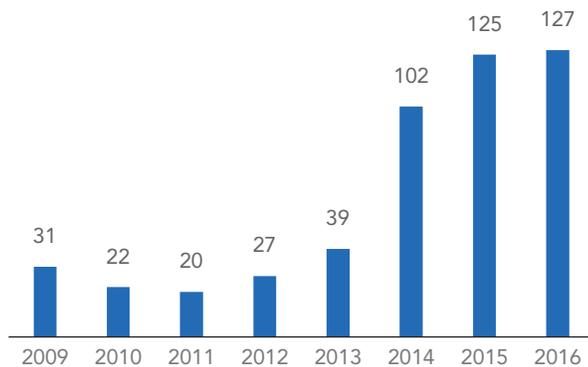
As mentioned in Chapter 2, Cabo Verde’s 2015 ranking compiled by the WEF’s Travel & Tourism Competitiveness Report suggests that realizing its tourism potential requires

**FIGURE 42.** Total Contribution of Travel and Tourism in 2016, 2017, and 2027



Sources: World Travel and Tourism Council 2017.

**FIGURE 43.** Number of Cruise Ship Arrivals in Cabo Verde



Source: ENAPOR

**major action.** There is considerable potential to raise the excursion rate and increase average spending on excursions per arrival.<sup>5</sup> Access is a major issue and constraint in the development of tourism in Cabo Verde, especially in terms of product diversification. International access remains limited, high cost, and unreliable, with a high degree of dependence on charters. Improving the expensive and sometimes unreliable inter-island transportation system will be important for product expansion and diversification.

The sector's institutional and regulatory framework urgently needs attention, as was mentioned in Chapter 4. Tourism, by nature, is a genuinely transversal sector. The industry is very diverse, and widely recognized to be an unwieldy and complex phenomenon to develop and promote. The complexity of planning and management activities is partly due to the diverse activities of different subsectors—and the wide range of government ministries, private sector, and civil society actors that are drawn into the industry's policy and institutional environment. This is a huge institutional challenge for all governments. In Cabo Verde, particularly important is the need to fill the current governance vacuum in the sector. This includes the supervision and oversight of tourism tax funds recently attributed to municipalities. A quality label program is being prepared, modeled after the Seychelles Secrets initiative. The objective will be to train, certify, and promote locally-owned small accommodation establishments in all islands. Under a new program, 20 Cabo Verde companies involved in the tourism value chain will receive training and certification in certain ISO quality management systems.

A better exploitation of Cabo Verde's "blue economy" offers sizeable opportunities for more diversified tourism,

anchored in Cabo Verde's sustainable development of its vast oceanic and coastal areas. The blue economy is a long-term strategy aimed at supporting sustainable and equitable economic growth through ocean-related sectors and activities.<sup>6</sup> Although Cabo Verde signed the Blue Growth Charter in 2012, greater effort is needed to minimize environmental degradation, biodiversity loss, and the nondurable use of marine resources, and to maximize the economic and social benefits to the population. Much work remains to strengthen the coherence of its public policies linked to the development of tourism and the maritime economy with those of other components of the blue economy. In addition to tourism, this includes established traditional ocean industries (such as fisheries) and maritime transport, but also new and emerging activities, such as offshore renewable energy, aquaculture, seabed extractive activities, and marine biotechnology and bioprospecting. The blue economy aims to move beyond business as usual and to consider economic development and ocean health as compatible propositions.

## Agricultural and Fisheries Niche Products in Support of the Tourist Market

Cabo Verde's agricultural sector has successfully expanded in the last decade, as witnessed by the growing supply of domestically produced fresh food in the markets.<sup>7</sup> The agricultural sector grew at an annual average of 4.6 percent per year during 2007–2016, which is faster than the annual growth of 3.2 percent of the economy as a whole. It reflects the growing shift from subsistence agriculture to an agriculture increasingly oriented toward meeting the demands of the market.<sup>8</sup> Despite the paucity and fragmentation of agricultural land, insufficient and irregular precipitation, poor soil fertility, and rugged terrain, production has grown largely due to the incorporation of new technologies and investments made in electricity and dams, and in response to the fast growth of the urban domestic market. Agriculture in Cabo Verde is predominantly based on subsistence family production, which consists of very small plots and rain-fed farming. However, irrigation, especially drip irrigation, has expanded fast, following the completion of various dams and gravity irrigation schemes in Santiago and Santo Antão during the past 10 years. According to the Agricultural Census of 2004 and 2015, the number of farms that use irrigation increased from 7,023 to 8,580, and the number of irrigated plots from 10,612 to 12,563 during this period. In 2015, 19 percent of the farms used

irrigation and 14 percent of all plots were irrigated, up from 11 percent in 2004.<sup>9</sup>

**Across the archipelago, a range of agricultural goods are produced and successfully exported for specific markets; a realistic export strategy must indeed focus on niche products and niche markets.** These include organic, ethnic, fair trade, nostalgia products (*produtos da terra* for the diaspora), and other low-volume/high-added-value products. The “Cabo Verde” brand adds value and should derive its competitive edge from incorporating the country’s unique cultural and historical characteristics. The sector’s growing commercial orientation has also been stimulated by the participation of business enterprises in the production and commercialization of wine, sugarcane-based liquors, and goat cheese. Quality is a major preoccupation, however, and the lack of food safety certifications remains a key challenge for the corresponding supply chains. Further expansion of production might require more efficient use of water from irrigation schemes and more innovative ways to reuse water, including recycling wastewater. Expanding agricultural production would create opportunities for a large segment of the country’s rural population, many of whom are extremely poor.

**The major obstacle to commercialization is the absence of an efficient and adequate national logistics system.** The problem is magnified by the extreme degree of production fragmentation, both in terms of the proliferation of small plots and the geographic discontinuity of the country. Another chronic problem farmers face is the high rate of post-harvest loss. One promising solution has been the construction of a network of collection, treatment, and distribution centers. Private management of these post-harvest centers should be promoted, with an active role in the training of farmers and other chain operators, and the promotion and dissemination of market information. Domestic support policies and institutions must also be established to foster quality export-oriented production.<sup>10</sup> Existing preferential trade agreements of which Cabo Verde is already a part, like the U.S. AGOA and the European EPA, provide privileged market access to 1 billion consumers, including large diaspora communities.

**Exporters face different requirements than those applied to the national market, thus specific export support is required.** These include credit lines for export, applied research, agribusiness development centers, and grants. Export market information needs to be improved, which is just one component of a much larger program to conduct

empirical research to identify and understand the real bottlenecks faced in the process of exporting agricultural products and creating special task forces to resolve these bottlenecks. The strategy of promoting the export of agricultural and livestock products necessarily requires the organization of production and farmers, market information, the improvement of marketing, and public policies that promote increased production, quality systems, and support for exporting enterprises.<sup>11</sup>

**Successive governments have designated the fisheries sector as a strategic sector of vital importance to the country’s social and economic development; however, despite recent growth, its contribution to the economy remains small.** The sector’s contribution to the economy has experienced positive developments mainly due to increased exports of canned fish. But while production has gone up in recent years—from 20 tons in 2007 to 34 tons in 2015—its contribution to GDP has fallen, from 2 percent of GDP in 2000 to 1.2 percent in 2015. In 2000, around 5 percent of the labor force worked in the fisheries sector, but this dropped to 3 percent in 2013. A large proportion of the artisanal fishers and fish traders are poor. In a case study of Santiago island, one-third of fisheries households were classified as extremely poor, with daily incomes of around US\$4.90 per family.<sup>12</sup>

**Despite opportunities for growth, current limiting factors for the fisheries sector are substantial.** These include illegal fishing, poor supervision of and control over marine activities, as well as poor control over catches by licensed vessels. There is also a lack of scientific knowledge about the dynamics and evolution of the main stocks. Therefore, the focus should be on creating the conditions for sustained improvement in the sector’s productivity and competitiveness, based on an ecologically and economically sustainable approach. Deepening ongoing efforts to embrace the concept of the blue economy would offer opportunities for sustainable and inclusive exploitation of marine resources and to realize potential synergies between sectors that depend on them, such as marine-based tourism.<sup>13</sup>

**Efforts must be made to impart greater efficiency in the distribution channels and commercialization of seafood products, increasing operators’ income levels and the welfare of fishing communities.** The primary objective should be to strengthen the capacity to supply the domestic market, taking advantage of improved market opportunities offered by the tourism sector—which is currently estimated to purchase less than 20 percent of its fish locally—and increased

demand of the canning industry. However, it should be noted that local sourcing of seafood by the hotel industry could possibly have negative consequences on fish availability for local consumption and increase pressure on fish resources. Cabo Verde needs an innovative business model that ensures the sustainability of the fish supply that is grounded in research, along with an in-depth understanding of ecosystems.

## Logistics and ICT

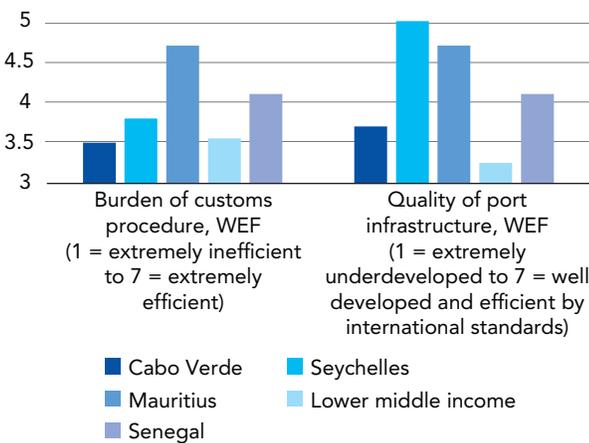
Cabo Verde’s new Strategic Plan for Sustainable Development (the PEDS) proposes that the country become a logistics hub for maritime and air transport, capitalizing on Cabo Verde’s strategic location along major maritime and aviation routes. It identifies market opportunities—for example, in the field of bunkering and transshipment. The potential to become an air transport hub is based on the country’s location at the intersection of important air routes that connect the continents bordering the Atlantic. Around 120 aircraft fly over Cabo Verde’s air space every day, totaling a daily flow of between 18,000 and 24,000 passengers. This excludes passengers to and from Cabo Verde. The PEDS argues that if Cabo Verde can capture 5 percent of this market share after 5 years, and 10 percent after 10 years, the country will have captured an international market of around 2,400 passengers per day, in transit, which is equivalent to about 24 flights with medium-sized aircraft. This could grow to 100 flights and eventually to 124 daily flights with larger aircraft, totaling about 24,800 passengers per day. This will have important direct

and indirect effects on the economy. The PEDS recognizes that this vision is to be realized through strong participation of the private sector, with the state in the role of promoter.

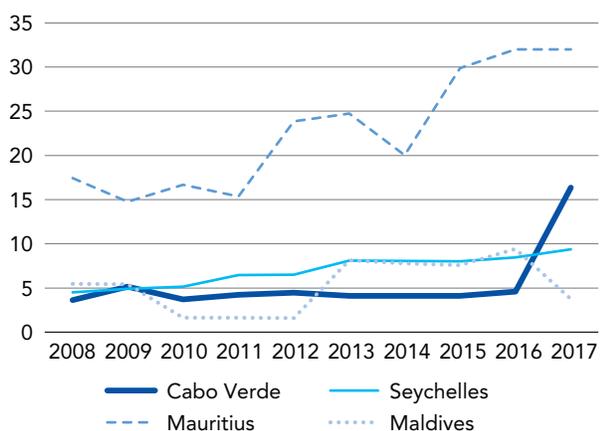
Cabo Verde’s geographical location in the middle of four continents indeed offers potential for the development of a logistics hub, but key constraints have yet to be overcome and further work is needed to assess private sector interest. Becoming a logistics hub would require building and maintaining a global competitive advantage. Currently, connectivity to global support chains is weak, and trading infrastructure indicators show lower values than Cabo Verde’s aspirational peer countries (see figures 44a and b). For example, Cabo Verde is ranked lower than Mauritius, Seychelles, and Senegal along “burden of customs procedures” and also on “quality of port infrastructure” (see figure 44a). The country is also ranked lower than various peer countries on the UNCTAD’s “liner shipping connectivity index,” although in 2017 a major improvement was witnessed (see figure 44b). This index captures how well countries are connected to global shipping networks. It looks at number of ships, their container-carrying capacity, maximum vessel size, number of services, and number of companies that deploy container ships in a country’s ports.

The logistics/services hub-centered economy is not simply about large infrastructure projects; it is also about creating a platform for an efficient flow of business activity for which the enabling environment is currently not optimal. It would require developing incentives to attract foreign investors and finding an essential private partner with adequate technical, financial, and commercial means to set up a hub strategy

**FIGURE 44A.** Trading Infrastructure Indicators, 2017



**FIGURE 44B.** Liner Shipping Connectivity Index, Annual, 2004–2015



Sources: World Economic Forum 2017 and UNCTADStat.

for serving the Americas, Europe, and the African market. However, other enabling conditions would also need to be strengthened. These include improvement of human capital, ICT services and electricity, and broader aspects of the investment climate (see Chapter 4). The quality of air and maritime transport are currently a constraint for Cabo Verde's development, but these could well turn into an opportunity and possibly lead to Cabo Verde becoming a logistics hub once these and broader investment climate constraints have been tackled.

**Cabo Verde has substantially improved its connectivity and use of ICT over the past decade, leading to relatively high levels of broadband adoption, extent of use by the government, and availability of local online services.** The country has benefitted from its geographic location and is already served by two cables. Cabo Verde ranks 4th among African countries along the ICT Development Index (IDI), however, it is behind South Africa and its aspirational peers Mauritius and the Seychelles. As mentioned, bandwidth per Internet user is relatively low at 17,000 bits per second,<sup>14</sup> and one of its two cables is currently at full capacity. The Ella-link cable from Brazil to Portugal (scheduled to enter service by the end of 2019), is planned to connect to Cabo Verde. If realized, this will help address the increasing demand for international capacity in the country and reduce the current reliance on one submarine cable.

As mentioned, a key difficulty for ICT development in Cabo Verde is weak enforcement of the ICT regulatory regime, which undermines international competitiveness. It has led to unfair competitive practices from the vertically integrated operator, creating a particularly challenging operational environment for other private sector players in the market. There are indications that recent developments may threaten the gains from liberalization achieved over the last dozen years, which will undermine the sustainability of the ICT business environment. The feasibility of developing Cabo Verde as an ICT hub is further undermined by inadequate planning and poor management of the power sector, which contributes to high energy costs; the relatively poor quality of education; and transport connectivity problems.

In the short term, the ICT sector should probably focus on strengthening its support to other sectors, such as modernizing the delivery of education and health services across the archipelago and developing logistics and tourism. To further assess the potential for realizing the vision of Cabo Verde as an ICT hub, further analysis is needed on how the enabling environment for that can be improved. This SCD

identifies ICT as a constraint (see Chapter 4) rather than an opportunity, but when key policy barriers are overcome this could well be turned around and the ICT sector could become a key pillar in the country's development strategy.

## MANUFACTURING

**Manufacturing can be an important vehicle of structural transformation, moving people out of low-productivity primary sectors into higher productivity ones.** It has been a key driver of Mauritius's success following a targeted industrial policy that including labor reform, export processing zones with duty free access for imported inputs, tax incentives, a segmented labor market, and ensuring preferential access for end products.<sup>15</sup> For Cabo Verde, the services sector has been the main engine of its growth, but as economic growth has grinded to a halt in recent years, the question is whether manufacturing—which is the traditional growth escalator for developing economies—will be an important driver of growth in Cabo Verde going forward. The industrial sector currently constitutes 15 percent of GDP, and during 2009–2016 grew on average by only 0.3 percent per year, compared to 1.7 percent of the services sector.

**For Cabo Verde to achieve Mauritius's manufacturing success, it would need to increase the competitiveness of its trade infrastructure, its workers' skills, and its ability at the national and local level to dialogue with the private sector.** Industrial policies can play a central role in promoting manufacturing and providing cheap industrial land, port facilities, and duty-free import of materials and equipment for export production. While Cabo Verde could develop these facilities, it faces key challenges in terms of the quality of its basic infrastructure services, including connectivity in terms of shipping and air transport, as well as electricity, drinking water, and ICT. Its broader regulatory environment for the private sector will need to be strengthened, and improving vocational training will be key to lowering the training costs facing would-be private investors.

**Policy interventions should start by learning from its current manufacturing sector—mainly the export of canned and frozen fish—and assess the constraint these firms face and address these.** Implementation of industrial policies should be decentralized as much as possible to increase proximity to entrepreneurs, improve accountability, and foster competition between local governments. It will be essential to learn from further pilot initiatives and put in place effective monitoring and evaluation mechanisms to regularly review and improve ongoing interventions. Maintaining a stable

and conducive macroeconomic environment and ensuring that natural resources are well managed are additional conditions for growth in the manufacturing sector.

## Island-Specific Opportunities

Cabo Verde's nine inhabited islands vary in terms of their demographic trends, social and agro-ecological characteristics, geography, and comparative advantage for different tourist products. They provide a range of opportunities. Below we briefly summarize these for six of the main islands that cover more than 90 percent of the population.

*Santiago.* Santiago is by far the largest island in terms of size and population. In 2015, 57 percent of the population lived on this island, up from 54 percent in 2001. Most of them live in Praia, which now contains 28 percent of the country's population, up from 22 percent in 2001, and which has by far the highest agglomeration of people in the country. More than half of the extreme poor live in Santiago, the bulk of them in rural areas. Roads have substantially improved in recent years, and various dams have been constructed across valleys, together with small-scale irrigation schemes. Water is expensive and commonly applied to crops using drip irrigation techniques. Horticultural production has expanded in recent years, providing the growing urban market of Praia with a steady supply of fruits and vegetables. Some traders also take their produce to the tourist resorts in Sal and Boa Vista islands. There is considerable potential to further expand horticultural production, but this would require recycling wastewater and expanding low-cost desalinization of sea water. Praia's economic potential mostly consists of business tourism, logistics, and cruise ships.

### Santiago



### Mindelo (Sao Vicente)



*Sao Vicente.* The island of Sao Vicente is the second largest island in terms of population. Around 15 percent of the population are found here, a proportion that has remained stable since 2001. Around 9 percent of the country's poor and 11 percent of the extreme poor, respectively, are located on this island. The bulk of the population lives in Mindelo, the country's cultural capital that also has a large deep-sea port and a ship yard. Several fish packing factories are found here. The island has limited cultivable land and its agro-ecological potential is probably low. Opportunities for growth and increased shared prosperity consist of further expanding cultural tourism and other blue economy-based activities, as well as cruise ship visits. Expansion of fisheries depends on the protection and sustainable management of fish stocks and the possible development of aquaculture. The PEDS also identifies the potential to expand the bunkering of sea vessels and the development of ship yards.

*Santo Antão.* Around one-tenth of Cabo Verdeans currently live on the mountainous island of Santo Antão, down from 14 percent in 2001. It has long been the poorest island, but extreme poverty has come down faster than anywhere else in Cabo Verde, and dropped spectacularly from 48 percent



in 2001 to 17 percent in 2015. Investments in infrastructure, such as roads and dams, some expansion of agricultural niche products such as goat cheese and rum, trekking tourism, and outmigration are likely to have contributed to increased welfare. The island is renowned for its natural beauty and has steep mountains and deep valleys. It receives more rainfall than other islands. Its development potential consists of expanding the production of agricultural niche products, and trekking and community-based tourism.

### Santo Antão



*Fogo*. Fogo currently contains around 6.6 percent of Cabo Verde's population, down from 8.8 percent in 2001; outmigration has been relatively high. It currently has the highest extreme poverty rate: 20 percent, which is twice the national average. Around 12.5 percent of the extreme poor live here. The island is characterized by its large, old, volcanic crater, where several eruptions through new, small subcraters have taken place over the past 50 years and as recently as 2014. Important income sources include tourism, the production of wine and coffee on the crater's slopes, as well as the production of goat cheese. Potential for development consists of expanding tourism, including of the diaspora, and agricultural production.

### Fogo



*Sal* and *Boa Vista*. These islands had small populations until the tourism boom and the expansion of all-inclusive resorts attracted substantial numbers of tourist workers from other islands. The islands have little arable land and receive little rainfall. Attractive beaches in combination with biodiversity hotspots constitute important assets. Urban development has remained behind demand, leading to poor housing and sanitation facilities for workers. Employers have not invested in housing development for their staff. Development potential consists mainly of further diversifying tourism, including water sports, sea fishing, and bio-tourism.

### Boa Vista



## NOTES

1. National Implementation Unit, Enhanced Integrated Framework, and MTIE 2013.
2. National Implementation Unit, Enhanced Integrated Framework, and MTIE 2013.
3. PwC 2014.
4. World Bank 2013c.
5. World Bank 2013c.
6. See, for example, the World Bank report on the Blue Economy (World Bank and United Nations 2017).
7. Few records of the production of fresh produce are kept, but expert interviews confirm this finding. Overall agricultural sector growth.
8. National Implementation Unit, Enhanced Integrated Framework, and MTIE 2013.
9. Ministério da Agricultura e Ambiente et al. 2017.
10. National Implementation Unit, Enhanced Integrated Framework, and MTIE 2013.
11. National Implementation Unit, Enhanced Integrated Framework, and MTIE 2013.
12. Save the Children and Ministry of Agriculture 2017c.
13. See, for example, the World Bank report on the blue economy (World Bank and United Nations 2017); the Cabo Verde Charter in Favor of Promoting Blue Growth and FAO organized a conference on blue growth/economy in Cabo Verde (Mindelo) (FAO 2017).
14. ITU 2016.
15. World Bank 2014c.

## Summary of Binding Constraints and Remaining Knowledge Gaps

*The previous chapter summarized Cabo Verde's opportunities to reignite growth, further reduce poverty, and strengthen social inclusion. In this concluding section, we provide a summary of the binding constraints presented earlier, together with the drivers of the constraints and the evidence. We also discuss the remaining knowledge gaps.*

**This chapter brings together the various development challenges confronting Cabo Verde under five overarching binding constraints.** The SCD identifies the most important opportunities and obstacles to reducing poverty and improving shared prosperity in Cabo Verde. Based on existing evidence presented in the preceding chapters, more than a third of the population is poor. This is due in part to low human capital and governance and fiscal challenges, which, when combined with economic dispersion, limit economic opportunities. Table 4 summarizes the binding constraints and describes their drivers. Figure 45 presents their relationship to the analytical framework presented in Chapter 4.

### Prioritization Process

**The diagnosis and prioritization of development constraints is the result of a three-step process.** The first step resulted in the analysis findings covered in the preceding chapters. This includes benchmarking Cabo Verde against its aspirational peers—the Seychelles, Mauritius, and other relatively advanced small developing states—along a series of performance indicators to identify areas where the country is lagging behind. Expert interviews, available reports, analyses of statistical data to assess the main drivers of economic growth and poverty reduction, and limiting factors that caused growth to stall were used to identify the remaining constraints for progress. Evidence from these processes led to a list of 10 priority constraints.

**The second step involved in-country consultations with government officials, civil society members, individuals in**

**the private sector, and academics, as well as those in the donor community.** Initial consultations were undertaken in 2016 to frame the concept and hypotheses. A second round of consultations was undertaken in Praia, Santo Antão, Sao Vicente, and Boa Vista during October 24–30, 2017, as a consistency check of the binding constraints that were identified. Appendix F presents the in-country consultations in Cabo Verde in more detail. A third round was conducted on January 21, 2018, with representatives of the diaspora in Rotterdam, the Netherlands. There was broad support for the evidence on the achievements, challenges, opportunities, and priority constraints. Participants took note of the findings, many of which supported those of the recently approved Strategic Plan for Sustainable Development (the PEDS).

**The third step consisted of consultations with the World Bank Country Team for Cabo Verde, during which bindings constraints were discussed and modified.** Country team members ranked the constraints using a worksheet that summarized the rationale and evidence for each constraint. They then ranked the constraints from 1 to 10 along two criteria: the poverty impact of removing the constraint; and the strength of the evidence.

### Key Knowledge Gaps

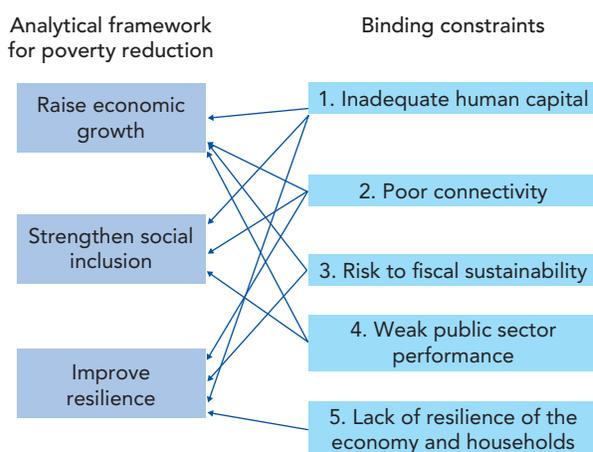
**This SCD has been informed by a review of more than 50 studies, primary data analysis, expert interviews, and stakeholder consultations.** While this provided a wealth of information, a number of data gaps have been identified. The main country sources of information for this SCD were data from the national accounts, household surveys, labor force surveys, and other macroeconomic and social indicators from government and secondary sources. The WBG's Doing Business and Enterprise Surveys were used to capture firm business climate concerns. This SCD identifies knowledge gaps and signals potential directions for future

**TABLE 4.** Summary of Binding Constraints

	Constraint	Description of drivers of the constraint
1	Inadequate human capital	<u>High secondary drop-out rates</u> and <u>insufficient quality</u> of education lead to a workforce that lacks the skills required for a diverse and dynamic service economy.
2	Poor connectivity	<u>Inter-island transport</u> is expensive and unreliable, which affects the integration of domestic markets for labor and goods. <u>Inadequate ICT infrastructure</u> and weak institutional arrangements prevent faster progress in this essential backbone of the service economy. <u>Weak planning and management of the power sector</u> affects the provision of less costly and more reliable delivery of electricity and water for consumption and irrigation.
3	Risks to macroeconomic stability and fiscal sustainability	<u>High public debt</u> is preventing the government's ability to invest in key infrastructure, particularly in the power and transport sectors. Together with <u>high economic vulnerability</u> due to heavy reliance on all-inclusive tourism and tourists from a small number of European countries, this potentially undermines macroeconomic stability.
4	Weak public sector performance	The government is <u>not sufficiently effective</u> in terms of delivering the needed policy reforms, and accountability on results delivery is weak. This negatively affects the creation of a more favorable investment climate for the domestic private sector, and the generation of a well-qualified workforce. Public-private collaboration is inadequate to develop a more diverse services sector and to make infrastructure investments more productive. <u>Decentralization</u> is incomplete, and local capacity and duplication efforts could undermine the cost-effective delivery of results on the ground.
5	Lack of resilience	The growing <u>exposure to weather shocks</u> is an important constraint for sustaining development progress, as it undermines the resilience of both households and the economy. Cabo Verde's <u>natural environment is insufficiently protected</u> , and its performance along indicators related to its policies and institutions for environmental sustainability have lagged in recent years and are relatively low.

research, as they go beyond the scope of this SCD. These are the following:

- **Skills.** Conducting additional work on skills from the point of view of the firm to better understand the extent to which the lack of skill supply is inhibiting investments in process and technology improvements (or vice versa). The analysis could also look specifically at how the private sector is dealing with the lack of higher skills,

**FIGURE 45.** Analytical Framework and Binding Constraints

which demand-led models can be considered for scaling up, and what specific dimensions of SME capabilities are the least developed (production management, sales and marketing, personnel management, etc.).

- **School drop outs.** High secondary school drop-out rates are an essential constraint for Cabo Verde's progress. Several possible causes have been mentioned in this report. However, evidence is limited and little is known how this differs across areas and population groups and what factors are influencing these.
- **Efficiency of school expenditure.** While Cabo Verde has allocated substantial budgetary resources to education over the past 15 years, the education system could yield savings by more efficiently using resources. The unit cost per student at the secondary and tertiary levels is high compared with international benchmarks, but the results are significantly lower. The average teacher wage in Cabo Verde is 15 percent higher than positions requiring equivalent qualification on the labor market. Non-teaching staff account for 29 percent of the total number of employees at the Ministry of Education and their corresponding wages comprise 25 percent of total education expenditures. Cabo Verde's education system would benefit from a better targeting of social expenditures while increasing resources in pedagogical expenditures.
- **Market integration.** The extent to which markets for goods and services are integrated is unknown, and

**TABLE 5.** Binding Constraints and a Summary of the Evidence

	Constraint	Subconstraint	Evidence
1	Inadequate human capital	High school drop-out rate	<i>Benchmarking:</i> Cabo Verde ranks behind aspirational peers in terms of net secondary enrollment (see figure 25a), and student retention is relatively low and not improving (see figure 25b). <i>Other evidence:</i> High proportion of youth are not in school, not working (IDRF 2015).
		Insufficient skills	<i>Benchmarking:</i> Proportion of firms stating that an inadequately educated workforce is a major constraint is higher than aspirational peers (see figure 32a). Long distance from education efficiency frontier (see figure 32b). <i>Other evidence:</i> Low scores for <i>Aferida</i> test on mathematics and Portuguese, 37% of teachers have no degree.
2	Poor connectivity	Problematic inter-island transportation	<i>Benchmarking:</i> Cabo Verde ranks behind its aspirational peers on the WEF's quality of infrastructure index (see figures 33a and 33b), especially regarding quality of port infrastructure and air transport (see figure 33b). <i>Other evidence:</i> Expert interviews suggest maritime and air transport are unreliable.
		Weak ICT infrastructure	<i>Benchmarking:</i> The ITU ranks Cabo Verde behind its aspirational peers in terms of ICT development. Internet use (see table 2) and bandwidth per Internet user are also lower than aspirational peer countries. Cabo Verde has a low global rank (103rd) on the UN's e-governance index. <i>Other evidence:</i> Expert interviews revealed inadequate regulatory regime and lack of cable capacity.
		High energy costs	<i>Benchmarking:</i> Cabo Verde has higher energy and desalinated drinking water costs than its peer countries. Electricity losses are higher than the average for SSA. <i>Other evidence:</i> High commercial losses of ELECTRA.
3	Risks to macroeconomic stability and fiscal sustainability	High debt	<i>Benchmarking:</i> Debt-to-GDP ratio is higher than peers (see figure 29b); macroeconomic risk rates are higher than Mauritius (similar to the Seychelles) (see figure 33a). <i>Other evidence:</i> Present value of debt is above the sustainability threshold.
		High economic vulnerability	<i>Benchmarking:</i> Higher volatility of GDP growth than aspirational peers.
4	Weak public sector performance	Insufficient delivery of reforms	<i>Benchmarking:</i> Lower WGI scores along "government effectiveness" and "regulatory quality" compared to aspirational peer countries (see figures 26c and d); lower global rank than aspirational peers on Doing Business (see table 3), and rank is dropping. Larger public wage bill than peers. <i>Other evidence:</i> Political economy studies suggest that the bipartisan political system paralyzes civil society and pressure groups (Costa 2013).
5	Lack of resilience	Low household resilience	<i>Benchmarking:</i> Higher frequency of droughts and storms than its peers; lower rank than peers on its Vulnerability score; highly unequal land ownership and low land assets of the extreme poor (see figure 41) (Save the Children 2017abc).
		Lack of protection of the natural environment	<i>Benchmarking:</i> Low rank on enforcement of environmental regulations on the Travel & Tourism Competitiveness Index. Cabo Verde is one of the world's most endangered biodiversity "hotspots." <i>Other evidence:</i> CPIA scores for Cabo Verde are lowest for environmental sustainability.

important for understanding key requirements for improving logistics and market integration. An analysis of price trends of goods across the archipelago should shed light on this.

- **Decentralization.** Weak service delivery at the local level in terms of urban planning, and developing housing and sanitation systems and irrigation development, are a key constraint. The extent to which municipality capacity, efficiency, and accountability are constraints for efficiently delivering this service is not known, yet this would seem essential for improving the efficiency of investments.
- **Constraints regarding better engagement of the diaspora.** With remittance playing an important role in economic development in Cabo Verde, fresh analysis on the profile of

a remitter as well as the impact of remittances on household income and behavior could be useful in explaining unemployment and poverty. This could include assessing how the diaspora can be better engaged to contribute to Cabo Verde's development.

- **Political economy of SOE reform.** This SCD is limited in terms of its discussion of the political economy of reforms in Cabo Verde. For example, the SOE sector has long been an important player in the delivery of public services in Cabo Verde, but reforms to improve its performance and management have not yielded the desired results. Recently, performance-based contracts were introduced, but never enforced. A related area for improvement is to collect and report on debts of all SOEs.



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## APPENDIX

## A

## Definition of Peer Countries

The Cabo Verde SCD features a systematic benchmarking exercise using a pre-identified list of structural and aspirational peer countries. The country's performance is also compared against lower- and upper-middle-income country groups as well as SSA. The peers were selected using the MFM Find My Friends Toolkit as follows:

### Structural Peers

We selected countries with similar economic characteristics to Cabo Verde using the following criteria:

- Being a lower-middle-income country.
- Having an international tourism receipt (as a percentage of total exports) greater than 18 percent.

- Having a population of less than 1.5 million people.
- Having general government gross debt above 50 percent of nominal GDP.

### Aspirational and Regional Peers

Under this classification, we allow for higher levels of development. The criteria used are:

- Being a small island state.
- Having a population less than 1.5 million people.
- Being an upper-middle to high-income country.
- Having an international tourism receipt (as a percentage of total exports) greater than 25 percent.
- Having a debt-to-GDP ratio of greater than 50 percent.

**TABLE A.1.** Structural Peers and Aspirational Peers of Cabo Verde

Country	Classification by income	Region	Population (million)	Tourism receipts as % of total exports	General government gross debt as % of nominal GDP	Investment, % of nominal GDP	CPIA	2016 GNI per capita, US\$
Cabo Verde	Lower MIC	SSA	0.5	53.0	110.0	39.0	3.8	2,970
<b>Structural peers</b>								
Bhutan	Lower MIC	SAR	0.8	19.0	94.0	57	3.7	2,510
Sao Tome and Principe	Lower MIC	SSA	0.2	64.0	74.0	29.4	3.1	1,730
Samoa	Lower MIC	EAP	0.2	65.0	55.0	—	4.0	4,100
<b>Aspirational peers</b>								
Mauritius	Upper MIC	SSA	1.3	27.0	56.0	19.0	4.6	9,760
Seychelles	High income	SSA	0.1	35.0	68.8	32.9	3.6	15,410
St. Lucia	Upper MIC	LAC	0.2	58.0	80.2	20.5	3.7	7,670
St. Kitts and Nevis	High income	LAC	0.1	34.0	82.9	30.0	3.6	15,860
St. Vincent and the Grenadines	Upper MIC	LAC	0.1	47.0	77.9	25.1	3.7	6,790

Sources: MFM Find My Friends Toolkit and World Development Indicators.



## APPENDIX

## B

## Welfare Data

**T**hree household surveys have been conducted in the last 17 years: the IDRF 2001–2002, the QUIBB 2007, and the IDRF 2015. While the 2001–2002 and the 2015 surveys used very similar consumption questionnaires, and both used a 15-day household food consumption diary, they differed in the way durable consumption goods were valued. The 2001–2002 survey valued durables at their purchase value, while the 2015 and 2007 surveys applied user values. The QUIBB 2007 survey had no household consumption diary and instead used a

recall method based on shorter questionnaire with a less comprehensive set of consumption items. The 2001–2002 survey might thus have overestimated inequality and possibly consumption, while the 2007 survey probably underestimated consumption. A strictly valid comparison of the consumption aggregate of the 2001–2002 survey and the 2015 survey would require adjusting the valuation of the consumption durables in the consumption aggregate of the 2001–2002 survey. This was not done for the analysis presented in this SCD.



## Explaining Growth Transition in Cabo Verde

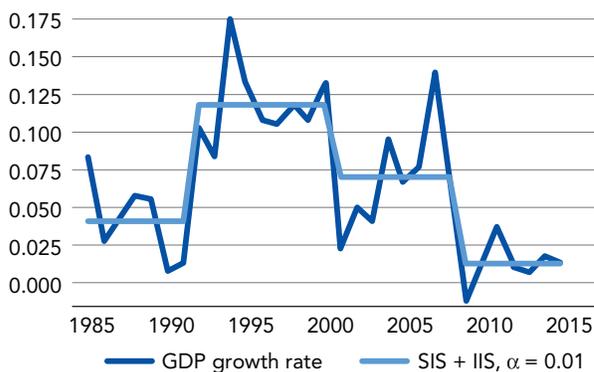
A review of economic growth transitions was conducted that covers the period 1985–2015. It includes the following variables: domestic economic policies (investment, exports, imports, real effective exchange rate, terms-of-trade, inflation), political circumstances (the polity index, an indicator for regime changes), and the external environment (terms of trade). The choice of variables is partly justified by the findings of some recent studies (e.g., Haussmann et al. (2005); Imam and Salinas (2008)) which show that growth turnarounds are associated with increases in investment and trade, with real exchange rate depreciations, and regime changes. The link with changes in terms-of-trade is weak. Specifically, the analysis uses a structural break approach to address the following questions: (1) Did Cabo Verde’s economy experience sustained shifts in growth rates since the mid-1980s? (2) What policies or other correlates are likely associated with growth accelerations or decelerations? And (3) what were the possible causes of sustained growth transitions?

Similar to work done by Haussmann et al. (2005), Jones and Olken (2008), and Gebregziabher (2015) an algorithm searching for structural breaks developed by Doornik et al. (2013) is used to determine the existence, timing, and significance of breaks in long-run growth rates. Sustained shifts in growth rates are defined following Haussmann et al. (2005): (1) For a shift in mean growth rate to be categorized as a growth turnaround it should be sustained for at least 8 years and the change in growth rate must be at least 2 percentage points; (2) There can be more than one instance of growth turnaround as long as the dates are more than 5 years apart; (3) Trend breaks were selected at 1 percent target size (i.e.,  $\alpha = 0.01$ ). The target size determines the significance level below which a break is not kept in the model (see Doornik et al. 2013).

Cabo Verde’s GDP growth experienced three turning points over the past three decades: 1992, 2001, and 2009 (see figure C.1). Econometric evidence indicates the presence of a growth take-off in 1992 and growth decelerations in 2001 and 2009. These are associated with extraordinary (economic and institutional) events. During 1975–1991,

the government pursued state-led economic policies and maintained a dominant public sector. The economy grew at a solid pace of nearly 5 percent in the 1980s. Starting in the early 1990s, Cabo Verde introduced ambitious economic liberalization and decentralization measures aimed at reinvigorating growth. As a result, the economy moved into higher gears, with real GDP growth approximating double digits in 1992–2000. However, economic growth slowed during the early 2000s due to weak fiscal management—surge in fiscal deficit—triggering a plunge in international capital flows, including donor support. The last turning point, in 2008–2009, coincides with the start of the growth deceleration that followed the Eurozone crisis, which took a heavy toll on Cabo Verde’s economy by reducing FDI inflows and tourism demand. GDP growth was only 1.3 percent on average in 2009–2015, compared to 7.4 percent in 2001–2008.

The growth deceleration since 2008–2009 coincides with a sharp decline in investment and import growth rates (see table C.1). In contrast, changes in the growth rates of exports as well as the remaining determinants are not significantly linked with the growth deceleration after 2008–2009. Similarly, external conditions and institutional (or regime) changes were found to be insignificant determinants of the downward shift in the growth trajectory. Average annual growth in (gross) investment stood at 16 percent during 2003–2008 and fell drastically to –0.02 percent in the post-2009 period. Similarly, import growth averaged 11 percent in 2003–2008 but sharply contracted to an average of –4.6 percent during 2008–2015. This essentially reflects the sharp decline in capital goods imports resulting from lower investment. However, the long-run growth rate of exports experienced only a slight decline. Disaggregating gross investment shows that the growth rates of both government and private investment declined markedly. However, the drop in public investment growth was more pronounced, from 12 percent in 2003–2008 to –15 percent in 2008–2015. The results also show that the sharp downturn in growth was also linked to significant contraction in FDI flows, from 25 percent to –8 percent between these two periods.

**FIGURE 1.** Cabo Verde: Real GDP Growth Rate

Source: Red line: real GDP growth rate. Blue line: fitted line derived from the statistical test in Doornik et al. (2013). Structural breaks determined by Step-Indicator Saturation (SIS) and Impulse-Indicator Saturation (IIS) (with breaks selected at target size  $\alpha = 0.01$ ). The target size determines the significance level below which a break is not kept in the model.

**TABLE C.1.** Cabo Verde: Long-Run Growth Rates of Macroeconomic Variables

Var.	$\delta_{11}^{1992}$	$\delta_{11}^{2001}$	$\delta_{11}^{2009}$
$\Delta y_t$	0.084 (5.97)***	-0.048 (-3.72)***	-0.057 (-4.11)***
$\Delta inv_t$	0.021 (0.16)	0.081 (1.78)*	-0.153 (-2.46)***
$\Delta ex_t$	0.127 (2.53)***	-0.008 (-0.18)	-0.025 (-0.51)
$\Delta im_t$	0.046 (0.97)	0.024 (0.55)	-0.132 (-3.33)***
$\Delta reer_t$	0.002 (0.07)	0.007 (0.446)	-0.006 (0.398)
$\Delta inf_t$	-1.09 (-0.56)	2.49 (1.33)	-2.11 (-1.05)
$\Delta tot_t$	0.00 (0.00)	0.006 (0.07)	0.018 (0.28)
$\Delta FDI_t$	—	—	-0.272 (-1.68)**

Notes: t-values in parentheses;  $\delta_1$  is the long-run growth rate of the macro-variables;  $\delta_{11}^{yy}$  measures the shift in long-run growth rates that accompanied the extraordinary events in year yy. Some of the coefficients are statistically insignificant due to substantial fluctuation in the annual growth rates, which appears to have increased the standard errors of these estimates.

## Rural Livelihood Analysis

From October to December 2016, a livelihood assessment of the three main livelihood zones was conducted on Santiago, the main island of Cabo Verde. Around half of Cabo Verde's population lives on this island. Data were collected using both quantitative and qualitative approaches. While the findings are not necessarily representative for the population in each of these zones, data were collected from a range of contrasting localities that were thought to illustrate the different situations in each zone. Findings were presented in a report in Portuguese. Below we present summaries of the findings for each of the three zones in Santiago island: the Maize, Beans and Livestock Livelihood Zone (CV01), the Vegetables, Banana, and Papaya Livelihood Zone (CV02), and the Fisheries, Goat and Pig Rearing Livelihood Zone (CV03).<sup>1</sup>

### Maize, Beans and Livestock Livelihood Zone (CV01)

#### DESCRIPTION

The maize, beans and livestock livelihood zone covers population clusters both in the interior of the island and in the coastal zone that are dedicated to rainfed agriculture, with emphasis on the cultivation of maize and different varieties of beans, and breeding of different species of animals (cattle, goats, pigs and poultry). Communities on the island of Santiago that are part of this livelihood zone include those in the municipalities of São Domingos, Santa Cruz, Santa Catarina, Ribeira Grande de Santiago, São Miguel and Tarrafal. The population density is about 297 people per square kilometer.

The climate is characterized by two well-demarcated climatic seasons: the cooler “dry season” from December to June, and the hotter “rainy season”, which runs from August to October. The average annual rainfall ranges from 200 to 400 mm, and the average temperature is between 28 to 35° Celsius. Dryland agriculture is most common in this zone and is practiced both on steep slopes with shallow soils and on more moderate slopes

with deeper soils. Household economic activities are related to the production of crops and animals for own consumption and for sale, miscellaneous trade (including production and sale of sugar cane drinks), straw sales and agricultural labor work.

Households grow maize and various bean species, often cultivated together with varieties of pumpkin. Families of all wealth groups typically have animals but numbers and type differ. Most keep small numbers because of limited space and shortage of pasture and water. Cattle, sheep and goats are fed with crop residues in the stables, or taken to specific areas of common pasture. Pigs and poultry are fed from the remainder of the family's meals, and chicken and ducks are given grain. From December to June, when the animals are taken to the grazing areas, they drink water in the streams and or in the community owned watering taps in the grazing areas. Men are responsible for cattle, sheep and goats, while women are responsible for caring for pigs and poultry.

Poorer households only have access to poor quality land owned by the state or rent marginal land at low prices from private households. Household of medium wealth rent better quality lands at higher prices. Richer families have full ownership of the land they cultivate. The workforce consists mainly of family members and sometimes salaried labor. Maize and bean seeds are locally sourced, stored by households and used year after year. Richer families also have some irrigated land and produces vegetables mainly destined for the market.

All communities have access to drinking water, either piped or provided by water tankers. The electricity and water company of Cape Verde, Electra SARL, is responsible for the production, transportation and distribution of electricity and desalinated water in Santiago. For piped water the payment is made monthly after consumption. Electric power is also available in all communities. All households use conventional or near-conventional toilets, in compartments adjacent to homes or inside their homes. Public institutions of basic health, with a few medicines

and with only basic health technicians, are present in most communities. However, households often travel to areas where better health care can be found, such as a health center with a doctor.

## MARKETS

A tarmac road in excellent condition connects the main towns in the area. From the office of the town Councils, where the main markets are located, most of the communities can be reached through roads that vary from good (most of them) to reasonable. In the rainy season, access to the market is difficult for certain communities, especially where roads are not paved.

The movement of people between the main cities in this zone is usually by mini-buses (Toyota Hiace). From the cities to the communities the transportation is mostly conducted by Toyota Hilux or Toyota Dyna vans, conveniently prepared for different types of transportation, including transporting children to school.

All communities have shops where food and basic products can be bought throughout the year, including imported rice that is typically bought by households in large quantities. Maize is sold at a lower price. These stores have refrigerators and most allow purchasing on credit, also for the very poor families. Households can also buy items from street vendors, who visit the communities two to three times a week with small vans. Farm tools and agricultural inputs are only available in Praia and Assomada.

Of the number of people who found paid work in the reference year of 2015/16, about 95% found temporary work within the area (80% in rural areas and 15% in urban areas), mainly for construction work, and 5% in urban areas outside the area (Praia, mainly), which typically happens from March to July.

The possibility of consumption of maize, beans and other crops from their own production allows families to reduce their food expenses. June to August are the months when very poor and poor families find it difficult to obtain food because during that period there is a shortage of own produce and prices are high. During this period, members of these families intensify their search for temporary work. For very poor families the sale of animals helps with paying school expenses and purchasing food.

## WEALTH GROUPS

Study participants divided community households into four wealth groups using their own criteria for wealth. Four groups were distinguished: 'very poor', 'poor', 'medium wealth' and 'rich'. Wealth differences are characterized by type of land tenure, amount of land cultivated for crop production and animal husbandry, and the existence of nonfarm income sources.

All household practice rainfed agriculture, while only some rich families practices irrigated horticulture on smaller portions of land. Households of medium wealth and better-off households own the land they cultivate, and also rent out land. Very poor households practice share cropping or rent state land. Only households of medium wealth and the better-off households have cattle, while all have goats, sheep and poultry. Households in the very poor and poor category heavily depend on uncertain and temporary jobs, while households in the other categories have more constant sources of income, such as salaries.

Very poor (27%) and poor households (38%) together make up almost two thirds of the households in the area, while households of medium wealth (24%) and the better-off (11%) make up the rest. Wealthier families give preference to members of the poorer families of the same community when they look for agricultural workers. The difference in wealth between the wealth groups is enormous. Very poor families in this area have difficulties continuing their studies and completing secondary education if they do not receive support for payment of school expenses.

## FOOD SOURCES

All households are heavily dependent on the market to purchase their food. The better off households cultivate larger portions of land and therefore have a greater contribution from their own crops to their food consumption. They also have more cattle that provide them with milk. The poorer households have less land and animals and have to buy more food to make up for gaps in their production capacity.

In the reference year, a typical very poor family produced about 220 kg of maize, a poor household up to 320 kg, and medium and better-off households produced 400 kg and 440 kg, respectively. For beans these quantities are

90 kg, 140 kg, 160 kg and 200 kg respectively. In this zone, it is not typical to sell crops from rainfed parcels as all food is self-consumed or used for gifts. Very poor households obtained 26% of their calorie consumption from own production, while this was 52% for the better-off. Imported rice is the most important staple food for households for all wealth groups and provides 20–25% of their minimum calorie requirement. The very poor and poor families do not always manage to obtain the food they need and depend on school snacks and gifts from neighbors and relatives, for a total of 5%.

### CASH INCOME

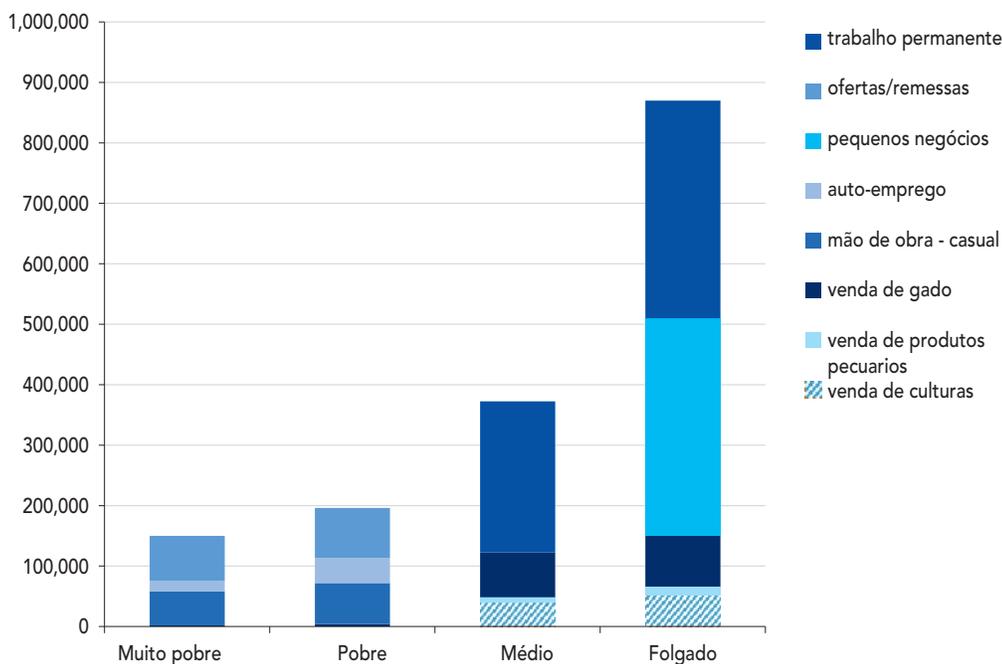
In the reference year, the cash income of poor families in this area is about one sixth of that of the better-off households and there is considerable inequality in the distribution of wealth in the area under analysis. Salaried jobs are important for the two wealthiest groups while sales of animal products are an important additional income source for the better-off. For the very poor and poor households, the most important sources of income are gifts/remittances, followed by seasonal farm and nonfarm work (Figure D1).

### EXPENDITURE

Food expenditure accounts for more than 50% of the total expenditure of the two poorest groups. Even in an average year such as the reference year, very poor households used about 28% of their income for the purchase of rice. They spent a similar percentage of income on purchasing non-basic foods, which included maize grain and wheat flour, beans, bread, sugar, oil, pork, chicken and fish. All wealth groups spent between 4000 and 24000 ECV (US\$50–250) for payment of water for human consumption. For poorer households, water expenditure represents 3% of total annual expenditure and 1% of total annual expenditures for the richest.

School expenses include school fees, uniforms, stationery, and transportation which for poor household account for 7–8% of total expenditures and income, while for medium and better-off households this is 6% and 3% of their total income. Very poor households often have difficulties even sending their children to primary school, while those at the upper end of the wealth scale send them more easily into secondary school. With regard to health costs, families in this area seek treatment in health facilities outside the community, whenever necessary.

**FIGURE D.1.** Income Sources of Different Wealth Groups



Source: Rural livelihoods assessment October 2016

## RISKS

There are a number of shocks that affect this area on a regular basis. The main, and most devastating, periodic hazard is unreliable or inconsistent rainfall, occurring once every three years, and leading to serious declines in agricultural production. Winds affect the marketing of products in the dry season. During the rainy season access to certain communities is hampered due to flooding impacting on marketing, movement of people and ability to look for work.

Other dangers affecting economic activities are: stray dogs, which attack livestock, reducing herds and discouraging breeders, and crop pests and diseases such as green locust. For animals, diseases such as the African plague, with great mortality of pigs, stand out. Occasional conflicts occur when cattle and goats invade the rainfed cropland.

## COPING MECHANISMS

In response to shocks and years of poor production, households try to meet their minimum food needs and cash needs through a series of strategies. These include: (i) increase the sale of animal products such as pigs. Richer households can increase milk sales. The poorer groups can increase sales of goats and sheep but they do not have many. Second (ii) all households try to reduce expenditure on some non-essential or expensive items such as coffee, sugar and oil and beans, and use that money to buy more kilos of rice. Third (iii) poorer households look for temporary agricultural work, including harvesting and selling of crop residues, or conduct informal small commercial activities in nearby communities or further away. Households with relatives in more distant areas can increase their request for support in cash or in kind (food).

## Vegetables, Banana, and Papaya Livelihood Zone (CV02)

The vegetables, banana, and papaya livelihood zone is located on flat lands along the humid valleys in the mountainous area in municipalities of São Domingo, Santa Cruz, Santa Catarina, Tarrafal, and São Miguel on the Island of Santiago. Population density is about 297 people per square kilometer. As this zone is characterized by access to

irrigation water, it arguably holds the highest potential for agricultural development.

This zone extends through Santiago's four agro-ecological zones, with greater predominance in the sub-humid zones. These are located at an altitude between 400 and 600 meters, with a rainfall between 400 and 600 mm per year. This area is rich in water resources. Most of the irrigated perimeters are located in coastal areas, downstream of the river basins, and fed by river dams and springs. Alluvial and colluvial soils predominate in the valleys. Dryland agriculture is practiced on sloping land or terraces where soils are of poorer structure and less fertile.

Household livelihoods consist of two main pillars: production and sale of irrigated crops, and occasional agricultural or nonagricultural work. The latter is of particular importance for the poorest households. Agricultural production on rainfed land is also practiced, together with livestock keeping. Very poor families only have pigs and poultry, while poor and average families have goats, pigs, and poultry, while rich families also have cattle.

On irrigated land farm households grow various vegetables, usually short-cycle (ranging from 75 to 120 days) such as tomatoes, cabbage, carrots, potatoes, pumpkin, watermelon, cucumber, and lettuce. Sugar cane, cassava, banana, papaya, and other fruits are also grown. Farmers divide their land into small plots and several horticultural crops are grown next to each other. On rain-fed land, households grow maize and varieties of beans and pumpkin from July to October, but production levels are low.

Wells and boreholes are managed mostly by the municipality, and some by local farmers' associations. Irrigation is done by flood or drip irrigation systems. Farmers must pay for irrigation water and the price depends on the type of irrigation practiced.

Kindergarten and elementary schools exist in the communities, but children must travel long distances to attend secondary schools. Some households benefit from transport subsidy and scholarship programs to send children to secondary school. Elementary schools provide school lunches for all children, financed by FICASE (Cabo Verde Social and School Action Foundation). These are of major importance to children from the poorest families.

The farms are small and mostly family-run, but rich farmers often hire laborers, usually members of poor families, at

CVE 1,000 per day (around US\$11). Richer households also hire workers to work on sugarcane and to process sugarcane byproducts (rum).

Off farm work is important for poor families and includes informal trade and housing construction. Construction work peaks when emigrants return to the country for vacation. Almost all households have cellphones and everyone has access to the Internet—mostly through their mobile phones—except the poorest.

## MARKETS

Even if the national tarmac road that connects the main towns is in excellent condition, some communities remain difficult to reach, especially during the rainy season.

Marketing of horticultural products is mainly done by *rabidantes*, who buy the products from the farmers' plots, and the farmer must place the product where it can be reached by transport.

Horticultural crops are grown in the irrigated plots throughout the year. However, very poor households plant crops less frequently, as they do not always have sufficient resources to buy the seeds, which can be costly.

May to August are the months when very poor and poor families have a harder time buying food, as prices are higher then. They therefore seek more casual work around this time.

## WEALTH GROUPS

Focus group discussions with community leaders were used to identify criteria for local wealth differences and to define wealth groups based on those criteria. Wealth groups were determined first by the size of irrigated land and the investment made in that land. Rich families own the parcels they cultivate and have the means to buy inputs and technologies, and to pay for full-time or temporary labor. They have the largest plots. Very poor families often sharecrop land of the rich, while poor and middle-income families often rent land. Very poor families also have fewer animals.

Very poor households (35 percent) and poor families (35 percent) together make up more than half of the households in the area. Medium (20 percent) and rich households (10 percent) combined represent less than a third of the population. The difference between very poor and poor

compared to the medium and rich is enormous, and even between very poor and poor, or between medium and the rich the difference is large. Irrigated agriculture requires capital to invest in adequate land, technology, and inputs. Often only rich families have these means.

Richer households sometimes provide the poorest ones with various types of food, including maize, fruits, and sometimes ready-made meals. They give preference to members of the same community when looking for workers.

## FOOD SOURCES

In the reference year for the assessment (October 2015 to September 2016) very poor households produced about 250 kg of maize, while rich families produced about 350 kg. Very poor households harvested about 100 kg of beans while others produced 150 kg. In this zone these are only for home consumption. Households typically manage to obtain around 32–39 percent of the minimum calories required from their own production. The rest of the food is purchased. Very poor families are typically unable to obtain all the calories they need. The deficit is filled by “food aid” provided through school meals and offers from neighbors and family members.

## SOURCES OF CASH INCOME

In the reference year, the cash income of rich families was almost eight times higher than that of very poor households. Very poor households obtain less than 50 percent of their income from agricultural production. For them, temporary work (in agriculture and self-employment) is more important as a source for obtaining money. In the reference year, rich families had lower profits per unit of cultivated land than the very poor.

## PATTERN OF EXPENSES

Poorer households spent a larger portion of their annual cash just to meet food needs. Even in an average year, very poor households spend about a quarter of their income on rice. In absolute terms, the better-off share of households spent about 60 times more on productive inputs than very poor households.

All wealth groups spent a relatively large amount of money on water for human consumption, for watering animals and for irrigating crops, with poorer families spending around

CVE 9,500–15,000 (US\$100–160) per year on water while this is around CVE 25,000–80,000 (US\$300–900) per year for rich households. Expenditure on water represented between 6 to 8 percent of total annual expenses for each wealth category.

Households in the highest wealth category spent about eight times more on education than households in the very poor category. Very poor households in general are only able to send their children to primary school, and secondary school is only accessible to them if they have access to a subsidy program. Out-of-pocket spending on health care ranged from 1.0 to 4.2 percent of total expenditures. Families seek treatment in out-of-community health facilities when needed.

## RISKS

The main, and most devastating, periodic hazard is unreliable or inconsistent rainfall, occurring once every three years, and leading to serious declines in agricultural production. Winds and heavy storms affect the marketing of products during the dry season, and during the rainy season it prevents access to certain communities. Crops and animals are affected by a range of pests and diseases.

## PATHWAYS OUT OF POVERTY

The size of the dryland and irrigated land owned is directly proportional to the wealth of the families. Ownership of land is related to the financial ability of households at some point in their life to acquire land. The price of a portion of land is high, and very poor households have no ability to negotiate and acquire irrigated land.

The productivity of rain-fed land does not vary much between households, as they use the same technology, manual cultivation, and techniques, limiting investment in production tools such as hoes.

Richer families cultivate dryland areas according to the needs of the family, depending on their stock of maize and beans; they also exploit the entire extent of their irrigated land, directing a large part of the capital they own toward the purchase of more profitable inputs and technologies and to pay for full-time or temporary labor. Poorer families that are unable to obtain satisfactory income from the plots of land they exploit are unable to accumulate and maintain a reserve of resources that allows them to invest in upgrading their activities.

## PRODUCTIVITY OF GOODS/ASSETS

Richer households invest more in irrigated land than poorer ones, either by purchasing more inputs and better quality ones; by acquiring, using, and maintaining drip irrigation equipment; or by hiring labor. Drip irrigation systems are more economical in terms of water costs, but have acquisition costs that poorer families cannot afford. The productivity of irrigated land therefore differs between wealth categories: for households in the richest category, productivity of their irrigated plots is about double those of the rich. At the same time, very poor to average households spend between 13–18 percent of their income on agricultural inputs, while those in the richest wealth group spend more than half of their income on this.

When asked what they need to move out of poverty, households in the poorest wealth category indicated that drip irrigation systems and animals for breeding, and improvement of marketing conditions—e.g., rehabilitation of access roads and market guarantee for products, are priorities. Mobilization of water for certain rain-fed areas in order to have more irrigated plots was also mentioned. Lower costs of water and electricity for water pumps, credit lines to purchase animals, construction of infrastructures for intensive farming, and controlling stray dogs were also mentioned.

## Fisheries, Goat and Pig Rearing Livelihood Zone (CV03)

The fisheries, goat and pig rearing livelihood zone consists of population pockets where annual income is mainly obtained through activities linked to fisheries due to their access to sea. Communities are found in the flat areas of the Municipalities of Santo Domingo, Santa Cruz, Santa Catarina, Ribeira Grande de Santiago and Tarrafal (on Santiago Island). The population is settled in small clusters along the coast and the vegetation consist of herbaceous steppe type. This zone is part of the Agro-Ecological Zone (ZAE) that is located at an altitude of between 0 and 200m, and characterized by an arid climate with annual rainfall of less than 300mm. The coastal areas are poor in water resources and have shallow soils.

The household economy is based on various self-employment activities linked to sale of fish, other trade and construction. Agricultural production and animal breeding (cattle, goats, pigs and poultry) are also practiced, providing

households food and income. Fishing is a key activity that provides the fishermen cash income (from the fishing activity or sale of fish). It is also a source of employment for the poorest groups.

The fishing is artisanal using mainly 4–5 m rowing boats and/or 5–8 HP outboard motors, and boats with nets (5–6 m boats and 15 m HP) or angling (from the shore on the rocks). Fishing activities are carried out either near the communities or in fishing areas outside of the living areas of the community and sometimes on other islands (ie. Maio and Boavista).

The poorest households usually also possess rainfed plots, using land belonging to the state or renting from private households. These lands are located far from the residences and sometimes outside of the fishing zone. Richest families own the land they cultivate.

## MARKETS

A concrete national road that is in excellent condition connects the main towns of the Island. From the municipality council headquarters, where the main points of commerce are located, it is possible to reach all communities through mostly good quality roads.

The zone can be easily reached by means of transport provided by Toyota Hiace vehicles. Household members use these to carry out their purchases, to go to school or go to their place of work. Products for sale are consequently available in the areas two to three times a week through small vans, usually Toyota Hilux. The cost of travel per passenger varies from 40 to 300 CVE (US\$0.5–4) depending on the distance.

## WEALTH GROUPS

Rural households were divided into four wealth groups namely very poor, poor, medium wealthy and better off using criteria defined during focus group discussions with the community and based on their understanding of differences between the different wealth groups. The wealth of the different groups is determined by ownership of fishing equipment that influence the type of fishing carried out and is also related to access to capital. Better-off families own 5 m vessels, using 5HP or 8HP engines. Medium wealthy families possess 5 m boats that are moved by use of oars as they do not have the means to purchase engines. Poor families fish from the shore, on the rocks using lines and

hooks. Very poor household are not themselves involved in the actual catching of the fish as they do not have fishing equipment, but they conduct other fisheries related activities such as sales activities.

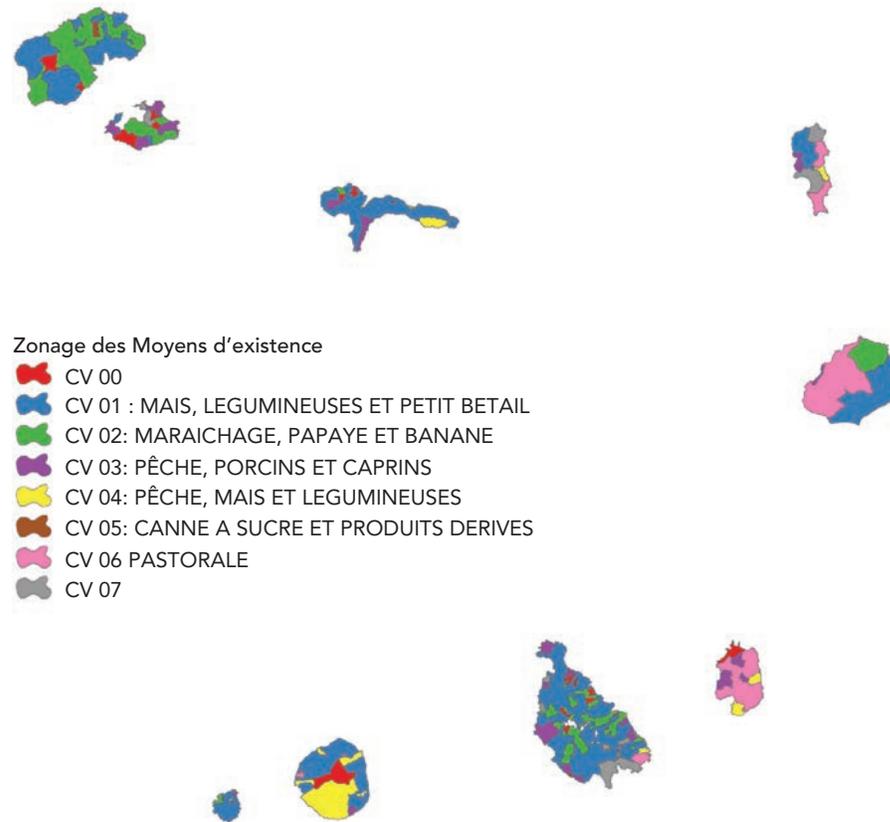
The difference in access to food and cash income between the different wealth groups is large. The very poor and poor groups carry out temporary work and represent more than half of the households living in the CV03 livelihood zone. The medium wealthy and better-off count form less than one third of the households. There is an interdependency between these groups: without the work of the poorest groups, the richest would face difficulties in conducting their fishing activities. In the same way, without the cash income earned with the fishing work, the poorest households cannot survive and would have to leave the area to look for work opportunities. Children from very poor families have difficulties to continue school attendance or to complete their secondary education if the family does not receive support to pay costs of attending school.

## SOURCES OF FOOD

The majority of the food needed for the household comes from the market: counting for 81 to 95% of the minimum requirements in the reference year, increasing with household wealth. Rice, the most expensive cereal after maize flour, is the most important for households in all wealth groups (37–40% of the minimum Kcalorie requirements). Vegetable oil contributes 21–25% and bread 4–9% of minimal Kcalorie needs. Other purchased foods like maize or wheat flour, beans, sugar, beef, chicken and fish contributed 17% to 23% of the minimum calorie needs.

## SOURCES OF INCOME

In the reference year, the incomes of the very poor households are a little more than half those of the poor. Medium wealthy households earn a cash income slightly higher than half the income gained by the better-off group. The better-off gain five times as much cash as the very poor. For medium wealthy and better off households, fish sales represent more than 95% of their total cash income. The very poor households receive about 85% of their income from the sale of fish and about 10% of their total income through different types of temporary jobs and self-employment. All the household wealth categories sell animals but the proportion is more important for the very poor households for whom this represents about 5% of the total annual

**FIGURE D.2.** Livelihood Zones in Cabo Verde

income. During the reference year, members of very poor and poor households work in temporary activities like the sale of various products, extraction and sale of sand for construction, totaling about 10% and 3% of the annual household income. This additional source of income is important for these families..

## RISKS

The main and most devastating livelihood risk is the inconsistent rainfall with low rainfall happening every three years and leading to serious decline of agricultural production. Winds and heavy storms also affect the fishing activities and the sales of fish products in the dry season. During the rainy season, access to certain communities is complicated with an impact on trade and movement of people who then cannot work.

## PRODUCTIVITY OF GOODS AND ASSETS

For the households living in the CV03 livelihood zone, the main productive resources are fishing equipment,

animal herds and family labour and for certain households rainfed lands. Very poor households have low crop land productivity. This can be explained by the lack of labor that is not always available at certain periods and for specific activities (weeding) as they sometimes prefer to go for other activities through which they gain more. Poor households usually cultivate the poorest land as they do not have enough money to rent better land or to pay transport costs to access better land outside of the area.

## PATHWAYS OUT OF POVERTY

Poorer families have too few resources to improve their living conditions by themselves. In the agricultural area, they indicated they need better animals for breeding, as well as get to buildings to properly keep their animals and improving the commercialization of their products by rehabilitation of the roads, better connectivity between communities and markets and beaches. These families seek external solutions for the education of their children, so

that when they grow up they can find secure employment. In addition, they look for options to move far away from their household to seek for alternative income. Those poor households would like to see more job opportunities be developed in the vicinity of their communities.

The wealthiest households request the same interventions as the poorest, such as support to education, permanent jobs, animals and interventions to improve their main

income activities of this area linked to fishing. All the households look for solutions that benefit the community in general and not just to their wealth groups or household.

#### **NOTE**

1. See: Save the Children and Ministry of Agriculture 2017a, 2017b and 2017c for the full reports.



## Simulation of Improvements in Productivity through Educational Attainment

In Cabo Verde, the education system is an important element of a path to higher productivity that would help transition toward a higher-value added economy that can offer and export more sophisticated products and services. Cabo Verde has a strong compulsory basic education system, and is closing the gap in secondary and tertiary education with countries with a similar income per capita.<sup>1</sup> During the last decade Cabo Verde achieved nearly universal access to basic education. Gross primary completion reached 98 percent, while gross secondary enrollment was 92.6 percent; 8 and 18.8 percentage points higher than countries with a similar income per capita.

Despite recent progress in basic education, the secondary level is the weak link of the education system. It is estimated that 87.5 percent of young people access secondary education but only 45 percent complete it. Low student retention might be caused by (1) insufficient learning outcomes at the primary level, especially in mathematics;<sup>2</sup> (2) inadequate curriculum and teacher practices at the secondary level; and (3) a low quality of education service overall. The percentage of repeaters in lower secondary is high—23.3 percent—while the survival rate to the last grade of lower secondary is only 76.6 percent, close to 8 percentage points lower than international standards.

Around 27 percent of the population, or close to 137,600 students, are enrolled in the education system. The proportion of students enrolled in primary education was 48 percent, 36 percent in secondary, and 8.9 percent in tertiary education.<sup>3</sup> By 2030, it is projected that the school-age population will not increase in absolute terms, but their share in the total population will decline from 35.7 to 28.6 percent. Meanwhile, the population between 22 and 65 years old will grow from 47.1 to 55.6 percent of the total population.

Until now, the public sector has taken the lead in compulsory education while the private sector has supported higher levels of education. The public sector covers 99.1 percent of enrollment at the primary level, but the

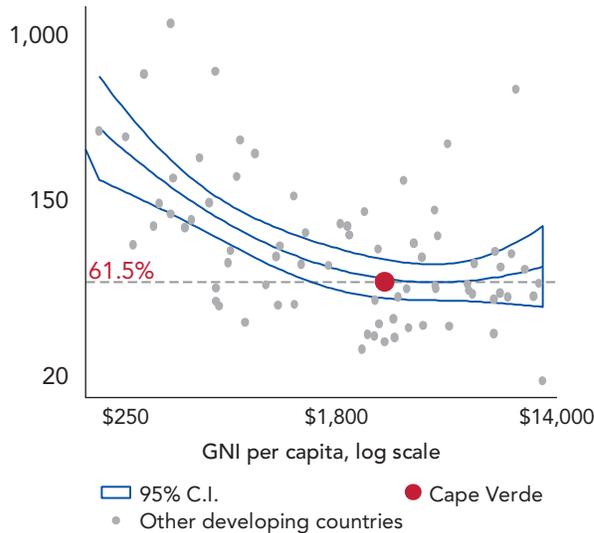
private sector's share has increased gradually to reach 17.7 and 65 percent at the mid-secondary and tertiary levels of education, respectively. In tertiary education, while enrollment went from 2 to 23 percent between 2000 and 2014, increases in the standard of living has been the main factor determining enrollment at this level. Youth coming from the poorest quintile account for just 9 percent of higher education while youth from the richest quintile account for 31 percent.

This section covers the main results of a modeling scenario that allows for a conservative increase in the supply of semi-skilled and skilled relative to unskilled labor relying on constant enrollment rate (CER) assumptions. In the baseline scenario, it is assumed that the skill composition among unskilled, semi-skilled and skilled labor stays constant at 60, 30, and 10 percent of the total working age population, respectively. In this scenario, growth in the supply of more skilled labor comes merely from demographics—as older workers retire and more educated and younger generations replace them. By 2030, CER assumptions would allow the labor supply of semi-skilled and skilled labor to increase 17.0 and 18.2 percent, with respect to the baseline.

Total government expenditure on education is adjusted due to the increase in demand. Expenditure on education was 5.0 percent of GDP<sup>4</sup> in 2013 with 15.8 percent of this amount dedicated to tertiary education.<sup>5</sup> By 2030, it is projected that 16.7 percent of the government budget spent on education will be used for tertiary education, as a response to increase in demand for this type of education service. To allow the cost of education to keep pace with international standards, the expenditure per student grows on average, 4.3 percentage points on an annual basis. This will keep the expenditure per student as a percentage of GDP per capita at 67.4 percent by 2030, up 5.9 percentage points from its level in 2013.<sup>6</sup> Under the alternative scenario, government expenditure on education as a percentage of GDP would increase from 5.0 to 5.3 percent by 2030.

For the government, raising the bar in terms of education per student pays off because the investment leads to a more

**FIGURE E.1.** Education Expenditure as % of GDP Per Capita

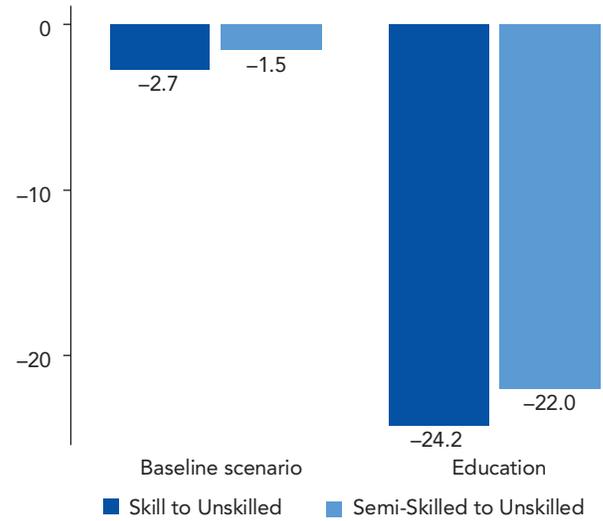


Sources: World Development Indicators.

productive workforce. Despite government expenditure in education increasing by 0.3 percentage points as a share of GDP, the government's overall fiscal balance would maintain its fiscal stance with respect to the baseline, at -6.5 percent of GDP. A neutral fiscal effect is caused by faster increases in direct (0.3 percent), and indirect (0.1 percent) revenues than government total expenditures (1.2 percent). Increase in government revenue is largely caused by an overall increase in economic activity, particularly in the service sector. For instance, in the alternative scenario, GDP would be 0.2 percentage points higher by 2030, while value added in services would be 0.5 percent higher and service exports 1.3 percent.

Despite higher growth, not all sectors would benefit equally. The sectoral composition of the new value added would vary significantly across sectors, benefiting economic activities that rely more intensively than others on semi- and skilled labor. Among services, two of them—(1) consultancy activities, technical, scientific, and similar and veterinarian activities; and (2) accommodation, restaurants, and liquor stores—are the sectors that would generate a larger share of the new value added, 36.3 and 14.2 percent, respectively. In the industrial sector, electricity, gas, steam, air conditioning, water storage, treatment, and distribution value added would represent 7.1 percent of new value added, with respect to the baseline. Higher labor productivity would be reflected in 0.3 percent higher household incomes. Under current assumptions, an increasing proportion of skilled and semi-skilled labor will reduce their wages relative to those of unskilled labor, everything else equal. From 2018 to 2030, reductions in wage premiums for skilled to unskilled workers would be 21.5 percentage

**FIGURE E.2.** Changes in Wage Premiums by Scenario, 2017–2030



Source: World Bank simulations.

points lower in the alternative scenario than under baseline conditions. Increases in educational attainment would tend to have a positive boost for GDP with overall progressive distributional consequences, as has been tested in a global general equilibrium model by Ahmed et al. (2017). For the case of Cabo Verde, the distributional aspects of this policy remain to be seen, as they would largely depend on who can access the upper-secondary and tertiary education systems. If access to higher education continues to be largely determined by income status, then the overall effects, while remaining positive on the aggregate, can still be more disadvantageous for the poor.

## NOTES

1. Further description of this methodology can be found in Gable, Lofgren, and Osorio-Rodarte 2015.
2. According to the *Aferida* test, a national large-scale education assessment conducted in 2010, half of 6th grade students in 2010 had a level of learning outcomes that could be qualified as concerning and only 27 percent would have satisfactory learning outcomes. Cabo Verde's TVET system is weak in quantitative and qualitative terms. Despite many young people leaving the secondary level without qualification and facing difficulties on the job market, the TVET has a low coverage and accounts only for 5 percent of secondary level enrollment.
3. Percentages correspond to the 2013–2014 school year. Cabo Verde's education system is composed of four levels with corresponding official school ages: primary (6–11), secondary (12–17), and tertiary (18–22) levels. Compulsory education starts at primary school and last for 10 years, until mid-secondary school.
4. UNESCO 2017, "Government Expenditure on Education, Total (% of GDP)."
5. UNESCO 2017, "Expenditure on Primary as % of Government Expenditure on Education (%); UNESCO 2017, "Expenditure on Secondary as % of Government Expenditure on Education (%); UNESCO 2017, "Expenditure on Tertiary as % of Government Expenditure on Education (%)."
6. Using data from World Bank WDI database.

## In-country Consultations for the SCD

Several rounds of in-country consultations were undertaken in 2016 and 2017 as part of the SCD preparation process. The last round of consultation took place October 24–30, 2017, and included visits to four of the nine inhabited islands—Santiago, Santo Antão, Sao Vicente, and Boa Vista. The large, interdisciplinary team was led by the WBG Country Director for Cabo Verde and composed of the practice manager for poverty, sector specialists from poverty, social development, macro-fiscal, trade and competitiveness, energy, transport, and IFC. The choice of islands presented opportunities to reach a wide cross-section of the population, with Santiago being the commercial capital, Sao Vincente the cultural and fisheries hub, Boa Vista a rapidly growing tourist market, and Sao Antão for agriculture and high poverty incidence. Another objective was to explore connectivity and service delivery issues across the archipelago.

The objective of these consultations was to present the initial diagnostic developed by the WBG team and to collect feedback from stakeholders. Overall, the diagnostic was well received, with a widespread recognition of the relevance of underlying hypotheses that the development model behind the transformation of the economy to middle-income status had stopped working because of (1) deficiencies in human capital; (2) connectivity challenges; (3) a poor macro-fiscal environment; (4) waning government efficacy; and (5) lack of resilience.

The team met with representatives from the public and private sectors and civil society to present the initial

SCD findings and explore hypotheses. Smaller sessions were held with representatives from parliament, and select sectors including financial, ICT, and tourism. Outside of Santiago, local governments facilitated the invitation of large and diversified groups of stakeholders and visits to private companies, harvest centers, utilities, and tourism operators, among others. Separate consultations were held with representatives of the donor community.

Several participants raised specific concerns. The issue of poor connectivity (both transportation—air and sea—and Internet) were raised repeatedly across the islands as major impediments to boosting growth in agribusiness, and limiting the growth potential of tourism. Women’s associations raised issues related to the difficulties in developing their income-generating activities because of lack of access to land and external finance. The level of indebtedness in the country was raised often in the context of the need to find ways to create space for greater private sector participation in the economy. Across the islands visited, the skills mismatch was seen as a big challenge to poverty reduction. Of equal importance were questions about some of the investment undertaken by the government in the recent past and the fact that most farmers still relied on rainfall, as the irrigation system to connect farmers to the water in the dam reservoirs is not always developed to a full extent. In Santiago and Sao Vincente, the quality of the business environment and of the governance framework also received substantial attention in the discussions.



APPENDIX

G

Map of Cabo Verde



