

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

6/19/2014
Report No.: AB7599

Operation Name	Cape Verde Ninth Poverty Reduction Support Credit
Region	AFRICA
Country	Cabo Verde
Sector	Central government administration (60%);Vocational training (10%);General energy sector (10%);General transportation sector (10%);General finance sector (10%)
Operation ID	P147015
Lending Instrument	Development Policy Credit
Borrower(s)	REPUBLIC OF CABO VERDE
Implementing Agency	Ministry of Finance and Planning
Date PID Prepared	June 19, 2014
Estimated Date of Appraisal	October 21, 2014
Estimated Date of Board Approval	December 15, 2014
Corporate Review Decision	-

I. Key development issues and rationale for Bank involvement

Cabo Verde is an archipelago with a population of about 500,000, fragmented across nine inhabited islands. The country faces considerable development challenges, including a small and fragmented domestic market, remoteness from international markets, no significant natural resources, and an arid climate with limited supply of fresh water. Yet Cabo Verde has made considerable gains, experiencing growth in excess of 6 to 7 percent on average before the eruption of the global financial crisis. In return, poverty fell considerably, from 37 percent in 2000 to 27 percent in 2010. Cabo Verde is also one of the few countries on track to achieve all Millennium Development Goals. Strong economic performance, translating into progress on social indicators, was largely a consequence of considerable FDI in the tourism sector, but also effective government policy, strong institutions, and a credible peg with the euro which kept inflation low. In December 2007 Cabo Verde became one of only four countries to graduate from the UN list of Least Developed Countries (LDCs).

However, development challenges remain considerable. With the graduation from the list of LDCs, concessional financing is phasing out and Cabo Verde currently does not have access to international market. A key challenge will be to strengthen the domestic revenue basis, hold expenditures in check, and maximize the returns from a considerable government effort to provide key infrastructure to the country. The ambitious Public Investment Program, drawing on remaining concessional resources, has resulted in a public debt stock of 97.8 percent of GDP in 2013, expected to peak at 108 percent of GDP in 2016. Strengthening the fiscal position will be crucial to be able for the country's ability to service its debt and continue to provide public goods to Cabo Verdeans. The PRSC IX supports the governments in these efforts. In addition, the PRSC IX supports in the government in improving the conditions for private-sector led growth,

in line with the government's recognition that fiscal expansions can no longer be a major driver of growth.

II. Proposed Objective(s)

The proposed operation is the second in a series of three one-year operations designed to support the implementation of the Government of Cabo Verde's GPRSP-III. The main development objectives of this new PRSC series are: (i) Enhancing macro-fiscal stability; and (ii) increasing Cabo Verde's competitiveness.

III. Preliminary Description

The PRSC IX continues the focus on the main policy areas under PRSC VIII, which became effective in June 2014. The budget-support operation will address both short- and long-term priorities by supporting the difficult but necessary process of macroeconomic adjustment and by accelerating progress on the structural reform agenda, the success of which is crucial to Cabo Verde consolidating past achievements and creating the conditions for further prosperity gains.

The proposed PRSC series will support the government's efforts to: (i) consolidate progress achieved during the previous series and pursue critical follow-up actions; and (ii) support new initiatives under the GPRSP-III's structural reform agenda aimed at adapting the country's economic growth model to meet the demands of its evolving circumstances. Building on previous reforms, areas for consolidation include PFM, trade facilitation and financial-sector development. In addition, the proposed PRSC series will support programmatic areas including reforms to improve the oversight of state-owned enterprises and enhance their service delivery, as well as the establishment a public-investment management system to ensure the allocative and technical efficiency of public investments, and taxation and labor-market reforms designed to reduce distortions and foster job creation. The area of environmental protection will be continued to support policies aimed at preserving the natural beauty of the country, which is crucial to sustain the development of the tourism sector, and measures to mitigate natural disasters and the effects of climate change, which will be critical to the development of agriculture and other primary-sector activities selected as one of the key priorities of the GPRSP III.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The reform program supported by this operation is expected to have positive impacts on Cabo Verde's poverty incidence and social conditions, mainly through increased overall growth and rising employment.

The proposed labor market regulatory reforms are expected to have positive direct effects on poverty and inequality. Despite its rapid economic growth in the 2000s, Cape Verde continues to experience high unemployment as the rate of job creation was lower than the growth of the economically active population. According to the recent Country Economic Memorandum, the

current and projected demographic structure will likely generate a high and growing number of young workers entering the labor force.

Environment Aspects

The specific actions supported under the proposed PRSC IX are likely to have positive effects on the country's environment, including the integrity of its agricultural land, forests, fisheries and other natural resources. Due to their primarily administrative nature (tax reform, SOE oversight, PFM and PIM systems, etc.), reforms under the first plank are not expected to have meaningful impacts on the environment; the reforms supported by the second plank, however, are critical to the reliable and effective enforcement of the country's environmental regulations.

V. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Development Association (IDA)	10
Borrower/Recipient	
IBRD	
Others (specify)	
	Total
	10

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