Program Information Document (PID)

Concept Stage | Date Prepared/Updated: April 26, 2018| Report No: 126765

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Cabo Verde	P165631	CV – DPF1 on Fiscal Management and Growth	NA
Region	**Estimated Board Date**	**Practice Area (Lead)(s)**	**Financing Instrument**
Africa	August 30, 2018	MTI	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Republic of Cabo Verde	Ministry of Finance		

Proposed Development Objective (PDO) is to: reduce fiscal risks and enhance fiscal management in support of sustainable private-sector led growth. The operation is structured around two intertwined pillars in support of the PDO:
* Reducing fiscal risks from SOEs while supporting private-sector led provision of infrastructure services; and
*Strengthening efficiency and accountability in fiscal management in support of fiscal consolidation.

Financing (in US$, Millions)

SUMMARY

Total Financing	20,000,000

DETAILS

Source: IBRD/IDA/Others (Specify) Co-financing	IDA

Decision
The team is authorized to continue to prepare the DPF operation.

B. Introduction and Context

Country Context

Growth in Cabo Verde has picked up but the country is still facing pressures due to the rapid accumulation of debt in the aftermath of the global crisis. The administration which took office in 2016 inherited a public debt of approximately 130 percent of GDP, twice the average of small island developing states, and significant contingent liabilities from the state-owned enterprise (SOE) sector. Cabo Verde's public debt stock increased by approximately 70 percentage points since 2008. In the aftermath of the recent global financial crisis, the government increased borrowing to address infrastructure deficits and stimulate the economy. However, given the mostly concessional nature of the debt, debt service remains below sustainability thresholds. The government has also undertaken proactive fiscal consolidation in recent years – overall fiscal deficit falling from 7.4 percent of GDP in 2014 to 3.0 percent of GDP in 2017 - but total debt rose by 10 percentage points of GDP in that period. This underscores the remaining challenges the authorities are facing, notably from the high financing needs generated by its support to SOEs.

Relationship to CPF

The proposed programmatic Development Policy Financing (DPF) series is an integral element of the World Bank Group's forthcoming FY19-FY22 Country Partnership Framework and is aligned with government recently approved *Plano Estratégico de Desenvolvimento Sustentável* (PEDS). The operation is being prepared in close coordination with other partners, including the International Monetary Fund (IMF) and the African Development Bank (AfDB). It also incorporates lessons from previous development policy operations by focusing on critical aspects of fiscal management in support of reduced fiscal risks and greater private sector participation in the economy. The overall risk of the operation is considered substantial but remain manageable.

C. Proposed Development Objective(s)

The policy program supported by this DPF series aims to reduce fiscal risks and enhance fiscal management in support of sustainable private-sector led growth. The design of the DPF series responds directly to the macro-fiscal vulnerabilities which weigh on the government's efforts to boost growth and shared prosperity. This operation supports the authorities in their efforts to stem the debt generation process – both in the central government and state-owned enterprises (SOEs) - by revisiting the role of the State in the provision of infrastructure services, improving the legislative framework supporting budget and debt management, and enhancing the alignment of national investment planning with growth objectives. Support to engender greater private sector activities in the country features strongly in the DPF series, notably through important reforms in the transport sector. This selectivity was based on the combination of the government's priorities, the findings of the recent Systematic Country Diagnostic and other analytical work in Cabo Verde.

Key Results

The achievement of the proposed development objective will be measured against a series of results indicators described in the Program Document. The main results expected from the reforms supported consist of a decline in central government financial support (transfers, capitalization and guarantees) to the SOEs sector; reduction in central government net external and domestic borrowing; reduction in tax expenditures; and increased transparency in public sector accounting.

D. Concept Description

To support the government's reform agenda in the areas of fiscal risks management and strengthening efficiency and accountability in support of fiscal consolidation, the series is organized around two pillars:

- **Pillar A covers key reforms to reduce fiscal risks from SOEs while supporting private-sector led provision of infrastructure services.** The government aims to reduce capitalization, direct subsidies and transfers to SOEs. Concurrently, direct guarantees to the sector will also be reduced, limiting central government's exposure to the sector. Notable reforms include introducing greater private sector participation in the transport sector as well as improving the management of government companies and assets.

- **Pillar B covers reforms to strengthening efficiency and accountability in fiscal management in support of fiscal consolidation.** The government aims to: (i) boost tax revenues through streamlining tax exemptions and revoking undue exemptions; (ii) rationalize expenditure; (iii) enact new legislation to create the enabling environment for modern debt management to strengthen the existing budget management practices; and, (v) enact legislation which strengthens the powers of the Court of Accounts to improve transparency and accountability.

E. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The policies supported by the proposed operation are expected to have on balance a positive impact on poverty or social indicators. Reforms of SOEs are designed to reduce fiscal risks, create fiscal space for development spending, and improve the financial position of SOEs. In this context, reform measures are expected to have positive impacts on both poor and non-poor households by improving the availability of public resources, enhancing the efficiency of their use, contributing to economic growth, and expanding income opportunities. Direct short-term impact of SOE reforms are being carefully assessed and action is being taken to mitigate potential negative impact through complementary interventions. Reforms under Pillar B also are expected to have positive benefits. The government expressed commitment to restoring macroeconomic stability, conducting more predictable policies, bringing debt down to manageable levels, and improving efficiency and good governance in the management of the public sector. This is expected to send a strong positive signal to the public, including businesses, investors, tourists and partners. If sustained, this policy stance will be highly beneficial for growth and job creation.

Environment Impacts

The specific actions supported under the proposed DPF series are not likely to have any significant adverse impact on the country's environment, forests and natural resources. The reforms being supported aim primarily at strengthening public sector management and reducing fiscal risks at the sectoral levels. Reforms to the public investment management system will include environmental impact assessments as an important criterion for public investment decisions and should have an overall positive impact on environmental sustainability.

CONTACT POINT

World Bank

Contact: Rohan Longmore, Christine Richaud and Kjetil Hansen
Title: Senior Economist, Lead Economist, Senior Public Specialist
Tel: +1 202 458 7694
Email: rlongmore@worldbank.org, crichaud@worldbank.org, and khansen1@worldbank.org

Borrower/Client/Recipient

Contact: Ms. Carla Cruz
Title: Director of Planning
Tel: +238 260 7611/7521
Email: Carla.Cruz@mf.gov.cv

Implementing Agencies

Ministry of Finance
Republic of Cabo Verde

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Rohan Longmore; Christine Richaud & Kjetil Hansen

Approved By

Country Director:	Louise J. Cord	May 14, 2018