Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 26-Jan-2021| Report No: PIDC30811

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Cabo Verde	P174754	Cabo Verde: First Sustainable, Equitable, and Green Recovery DPF (P174754)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA WEST	Aug 31, 2021	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Cabo Verde	Ministry of Finances		

Proposed Development Objective(s)

The programmatic DPF series aims at strengthening policies for a sustainable, equitable, and greener economic recovery.

Financing (in US$, Millions)

SUMMARY

Total Financing	20.00

DETAILS

Total World Bank Group Financing	20.00
World Bank Lending	20.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **The impact and persistency of the COVID-19 pandemic has caused the largest economic contraction on record and exposed the vulnerabilities of Cabo Verde's growth model.** Prior to the crisis, Cabo Verde experienced robust and accelerating economic growth on the back of a thriving tourism sector and strong structural reforms. These included SOEs reform, fiscal restraint, and debt reduction. The unfolding crisis reversed this progress. Gross Domestic Product (GDP) is estimated to have contracted by 11 percent in 2020 (12.6 percent in per-capita terms), the third-largest reduction in Sub-Saharan Africa (SSA). The main transmission channels through which the exogenous economic shock is transmitted to Cabo Verde are the tourism sector, which represents 25 percent of GDP and drives around 40 percent of overall economic activity, and Foreign Direct Investment (FDI), a critical source of external finances and key driver of growth. Recognizing the large economic threat posed by the crisis, and despite very limited policy buffers available at the time, the authorities rapidly implemented decisive measures in 2020 to contain and mitigate the health and economic impact of the pandemic.

2. **The COVID-19 crisis will reverse the progress in poverty reduction achieved since 2015, putting around 100,000 people into temporary poverty.** Cabo Verde witnessed significant poverty reduction over the last decade. Using a national poverty line equivalent to US$5.4 in purchasing power parity (PPP) terms per person per day in 2015 prices, the incidence of poverty was projected to fall from 34.1 percent in 2016 to 26 percent in 2020. Extreme poverty, defined as those below the national food poverty line (PPP US$2.9 per person in 2015), was expected to drop from 10.1 percent to 6 percent during this period. The economic impact of the COVID-19 crisis is expected to increase the national (extreme) poverty rate to 45 (20) percent in the short-term. With the progressive resumption of economic growth, the national (extreme) poverty rate is projected to reach 34 (10) percent in 2022. Because women are the majority among informal workers, domestic employees, and in the labor force in the tourism sector; they are more prone to fall into poverty.

Relationship to CPF

3. **The reform program supported by the DPF is consistent with the objectives of the Cabo Verde's 2020 -2025 Country Partnership Framework (CPF).** The Sustainable, Equitable, and Green Recovery DPF series aims at supporting the Government's efforts to recreate the conditions for an equitable, green, and private sector led recovery while ensuring the return to fiscal sustainability over the medium term. The DPF series is closely aligned with the CPF. Specifically, Pillar A supports meeting the CPF's third objective of helping the Government increase fiscal and macroeconomic resilience and manage the economic impact of climate shocks. Pillar B supports meeting the CPF's second objective to support the Government in the overhaul of social assistance, with a focus on productive inclusion. Finally, Pillar C supports meeting the CPF's third objective of improving the foundations for private sector growth.

C. Proposed Development Objective(s)

4. The programmatic DPF series strengthes policies for a sustainable, equitable, and greener economic recovery.

Key Results

5. **The DPF will lay the foundations for an equitable and green private sector-led recovery and support a return to fiscal sustainability.** Pillar A will strengthen the fiscal risk management framework, improve debt transparence and tackle vulnerabilities arising from loss making SOEs contributing to enhancing the country's fiscal and debt sustainability in the medium term. Pillar B will strengthen sock-responsiveness of social safety nets enabling a better and expanded support to households. Finally, Pillar C will enhance the regulatory framework for investments on the blue and green economy attracting new and sustainable private sector investment in the tourism, fisheries and energy sectors.

D. Concept Description

6. **The DPF series supports Cabo Verde authorities in their efforts to build back better after the COVID-19 crisis and to reposition the role of the state in the economy over the medium term.** The series is structured around three interrelated policy areas:

- **Pillar A aims to improve debt transparency and reduce fiscal risks from SOEs:** The reform program includes measures to (i) strengthen fiscal risk management, including the adoption of a framework to issue state guarantees and (ii) reduce fiscal risks by improving the quality, frequency, and coverage of public debt reporting, including from SOEs.
- **Pillar B seeks to strengthen the resilience of poor and vulnerable households, particularly women, to shocks, including climate-related shocks** This pillar builds on the COVID-19 response program and continues to strengthen the social protection system by (i) supporting the continued use of safety nets to respond to COVID-19 in the short-term and further strengthening the shock-responsiveness of the safety net system in the medium-term and (ii) strengthening the usability of the social registry and enabling broader usage for targeted service delivery.
- **Pillar C supports a green, sustainable, and private sector-led recovery:** This pillar promotes private sector investment and the transition towards a low-carbon economy by: (i) supporting reforms of the electricity sector to attract private investment necessary to lower the cost of electricity services, strengthen energy independence, and reduce greenhouse gas emissions; (ii) promoting a harmonized, streamlined and more predictable regulation for investment in the tourism sector; and (iii) supporting the sustainable development of the fishery sector, including aquaculture.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

7. **The operation is expected to significantly contribute to avoiding surges in chronic poverty in the short term, protecting mostly women-led households, and to poverty reduction over medium term.** The DPF focus on reducing fiscal risk and increasing debt transparency contributes to establishing an enabling environment for prudent fiscal management and sustained economic growth. Strengthening the resilience of the poor to economic shocks will contribute to prevent vulnerable households, particularly women-led, from falling into poverty as a result of the shock in the short term and contribute to a more efficient and responsive social protection system to protect them over the medium term. Enabling a private sector led green and sustainable recovery is also expected to support sustainable growth and job creation, which will be beneficial for the poor over the medium-term. To assess the likely impact on the electricity, fisheries, and tourism reform a Poverty and Social Impact Analysis (PSIA) is under preparation for completion in April 2020.

Environmental, Forests, and Other Natural Resource Aspects

8. **The strengthening of the crisis response capabilities of the social protection system, the reform in the energy sector, and the regulatory framework governing aquaculture are expected to have a significant positive environmental impact, particularly with regards to climate adaptation and mitigation.** The investment in the social registry (Prior Action 4) will raise the climate adaptation potential of the social safety nets since it underpins the ability of programs to expand coverage of households in response to climate-related shocks. The power sector reform plan (Prior Action 5) will contribute to reduce the cost of power generation, particularly by promoting investment in renewable energies. The reform is expected to also rationalize electricity demand in the longer term and thus contribute towards the country's mitigation goals. Finally, the regulatory framework for Aquaculture (Prior Action 7) is also likely to support climate adaptation mitigating the volatility that climate change could impose on marine fisheries.

CONTACT POINT

World Bank

Jose Daniel Reyes, Cristina Navarrete Moreno
Senior Economist

Borrower/Client/Recipient

Cabo Verde

Implementing Agencies

Ministry of Finances
Gilson Pena
Director of National Planning
gilson.g.pina@mf.gov.cv

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):	Jose Daniel Reyes, Cristina Navarrete Moreno

Approved By

Country Director:	Eneida Herrera Fernandes	15-Feb-2021