CABO VERDE 2017

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CABO VERDE

- After experiencing low growth due to the impact of the European and global financial crises, the economy recovered in 2016 to 3.2% and is expected to continue along the same trajectory in 2017 and 2018, with GDP growth rates of 3.7% and 4.1%, respectively.
- Cabo Verde is at a crossroads: following five years of counter-cyclical fiscal policy to
 offset a low-growth period and rapid debt accumulation, a paradigm change is now
 required to make the private sector the growth engine.
- Well-coordinated sector-based policies, an improved business environment and a focus on regional integration are required to remove current binding constraints to industrialisation such as limited market access, high energy costs and a lack of interisland transportation.

Overview

Real GDP growth in the country has been sluggish over the past years. Between 2000 and 2008, the country recorded an average growth rate of 6.6% before hitting a recession in 2009 on the back of the European crisis. Thereafter, in spite of a counter-cyclical policy with high investment spending, Cabo Verde only managed to grow by an average of 1.3% over the 2010-15 period. As a consequence of high investment spending, the debt level increased drastically, from 71.9% of GDP in 2010 to 125.9% in 2015. In 2016, however, the economy showed some positive signs of recovery. Albeit still at overall low levels, credit to the private sector increased by 2.1% in the first eight months of 2016. Similarly, a trend inversion was noted in economic confidence indicators. On the fiscal side, after having presented an expansionary fiscal stance, the new government revised its plans to settle for a deficit of 3.3% of GDP, 1.9 percentage points below what was initially approved. GDP growth in 2016 reached an estimated 3.2%, against 1.5% in 2015. For 2017 and 2018, growth should reach 3.7% and 4.1% respectively, driven by continued increase in confidence, strength in agricultural output and tourism, as well as government efforts to stay on the reform path.

On the policy front, Cabo Verde's main issues in 2016 are likely to carry over to 2017 and 2018. They include control of the country's fiscal stance, and in particular, the drain on the budget of some state-owned enterprises (SOEs). Considering that Cabo Verde is importing monetary policy through its euro peg, it only has fiscal policy to face any shocks. However, with public debt at 125.9% of GDP (excluding contingent liabilities) and rising, there is little room for manoeuvre. For 2017 and 2018, the Medium-Term Expenditure Framework (MTEF) should ensure some built-in flexibility to weather potential shocks. On the debt side, while underlying sustainability indicators are under IMF thresholds, it is important to take urgent action to stem the debt generating process.

Considering the debt level, the government is seeking to change the underlying growth paradigm in the country, which has up to now been based to a large extent on the public sector. This requires enforcing a credible and far-reaching engagement to further improve the business environment, with efforts to promote industrialisation and entrepreneurship. However, further improving the business environment depends on removing – through well-coordinated sector-based policies – current binding constraints such as limited market access, high-energy costs and a lack of inter-island transportation.

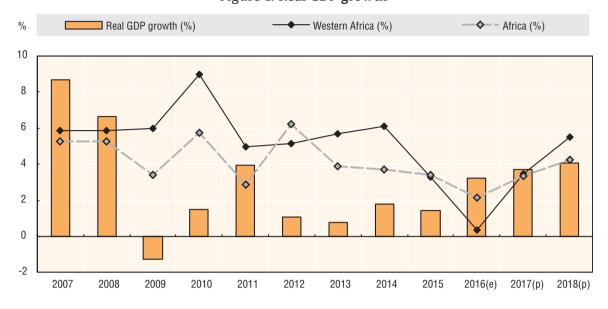


Figure 1. Real GDP growth

Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. Macroeconomic indicators	5
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	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	1.5	3.2	3.7	4.1
Real GDP per capital growth	0.2	2.0	2.5	2.9
CPI inflation	0.1	-1.6	0.8	1.6
Budget balance % GDP	-4.1	-3.3	-3.0	-1.9
Current account % GDP	-4.3	-7.2	-8.8	-8.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

The 2008 global financial crisis followed by the European debt crisis had a negative impact on Cabo Verde, causing a sharp fall in foreign direct investment (FDI), exports and tourism, as well as remittances from migrants. After a period of strong GDP growth of 6.6% on average between 2000 and 2008, the country experienced a year of recession in 2009 before returning to growth of 1.3% on average between 2010 and 2015. In 2016, an upward trend appears to have begun, with growth estimated at 3.2% thanks to a recovery in the agricultural sector given a good rainy season and on the back of a revitalised tourism sector and public administration.

According to available data, in the second quarter of 2016, primary sector growth was driven by the agricultural sector, which registered 9.9% growth compared to -8.7% over the same period as the previous year. Such erratic growth levels, however, point to the fragility of the sector and its dependence on weather and vulnerability to climate change. The secondary sector was mostly driven by growth in industrial production (7.1%) and water and electricity (10.7%). Industries are, however, narrow in scope (with fish and fish-related products being the main output) and over the medium term requires a solid diversification plan. In the tertiary sector, hospitality (hotels and restaurants) saw a 15.2% growth in the second quarter of 2016, driven by an increase in the number of tourist arrivals (13.9% as of mid-2016) and the number of overnight stays (16.5%).



In spite of the welcome revision in the 2016 fiscal stance, the overall fiscal balance is expected to reach -3.3% of GDP in 2016. Through ongoing fiscal consolidation, the investment budget has been substantially trimmed. As for current expenditures, they form a rather large part of the budget and would be difficult to change in the short term. Looking forward, the MTEF should be used to ensure that over the medium term some flexibility is built in to weather potential shocks. In the absence of exchange rate flexibility to cushion the impact of adverse shocks, establishing a sound fiscal policy framework will help build resilience. Part of the adjustments to be made in the short term relate to SOEs. At a general level, there were concerns in 2016 over the lack of timely compliance with the reporting requirements outlined in the new SOE framework law. More specifically, some SOEs keep on accumulating liabilities, which are tantamount to important and unsustainable fiscal costs. In addition, government intervention through SOEs can amount to effectively subsidising enterprises and creating unfair competition in some sectors. In 2017, government will need to assess the financial needs of SOEs in the short to medium term, and move ahead with either the technical work required to adjust programmes and corporate structures, or engage in selected divestments or privatisation.

With the public debt at 125.9% of GDP (excluding contingent liabilities) and rising, the country is at a high level of debt distress, as noted by the IMF. On the positive side, underlying sustainability indicators are mostly under IMF thresholds: debt is long-term, mostly concessional (thus interest rates are low), and short-term fiscal indicators point to a near primary budget balance. Yet, it is important to take urgent actions to stem the debt generating process considering that the closing of the country's concessional financing window looms in 2018. In 2017 and 2018, the government should assess the country's debt management strategy to develop new financing sources, strengthen the control of public debt (through a new consolidated legal framework) and work to limit the USD exposure of the debt, which currently stands at approximately 25%. Recent currency movements have led to a rise in the escudo value of the USD denominated loans.

Overall, the near-term outlook appears positive, albeit with great policy challenges that will affect long-term growth and development. GDP growth in 2017 is expected to reach 3.7% and 4.1% in 2018. Indeed, sector level evolutions in 2016 augur well for 2017, as do changes in confidence indicators, expectations for the tourism industry and credit to the private sector. Albeit still at overall low levels, credit to the private sector has increased by 2.1% in the first eight months of 2016. Similarly, a trend inversion is noted in economic confidence indicators. Such changes are, however, largely cyclical. Over the past 10 years, total factor productivity has been decreasing in Cabo Verde suggesting that in the long term, growth levels are bound to diminish. Structural reforms aimed at boosting productivity and raising the profile of the private sector are required. This is in line with the position taken by the new government that aims to create a new growth paradigm with the private sector at its core. The high debt levels act as an impetus to change.

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	2011	2015
– Agriculture, forestry, fishing and hunting	9.1	9.7
of which fishing	0.8	1.1
Mining and quarrying	0.5	0.5
of which oil		
Manufacturing	6.3	7.5
Electricity, gas and water	1.7	3.1
Construction	12.1	9.4
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	19.5	18.7
of which hotels and restaurants	4.6	6.4
Transport, storage and communication	15.9	14.0
Finance, real estate and business services	17.5	18.6
Public administration and defence	17.3	18.6
Other services		
Gross domestic product at basic prices / factor cost	100.0	100.0

	(percentage of GDP at current prices	١.
ISDIA / GIVE DU SACTOR	inercentage of (-i)P at current prices	

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Adversely affected by the international financial crisis and the European debt crisis, Cabo Verde engaged into counter-cyclical spending in order to maintain growth levels. The resulting situation in 2016 was a ballooning debt level estimated at 125% of GDP. By way of example, the overall budget deficit had reached 8.9% in 2013, and 7.5% in 2014. Given the debt pressures, the government undertook a consolidation of public finances tinged with austerity. In 2015, the overall balance was reduced to 4.1%, when it was originally budgeted at 7.9%. In 2016 the austerity policy continued with the deficit narrowing to 3.3% of GDP.

This reduction is mainly due to efforts on the revenue side, with a significant increase in revenues related to the expansion of the tax base. On the expenditure side, a compression in the public investment programme also contributed to the improvement of the deficit. Investment spending dropped from 10.2% of GDP in 2013 to 3.5% in 2016 and in the medium to long term this may be an opportunity cost to growth. Nevertheless, debt continues to rise. While the depreciation of the escudo cabo-verdiano (CVE) against other currencies plays an important role in this increase, fiscal consolidation remains important, especially in relation to non-performing public enterprises.

As for current expenditures, they form a rather large part of the budget and would be difficult to change in the short term. Looking forward, using the Medium-Term Expenditure Framework (MTEF) can be useful to introduce adjustments and impact fiscal policy. In addition to the MTEF lever, adjustments are also required regarding state-owned enterprises (SOEs). Indeed, the government has to face challenges posed by some of the financially struggling SOEs whose substantial liabilities are estimated to be about 20% of GDP. Some SOEs keep on accumulating liabilities that represent significant and even unsustainable fiscal costs. In 2017, the government will need to assess the financial needs of SOEs, and move ahead with selected divestments or privatisation. In order to not unduly impact growth, fiscal consolidation should focus on rationalising involvement in SOEs as well as reducing externally financed expenditure, notably through improved prioritisation of investment projects to ensure even greater value for money.



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	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Total revenue and grants	29.0	24.5	22.6	26.2	27.4	26.0	26.0
Tax revenue	22.0	18.3	17.5	19.0	20.0	20.2	20.0
Grants	4.8	2.5	1.7	2.4	2.5	1.0	1.2
Total expenditure and net lending (a)	29.6	33.4	30.1	30.4	30.7	29.0	27.9
Current expenditure	18.2	23.2	24.0	26.1	27.2	26.1	25.0
Excluding interest	16.7	21.0	21.7	23.5	24.0	23.8	23.0
Wages and salaries	10.0	10.7	10.9	10.7	10.8	10.9	11.0
Interest	1.4	2.2	2.2	2.6	3.2	2.3	2.0
Capital expenditure	11.5	10.2	6.1	4.3	3.5	2.9	2.9
Primary balance	0.8	-6.6	-5.3	-1.5	-0.1	-0.7	0.1
Overall balance	-0.6	-8.9	-7.5	-4.1	-3.3	-3.0	-1.9

Table 3 Public finances	(percentage of GDP at current	nrices)
rable 5. Public infances	(percentage of GDP at current	prices)

Note: a. Only major items are reported.

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

The low inflation rate over the past years, including 2016, has given space to the Central Bank of Cabo Verde (CBCV) to pursue an accommodative monetary policy for growth. In 2015, the inflation rate was 0.1%, mainly due to low prices for energy and foodstuffs. For 2016, it is estimated to have been negative, reaching -1.6% before a rebound in 2017 to a still low 0.8%. Deflation is mostly explained by imported low inflation rates from Europe through the euro currency peg, as well as from a slight drop in food prices due to the good local harvest in 2016.

Concurrently, international reserves have remained strong. In this context of low inflation and reduced pressures on foreign exchange reserves, the Central Bank took the opportunity to relax monetary policy in order to stimulate economic growth and support a recovery in bank lending to the private sector. In 2015, considering deflationary pressures, the CBCV had lowered its policy rates to 3.5% and reduced required reserve requirements. The response to these measures was modest with a slight increase in credit to the private sector in 2016, despite the general decline in interest rates. Deflation, however, increased real incomes, supported domestic demand and led to a small increase in competitiveness (through the depreciation of the real effective exchange rate).

The low responsiveness of credit is reflective of a financial system in which risk aversion is compounded by relatively high levels of non-performing loans (as foreign direct investment fell in the country over the past years, Cabo Verde's banks experienced declining asset quality and profitability). As such, excess liquidity was absorbed by the CBCV to discourage excessive-risk taking and encourage inter-bank lending. Still, such lending remains at low levels and excessive liquidity still holds due to the prohibitive cost for the CBCV to fully deploy this strategy. Broad money has grown by 5.8% in 2016. Looking forward, monetary policy is expected to remain accommodative considering the limited fiscal space available to sustain growth (as well as the relatively low multiplier effect of fiscal policy).

Economic co-operation, regional integration and trade

Cabo Verde's merchandise exports are narrow in scope and limited to fish and fish-related products, with the latter accounting for 85% of total merchandise exports up to the third quarter of 2016. Spain and Portugal are the main recipients, accounting for more than 90% share in the country's total merchandise exports. Over the same period, total accumulated merchandise exports reached CVE 4 426 million, and accumulated re-exports CVE 10 070 million.

On the import side, consumption and intermediary goods account for more than 80% of total imports. Cabo Verde's regional trade is tiny: less than 3% for total imports and 0.3% for exports to

Africa. In cumulative terms, by the third quarter, merchandise imports reached CVE 47 974 million, resulting in a large trade balance deficit. For 2016 as a whole, the trade deficit is estimated to reach 30.6% of GDP. Looking ahead, the decrease in government spending that fuelled imports over the past years should lead to an import reduction in the near term. Diversifying export composition and destination still remains a key challenge. To this end and in order to increase competitiveness, the National Trade Council was established in June 2015, and a Strategic Trade Development Plan (2015-2020) was approved in January 2016. This National Plan aims at reducing dependence on the fishing industry, increase the share of trade in GDP and improve the coverage rate (exports plus re-exports).

In its programme presented in 2016, the newly elected government has made regional integration a key economic, cultural and political priority. Using its geographical position, the underlying objective is to leverage its ECOWAS membership in order to create an intermediation platform between the world and Africa.

Table 1. Guitent account (percentage of GDT at current prices)							
	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Trade balance	-42.5	-33.6	-32.5	-30.0	-30.6	-30.2	-27.8
Exports of goods (f.o.b.)	6.4	10.0	13.7	9.3	9.2	9.3	9.5
Imports of goods (f.o.b.)	48.9	43.6	46.3	39.4	39.8	39.5	37.3
Services	13.7	17.8	14.2	13.2	13.3	13.4	13.3
Factor income	-2.6	-3.5	-5.0	-3.6	-4.0	-3.9	-3.7
Current transfers	17.7	14.4	14.3	16.1	14.0	12.0	9.8
Current account balance	-13.7	-4.9	-9.1	-4.3	-7.2	-8.8	-8.4

Table 4. Current account (percentage of GDP at current prices)

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

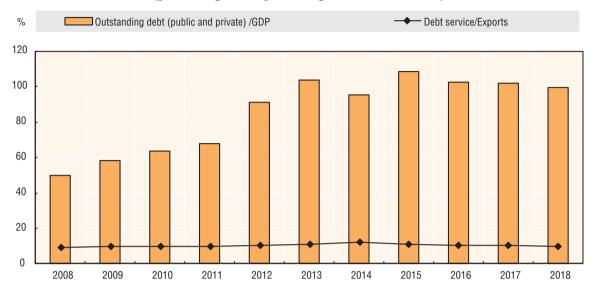
Debt policy

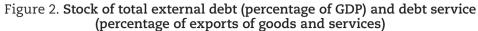
As the country ran large budget deficits with high investment spending since the country was hit by the international financial crisis and the European debt crisis, debt rose from 71.9% of GDP in 2010 to 125.9% in 2016, excluding government guaranteed debt contracted by state-owned enterprises and local administration (estimated at about 6.1% of GDP at end-2015). External government debt amounts to the equivalent of 97% of GDP and internal debt to 28.9%. In addition to budget deficits, the debt to GDP ratio has also increased on the back of low growth rates as well as the appreciation of the US dollar. This effect has been felt to the extent that approximately 25% of the debt stock is denominated in USD.

While the country is at a high level of debt distress due to its large debt stock, some indicators show that debt distress is only moderate. In fact, underlying sustainability indicators are mostly under IMF thresholds: debt is longer term, mostly concessional (thus low interest rates), and short-term fiscal indicators points to a near primary budget balance. Most public domestic debt is held by the National Pension Fund and the remaining by local banks, while the government has put a policy in place to limit its growth to no more than 3% of GDP yearly. Contingent liabilities, and in particular those of SOEs are, however, a particular concern to debt going forward. According to the IMF, such liabilities increased from the equivalent of 9% of GDP in 2014 to about 20% at end-2015 according to latest available data.

Looking forward, and bearing in mind the phasing out of the concessional financing window of the country in 2018, it becomes critical to assess the debt management strategy to develop new financing sources, as well as to strengthen the control of public debt (through a new consolidated legal framework, and debt sustainability analysis), and work on limiting the USD exposure of the debt. The main challenge however is to engage in debt reduction by maintaining fiscal discipline and not inhibiting growth.







Source : IMF (WEO & Article IV).

Economic and political governance

Private sector

Over the past decade, Cabo Verde has made great strides in improving its business environment starting with making it easier to set up a firm by eliminating *ex ante* municipal inspections, or by digitalising license delivery. In the course of 2016, however, there has been no major reform enacted and the country stagnates at the 129th rank out of 190 countries in the World Bank report *Doing Business* 2017. In the short term, further engagement in supporting the private sector is crucial considering that the new government seeks to make the private sector a core growth driver in a new development paradigm.

To achieve this change, the government should continue reforms to improve the business environment. Regarding factor markets, the education and qualification system still needs to improve quality levels based on control systems and unique standards. On taxation, recent measures such as exemptions that touch import duties, VAT, income tax and capital gains should be reviewed carefully to ensure that they are indeed cost-effective so as to increase investment rather than simply add to the country's fiscal woes through forgone revenue. The implementation of the special regime for MSMEs should be carefully considered in 2017 and 2018, as should that of the new Financial Sector Development Strategy, with a particular emphasis on SMEs (which includes, for example, the registry of non-movable assets, and the private credit bureau). Lastly, the enactment of the regulatory framework for bank resolution contained in the 2014 Financial Systems Base Law should also take place.

Considering the small size of the market and the fact that the private sector is still in its infancy, government should ensure that policy discourse is consistent and that subsidies to stateowned enterprises do not come at the expense of private sector development. An example is the launch of operations of a private airline serving inter-island flights in November 2016: the national airline continues to benefit from State support creating an uneven playing field.



8

Financial sector

The financial sector of Cabo Verde is generally sound and considered stable. With regards to its composition, it is almost entirely reliant on the banking sector. Capital and financial markets remain relatively underdeveloped. As the backbone of the financial sectors, banking operations have grown rapidly over the past 10 years with 8 registered commercial banks and over 115 branches, greatly facilitating physical access to finance compared to continental peers. Accessibility does not however necessarily go together with profitability: data on returns on assets shows consistent underperformance versus the regional median over the past ten years. In June 2016, return on assets stood at 0.1% while banks' returns on equity averaged a meagre 2% against 4.8% in 2015 or 9.1% as far back as 2010. Such low returns occur in spite of rather high lending rates and spreads (7.3% lending/deposit spreads in June 2016) suggesting that constraints such as high non-performing loan (NPL) ratios (16.9% as of mid-2016) impact on lending.

The high level of NPLs is an issue with which the Central Bank has been grappling with in the past two years through bold measures such as time-frame extensions to liquidate repossessed assets. Coupled with risk aversion, as well as quasi absent inter-bank lending, credit to the private sector has stalled. For 2017, an improvement in the banks' situation with regards to NPL resolution as well as indications of increased levels of business and consumer confidence could fuel private sector credit. Regarding deposits, they have risen slightly in 2016, in particular deposits from emigrants, which make-up 38.5% of all deposits.

The microfinance sector is moderately inefficient yet it provides an important gateway to finance for small firms. To support growth in the sector, the government passed a new microfinance law in 2015 to better increase productivity in the sector, which followed the 2014 law on sector regulation. It is expected that this action will be completed by the adoption of the relative application decrees in 2016 and 2017. According to *Making Finance Work for Africa*, the microfinance sector remains small with about 50 000 clients. It also suffers from a knowledge deficit: a reported 75% of the unemployed population eligible for financial services offered by MFIs was unaware of the services they offered.

Public sector management, institutions and reforms

The change in government after the 2016 elections put to the test policy continuation, coordination and responsiveness. The results have been a positive continuity of the state, renewed dialogue and understanding of policy co-ordination imperatives. Reforms of the State and Public Administration are still important priorities and government is capitalising on past gains in terms of policy conceptualisation. Structurally however, Cabo Verde still suffers from deficiencies in data and statistics, which should be corrected in order to improve co-ordination and policy responsiveness.

According to the Global Competitiveness Report (GCR) 2016-2017, Cabo Verde saw a slight improvement in the score related to institutional strength (from 3.9 to 4 on a scale of 1 to 7). In particular, the country has made progress in recent years to reduce wasteful government spending. Recently, in order to ensure less bureaucracy, and speedier and higher quality public service operations, the government introduced the so-called Common Assessment Framework (CAF), a service oriented tool to better monitor service delivery. Initially rolled out in 2013 on a pilot basis, CAF achieved positive results that could lead to its scaling-up, improvements in the areas of communication from public authorities, openness, as well as process management.

Regarding Public Financial Management (PFM), the existence of an efficient system in place, and its transparency and reliability, have been noted in the recently completed Public Expenditure and Financial Accountability (PEFA) exercise. Going forward and based on this assessment, it is crucial to finalise the PFM reform action plan paying particular attention to improving planning and budgeting processes in order to increase the efficiency in the allocation of public financial



resources. Similarly, operationalising the National Investment System as soon as possible is necessary in order to ensure the optimisation of investment decisions at times when budgetary constraints require a focus on value-for-money.

Natural resource management and environment

Cabo Verde geography is a combination of mountainous islands where steep terrains alternate with flat and sandy areas. Extreme climate conditions combine long cycles of severe drought and short periods of heavy rainfall. Add to that the presence of active volcanoes and Cabo Verde faces complex challenges in terms of managing natural resources and protecting the environment. Agriculture is the sector employing the largest share (19%) of the population, yet it is constrained with little arable land (10% of total) and growing desertification. As a result, food security remains an issue as indicated by reliance on food aid and the large share of food imports. The limited water resources, production and use of energy, poor and limited soil, combined with pollution and solid waste disposal also have profound implications for the development of the key sectors such as tourism, which remains the main engine of growth. This sector could be further affected by the occupation of coastal zones and its impact on the marine ecosystem and its already fragile biodiversity. Protecting the country's natural assets will be increasingly important to keep building national wealth and developing tourism.

Recent experience, such as the Fogo volcano eruption in 2015, shows that when expanding infrastructures attention should be given to planning for more resilient and disaster-proof infrastructure. The *Carta a Favor da Promoção do Crescimento Azul em Cabo Verde* (2015) affirms the country's recognition of maritime and coastal potential as economic drivers that can promote job creation and social transformation. The sustainable development of aquaculture and fisheries is an integral part of "blue" economy promotion for inclusive growth.

Political context

Cabo Verde is a semi-presidential regime and one of the most democratic African countries according to the Economist Intelligence Unit Democracy Index (ranked 31st globally and 3rd in Africa in 2015), as well as one of the African countries with the best governance record according to the Mo Ibrahim 2016 Index (ranking 3rd). The most recent elections were held in March 2016 and led to a change of legislative majority with the victory of the Movement for Democracy (MpD). This change of majority comes after 15 years of governments led by the Cabo Verde Independence Party (PAICV). In 2016, the electorate confirmed its choice through an MpD victory in the municipal elections of 5 September 2016 as the party won 19 of the 22 municipal councils, against 2 for the PAICV. Finally, on 2 October 2016, the presidential elections led to the election of Jorge Carlos Fonseca of the MpD as President of the Republic.

Social context and human development

Building human resources

Cabo Verde has managed to achieve significant results in building human resources since independence, albeit with limited means. Quality of life, as measured by the Human development Index, increased from 0.57 in 2000 to 0.65 in 2014, far above the 0.52 score of sub-Saharan Africa. According to the latest available estimates (2015), the national literacy rate for over-15 year olds reached 92.5% for men and 84.7% for women. When we analyse the data from youth aged 15-24, the figures are higher: 98.1% for men and 98.6% for women. In 2013, public expenditures in education represented 14.6% of the government's budget. A major challenge resides with the quality and adequacy of education and the high level of dropouts and repetition. Another area of concern is the cost of education to the family with access for children in poor families being



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particularly affected. There are also marked regional disparities in the level of education, as the net enrolment rate for first grade primary education does not reach 90% in certain districts.

The new government's programme, set in 2016, highlights the role of entrepreneurship and self-employment in mitigating the issue of youth unemployment. In this regard, the Institute for Professional Training and Employment (IEFP) and the Training and Vocational Centres (CEFP) received increased attention with donor interventions. A total of 3 125 young people received technical training in 159 vocational activities in 2015.

On the health front, between 1990 and 2015 there was a marked decrease in the under-five child mortality rate: from 56 to 24.5 for each 1 000 live births while infant mortality dropped by 52% to 20.3 per 1 000 live births. This considerable progress was thanks to a significant expansion of the number of births attended by skilled health professionals (currently at 95.6%) and a general improvement in health access with two central and four regional hospitals, as well as 28 health centres (as of 2013). In the fight against HIV/AIDS, access to antiretroviral drugs also improved, from 39% in 2010 to 56% in 2014. Mother-to-child HIV transmission decreased from 5.6% in 2011 to 2.9% in 2014. In relation to measles immunisation, the last information available (2011) estimates show coverage at 96.7%. Looking forward, the further strengthening of prevention and primary care, as well as improved spatial coverage are key challenges

In 2015, Cabo Verde faced a significant number of cases related to the Zika virus, which was first detected in September 2015. The country recorded a total of 7 164 cases by the end of January 2016. A total of 11 cases of microcephaly was registered in the first semester of 2016. In order to prevent new cases after the rainy season, the government stepped-up its protocols and unveiled a national plan to fight the virus.

Poverty reduction, social protection and labour

In Cabo Verde, absolute and extreme poverty is defined in terms of the minimum value of cash (with urban to rural areas having different values) needed by people to attain a minimum standard of life. According to the last National Household Expenditures and Consumption survey (implemented in 2015), 35% of the population lives below the absolute poverty line and 10.6% lives in extreme poverty. The majority of poor (51%) are women and live in urban areas. Geographically, most of the poor (58%) live in Santiago Island and 21% live in the capital, Praia. There is a great discrepancy among the 22 municipalities with 7 showing poverty rate at or above 50%. Families with a single parent or with larger households (with 6+ people) are particularly prone to poverty (44% and 61% respectively). Although in absolute terms the majority of poor is concentrated in urban areas, poverty in rural areas is much higher: 27.7% of total urban dwellers live below the poverty line against 48.3% in rural areas.

When looking at trends, absolute poverty has declined in the last decade. In urban areas it dropped from 48.7% in 2002 to 27.7% in 2015. Over the same period, the poverty rate in rural areas declined from 68.4% to 48.3%. Although showing progress, poverty remains a major national concern, especially in the capital, Praia, and among youth. Similarly, poverty has not been accompanied by an equal reduction of inequality, which remains high in Cabo Verde. The need to address social inequalities is now a government priority and part of the development strategy that it is currently drafting. In essence, it has been identified as a key pillar of the forthcoming Cabo Verde development strategy.

On social protection, social security legislation provides two basic schemes; a contributory and non-contributory one. These two schemes theoretically should cover a large part of the population. However, in reality social security continues to cover a relatively small part of the population because of the high incidence of informality and low percentage of registered workers actually benefiting from the National Institute for Social Security (INPS). It is recognised that existing social protection programmes need to improve in efficiency and financial sustainability.

11

Regarding labour market efficiency, the *Global Competitiveness Report* 2016-17 ranks the country 116th out of 138 (up from 125th out of 140 in last year's ranking). This improvement may partly reflect the measures taken by the government to improve labour market flexibility. In April 2015, with the support of the trade unions, patronages and others partners, new changes in the national labour code were approved. In February 2016, the new labour code was published and entered into force in October 2016. Additionally, through Decree-Law No. 15/2015 (published in March 2016), the government created unemployment benefits.

The government has introduced and implemented a large set of measures over the years to control child labour; nevertheless, data from National Statistics Institute (INE, 2013) suggested a total of 8 683 children are still involved in labour market, often undertaking dangerous work. To respond to this phenomena, the National Assembly approved specific legislation (Law No. 113/ VIII/2016) on hazardous child labour in 2016.

Gender equality

The promotion of equal access for men and women to human capital development opportunities in Cabo Verde has met with success in the past years. According to the 2015 AfDB gender index, the country is ranked 8th in Africa. In terms of educational attainments, the gender parity index for gross enrolment ratio in primary education was 0.945 in 2014. On the health front, life expectancy at birth is much higher for women (79.1 years) than for men (71.4 years). There is a wide access to prenatal care, childbirth access and family planning services.

On paper, women enjoy the same legal rights as men, including rights under family law and property law in the judicial system. According to the World Economic Forum's Gender gap index, Gabo Verde ranks in 50th place out of 145 countries. On the economic front, recent studies from the IMF suggest that closing the gender gap in labour force participation could add as much as 12.2% to Cabo Verde's GDP. This highlights two issues. First, policies to close the gender gap in the country are crucial for the economy. Second, there are by definition gaps in gender equality that need to be addressed when it comes to productive and economic resources.

Thematic analysis: Entrepreneurship and industrialisation in Cabo Verde

Since independence, Cabo Verde has established a series of strategic documents highlighting the development vision for the country. Over the past 40 years, one constant found in these national development plans has been the drive to diversify the economy through new sources of production added value, the promotion of foreign direct investment (FDI) and the strengthening of competitiveness. Most recently, the government elaborated a growth and poverty reduction paper, DECRP III 2012-2016. It highlights the importance of macro stability, public management, labour efficiency, and the role of reform in the promotion of economic development. Additionally, the document underscores the most strategic sectors for the country, namely: i) agro-business; ii) tourism; iii) financing; iv) creative economy; v) aero-business; and finally vi) information and communication technology (ICT). Going forward, a new strategic document will be prepared and presented in 2017 in order to guide the government's overall strategy and development vision.

In order to promote increased effectiveness policies regarding incentives in favour of industrialisation, the government published a study on the competitiveness of the industry (manufactures) for the period 2009-12 (*Relatório da Competitividade Indústrial de Cabo Verde*). This study was supposed to provide a baseline analysis of the situation of industry in Cabo Verde and the outcomes to be used in order to improve national policies regarding industries. The results of the study showed that there is a set of economic constraints that have been negatively affecting industry development in Cabo Verde, including: i) limited transport among and between islands; ii) high cost of energy; iii) high cost of water; iv) small market size; and v) limited access to financing.

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Successive governments have been putting efforts into promoting the transformation of industry, such as measures to increase exports and promote job creation. For instance, in 2003 the government inaugurated the Lazareto Industrial Zone in São Vicente. However, despite these policies and incentives, Cabo Verde's range of exports remains limited, mainly focused on fish and fish-related products (more than 60% of all goods exports). As for FDI, efforts to diversify its sources, notably towards light industries, have not been successful as the tourism sector retains the bulk of it.

According to the World Travel and Tourism Council (2016), the tourism industry has accounted for more than 40% of GDP on average over the past years. Regarding employment, it was responsible (directly and indirectly) for more than 85 000 jobs in 2015. Notwithstanding the importance of the tourism sector, its main impact is concentrated in three islands, namely Sal, Santiago, and Boa Vista. FDI flows highlight the level of concentration: in the last three years, 2013, 2014 and 2015, Cabo Verde received 6 billion, 6.8 billion and 3.3 billion escudos respectively. Sal, Boa Vista and Santiago accounted for 90% to 100% of the total.

Entrepreneurship and self-employment are the main tools used by successive governments to fight youth unemployment, as per the DECRP III. This focus is all the more important as the newly elected government's strategy has placed the private sector at the centre of economic growth in an effort to change the growth paradigm. Indeed, considering the country's debt level, the government is seeking to change the underlying growth driver, which up to now has been based to a large extent on the public sector. This has in fact been largely the case since the European financial crisis affected the country's economy and the government took countercyclical spending measures that led to ballooning deficits and debts. The failure of such measures to lead to sustainable growth suggests a low spending multiplier, most likely due to the high import propensity of the country.

Against this background, it is important that the government sustain business environment reform based on the proposals of the World Bank report, *Doing Business 2017*, as well as other recommendations based on field assessments from the multi-donor budget support group (comprising the World bank, the African Development Bank, the European Union, Portugal and Luxemburg) related to the special regime for micro, small and medium-sized enterprises (MSMEs), and the implementation of the new Financial Sector Development Strategy with a particular emphasis on such firms (including the registry of non-movable assets and a private credit bureau).

On entrepreneurship, the Institute for Professional Training and Employment (IEFP) and the Agency for Innovation and Enterprise Development (ADEI) are two key institutions. Created in 2009, ADEI is the national agency responsible for the promotion of the innovation and development of national enterprises, namely micro, small and medium-sized enterprises. In order to reach its objectives, ADEI works directly to support enterprises in the formulation of projects and in the organisation and promotion of the new enterprises (especially those in ICT areas). It also organises courses and seminars oriented to small and micro enterprises. As for the IEFP, it is a public institution responsible for the execution of policies regarding employment, entrepreneurship and technical education. Through its centres scattered across the islands, it has been able to support more than 24 000 beneficiaries of employment services over the past five years, and more than 3 000 interns in the last ten years.





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