CABO VERDE
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CABO VERDE

- **Economic growth has been slowing over recent years and Cabo Verde has been less resilient to the euro area crisis than previously thought.**
- **In order to reduce the budget deficit and curb the high indebtedness trend, the government is shifting the focus from accelerated capital accumulation to improvements in the quality and efficiency of public infrastructure.**
- **Cabo Verde is on track to reach most of the Millennium Development Goals but significant challenges remain, particularly high unemployment and persistent inequality.**

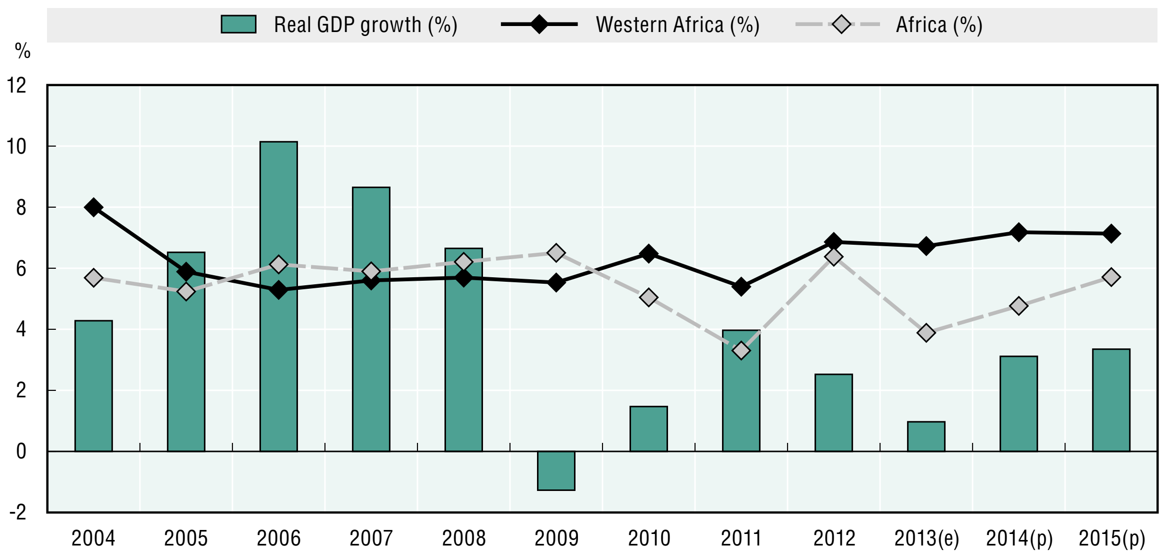
Overview

Since 2012, the economy has been hit by the weak international economic situation. GDP growth dropped from 4% in 2011 to 2.5% in 2012 and to 1% in 2013. Business and consumer confidence indicators have deteriorated while foreign direct investment (FDI) flows have pursued their declining trend in the balance of payments. However, public sector demand continued to provide support to the economy. Growth is likely to be around 3.1% in 2014 if the current recovery of the euro area, Cabo Verde's major trading partner, is sustained. If the slowdown in tourism revenue persists, however, this would dampen the main engine of growth.

As a result of the increase in the public sector's borrowing requirements to finance large investments in infrastructure, the total nominal government debt has increased from 69% of GDP in 2009 to an estimated 93% in 2013. In 2014, the government will focus on medium-term fiscal consolidation to rebuild policy buffers and lower debt related risks, but some temporary fiscal and monetary easing may be considered in line with the economic cycle if weakness persists. In this context, it will be critical to accelerate reforms in the business environment to improve competitiveness, particularly in the labour market. In parallel, returns to the impressive investments in infrastructure will need to be raised by strengthening the management of the public capital stock. In the financial sector, credit to the economy is likely to remain limited as banks have grown increasingly cautious given high levels of non-performing loans and the need to build provisions, limiting the potential for growth.

Cabo Verde's limited production base connects to global value chains mainly through the services sector: tourism and people working abroad. The sector of tourism is the most engaged in global value chains, having become an important engine of growth in the Cabo Verdean economy after 2005. The large diaspora connects the country to global value chains through their work abroad. Exports of sea products, which are mostly canned and frozen seafood, also engage the country in value chains abroad, albeit the impact on GDP is very modest. Going forward, Cabo Verde is seeking strategies that can position the country at higher-value stages of the global value chains by stimulating new exports of goods and services and expanding existing ones, especially around the creative sector.

Figure 1. **Real GDP growth**



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

Table 1. **Macroeconomic indicators**

	2012	2013(e)	2014(p)	2015(p)
Real GDP growth	2.5	1.0	3.1	3.3
Real GDP per capita growth	1.7	0.1	2.2	2.4
CPI inflation	2.5	1.5	1.8	2.0
Budget balance % GDP	-9.8	-7.9	-7.7	-8.0
Current account balance % GDP	-11.7	-5.7	-10.1	-10.0

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

Recent developments and prospects

In order to mitigate the impact of the 2008 international financial crisis and the public debt crisis in the euro area, Cabo Verde adopted countercyclical fiscal measures in 2010, primarily in the form of higher capital expenditure outlays, resulting in real GDP increase from -1.3% in 2009 to 4% in 2011[1]. However, since 2012, the economy was again impacted by the weak international economic situation. Tourism growth slowed while remittances and foreign direct investment (FDI) declined. Also imports of both consumption and capital goods declined. As a result, GDP growth slowed to about 2.5% in 2012 and 1% in 2013.

Lacking natural resources and economies of scale to sustain a significant manufacturing base, the economy is concentrated in services. In 2012, the tertiary sector represented about 70% of GDP and was dominated by tourism, mostly driven by FDI. Cabo Verde has successfully developed one of the fastest growing tourism industries in the world and tourism has become the primary source of growth and foreign exchange. Fuelled by strong external demand, tourism export receipts grew from USD 40 million in 2000 to USD 360 million in 2012 (an annual growth rate of 19%) and the tourism sector's share of total exports grew from 21% in 1999 to 45% in 2012. Tourism and its related activities currently represent 30% of GDP, while the service sector as a whole represents 70% of GDP and over 90% of exports. However, tourism neither significantly contributed to job creation nor substantially supported the expansion of others sectors, except construction (12.1% of GDP) through foreign owned all-inclusive resorts and real estate. Tourist export receipts have been slowing in 2013 even though occupancy rates have increased, pointing at competitive pricing pressures in Cabo Verde's most important growth sector.

A tourism sector strategy that is currently being formulated represents a real opportunity for greening the tourism sector, ensuring its long-term sustainability, increased revenues, improved benefits for local people, as well as preservation of the natural capital on which the tourism sector is based. Structural reforms – such as a better organisation of local production of goods and services, the creation of a quality certification system for local products, and improvements in the inter-islands transportation systems – are necessary for the dynamism in tourism to translate into broader economic benefits.

The primary sector is of particular importance to Cabo Verdeans as it employs a third of the country's population and a majority of the poor. Yet the sector grew only modestly, and its overall share of GDP declined: agriculture and fishing fell from 10% of GDP in the 1990s to 9% in the late 2000s. Agriculture remains dominated by subsistence farming, as arid conditions and mountainous topography prevent commercial activities. It is Spanish, Portuguese and French vessels that mainly exploit fishing stocks. Artisanal fisheries face high transportation costs and a lack of certification prevents small operators even from providing fish to the large hotels on the tourist islands, to say nothing of exporting it.

The industry sector which accounts for 8% of GDP is marginally developed due to Cabo Verde's small and dispersed population, which limits the possibility of generating the minimum efficient scale necessary for most industrial activities. It is highly concentrated on export-oriented fishing processing activities.

Overall the external position has improved in 2013 (see Table 4). Following monetary tightening measures of 2011 and weak consumer demand and construction activities, imports have contracted in 2013, while exports of both goods and services performed quite well. Donor grants continued to contract and remittances to decelerate. The financial account has been weakening in 2012 and 2013, mainly due to a contraction in FDI and external loans. On balance, international reserves increased from 3.2 months of prospective imports in 2011 to 4.3 months in 2013.

The outlook for 2014 is uncertain and will depend on the recovery of the euro area, Cabo Verde's major trading partner and tourist provider. Growth is thus likely to be around 3.1% in 2014 while risks remain tilted to the downside. Public demand will remain the key driver of growth. There are also encouraging signs on the FDI side. New FDI commitments, amounting to a total of EUR 600 million, have started to be implemented and are likely to accelerate in 2014. On the other hand, credit to the economy is likely to remain limited as banks have grown increasingly cautious given high levels of non-performing loans and the need to build provisions, limiting the potential for growth.

Cabo Verde is now at a crossroads and faces challenges to develop a more sustainable growth model, away from dependence on a concentrated services sector reliant on tourism and towards a more diversified production base. This requires rethinking the country's development financing strategy by boosting the private sector, accelerating the implementation of the transformation agenda to diversify the economy[2], to make it more climate-resilient, and enhancing its regional integration into the Economic Community of West African States (ECOWAS) region. The third Growth and Poverty Reduction Strategy (GPRSP III) for the period 2012-16 adopted in April 2013 reflects the government's structural agenda. It is aligned to the long-term national development vision that seeks to transform Cabo Verde into an emerging economy based on the utilisation of the country's geostrategic location to become an international platform/hub for high value added services and to expand its productive base.

Table 2. **GDP by sector (percentage)**

	2008	2011
Agriculture, hunting, forestry, fishing	9.0	9.1
of which fishing	0.7	0.8
Mining	0.9	0.5
of which oil		
Manufacturing	5.6	6.3
Electricity, gas and water	1.1	1.7
Construction	14.1	12.1
Wholesale and retail trade, hotels and restaurants	17.4	19.5
of which hotels and restaurants	4.1	4.6
Transport, storage and communication	19.0	15.9
Finance, real estate and business services	17.2	18.0
Public administration, education, health and social work, community, social and personal services	13.9	16.9
Other services	1.7	0
Gross domestic product at basic prices / factor cost	**100**	**100**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Cabo Verde's fiscal situation remains highly vulnerable. The fiscal deficit in 2012 was larger than expected due to revenue shortfalls and higher execution rates of public investment. Tax revenues fell as value added, income tax and international trade taxes fell sharply. Grants also experienced a strong drop. On spending, execution rates of externally financed public investment were higher than anticipated, with some 2013 planned expenditures occurring in the last quarter of 2012. In addition, weak financial performance of major state owned enterprises (SOEs) such as Electra and TACV resulted in their capitalisation (amounting 0.7% of GDP), putting additional pressures on the government fiscal position. As a result, in 2012 the fiscal deficit widened to 9.8% of GDP and the public debt increased to 86% of GDP. Inefficiencies in some SOEs remain a major fiscal burden and contingent risk for the government.

The 2013 budget has been elaborated for the first time according to a programmatic approach. The introduction of the full programmatic method represents a significant increase in the quality of budget management and will enable a direct link between medium- and short-term planning – the GPRSP, the Medium Term Expenditure Framework (MTEF) and the annual state budget. The new method is a decisive step towards the introduction of a results based management framework. A new budget classification was also introduced and the implementation of functional classifiers in co-ordination with programmatic classifiers is expected to ease some of the chronic constraints noted in terms of information reporting in the past.

The 2013 budget execution was well managed. The budget deficit reached 7.3% of GDP, 0.6 percentage points lower than originally budgeted. However revenue projections were unduly optimistic – 3.6 percentage points less than originally budgeted. The government responded by cutting personnel costs and the acquisition of goods and services; it also cut public investment by 2.3 percentage points of GDP. Overall, public investment of the central government is beginning to retrench, falling from 10.4% of GDP in 2012 to 8.5% in 2013 and a budgeted 8% in 2014. The government is shifting the focus from accelerated capital accumulation to improvements in the quality and efficiency of public infrastructure.

Table 3. **Public finances (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Total revenue and grants	**33.5**	**27.9**	**25.6**	**22.9**	**23.0**	**23.5**	**22.2**
Tax revenue	21.5	19.0	20.0	18.0	17.5	17.4	17.3
Grants	7.5	6.3	2.9	1.8	2.4	3.0	1.8
Total expenditure and net lending (a)	**37.0**	**38.5**	**33.3**	**32.7**	**30.9**	**31.1**	**30.2**
Current expenditure	23.0	19.8	23.2	22.3	22.4	23.2	23.3
Excluding interest	20.8	18.2	21.7	20.4	20.6	20.7	20.7
Wages and salaries	11.2	11.7	10.6	10.3	10.2	10.0	9.7
Interest	2.2	1.6	1.5	1.9	1.8	2.5	2.6
Capital expenditure	14.0	18.7	10.1	10.4	8.5	7.9	6.9
Primary balance	**-1.3**	**-9.0**	**-6.1**	**-8.0**	**-6.0**	**-5.1**	**-5.4**
Overall balance	**-3.6**	**-10.6**	**-7.7**	**-9.8**	**-7.9**	**-7.7**	**-8.0**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

Monetary policy is constrained by the need to maintain the Cabo Verde escudo (CVE) peg to the euro[3]. Since 2011, tight measures – via a 150 basis points policy rate hike and an increase in the minimum reserve requirement (MRR) by 2 percentage points – have been taken to reduce inflation and stabilise foreign-exchange reserves. International reserves recovered from 3.2 months of prospective imports in December 2011 to 4.3 months in January 2014.

Reflecting the economic activity slowdown, the modest increase in international commodity prices and the monetary tightening adopted by the central bank (Banco de Cabo Verde – BCV), headline inflation fell from 4.5% in 2011 to 2.5% in 2012. Nonetheless, increases in international commodity prices in the last quarter of 2012 have been pressuring inflation. Food price inflation averaged 2.6%, rising to 5.6% by the end of 2012 and inflation in energy and water was particularly high, averaging 5.5% in 2012. As economic activity cooled, core inflation fell to 2% in September 2013, with headline inflation only slightly higher at 2.5%. A relatively benign inflationary outlook is expected in 2014.

In an environment of weak inflationary pressures and a recovering international reserve position, since May 2013 the central bank has been cautiously beginning to loosen monetary policy, including a cut to the interest rate the central bank pays on commercial banks' deposits (the liquidity absorption rate) from 3.3% to 1.0% in September 2013. However, against high levels of non–performing loans, the regulatory capital ratio – the key tool for monetary policy in Cabo Verde – remains unchanged and banks were advised by the central bank to build provisions (including a suspension of dividend payments to shareholders). In a fixed exchange rate regime, monetary policy is reactive and the central bank is evaluating options for further monetary loosening based on the extent to which fiscal policy remains expansionary.

Economic co-operation, regional integration and trade

Since 2007, Cabo Verde has been part of a Special Partnership Agreement (SPA) with the European Union, which promotes co-operation in trade and investment. Cabo Verde is seeking to diversify its economic partners, especially when it comes to FDI and tourism, by expanding co-operation with European countries and other regions, such as some West African countries. Although Cabo Verde is a member of the Economic Community of West African States (ECOWAS), commercial relations with the sub-region are still weak. The country is trying to increase its pharmaceutical industry in the markets of Angola, São Tomé and Príncipe, Guinea-Bissau and Liberia. It is also seeking to increase its economic ties with the United States (US), in particular, through trade and investment with its diaspora. Cabo Verde joined the World Trade Organization (WTO) in 2008. Cabo Verde has also benefited from AGOA eligibility but its impact in terms of exports to the US has been insignificant. The country maintains a fishing agreement with Japan and the EU and has begun to develop bilateral co-operation with China, Brazil, India and some countries in Africa, such as Angola and Mozambique.

The marginal impact of all these agreements on exports is due to Cabo Verde's limited infrastructure and small industrial sector. It is estimated that about 80% to 90% of the country's food is imported. Indeed, in 2012, food, processed or not, comprised about one quarter of the import basket, with fuel accounting for another 14% of total imports. This large dependence on foreign production of food and other goods explains the country's structural trade deficit. Yet the deficit narrowed to -37.4% of GDP in 2013, compared to -45.4% in 2011. Sea products, such as canned and frozen seafood account for more than 90% of total exported goods. Europe remains the largest trading partner, accounting for more than 80% of imports and 90% of exports. There is a fine balance between tourism and the rest of the accounts in the balance of payments: while tourism brings inflows of capital into the country, tourism also increases the demand for food and energy that are imported goods. For instance, in 2012 the volume of tourism related travel was 1.15 times the total volume of imported food and energy. The exchange rate, which is pegged to the euro, had little effect on the trade balance.

Table 4. **Current account (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Trade balance	-35,9	-41	-45,4	-40,3	-37,4	-36,1	-34,5
Exports of goods (f.o.b.)	9,2	8,1	11,3	10,3	10,4	10,6	10,7
Imports of goods (f.o.b.)	45,1	49,1	56,8	50,6	47,8	46,7	45,2
Services	6,3	11,9	13,8	16,9	20,2	20,4	19,6
Factor income	-3,5	-4,8	-3,8	-3,3	-4,6	-4,8	-4,8
Current transfers	28,9	20,4	19,2	14,9	16,1	10,3	9,7
Current account balance	**-4,1**	**-13,5**	**-16,2**	**-11,7**	**-5,7**	**-10,1**	**-10**

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

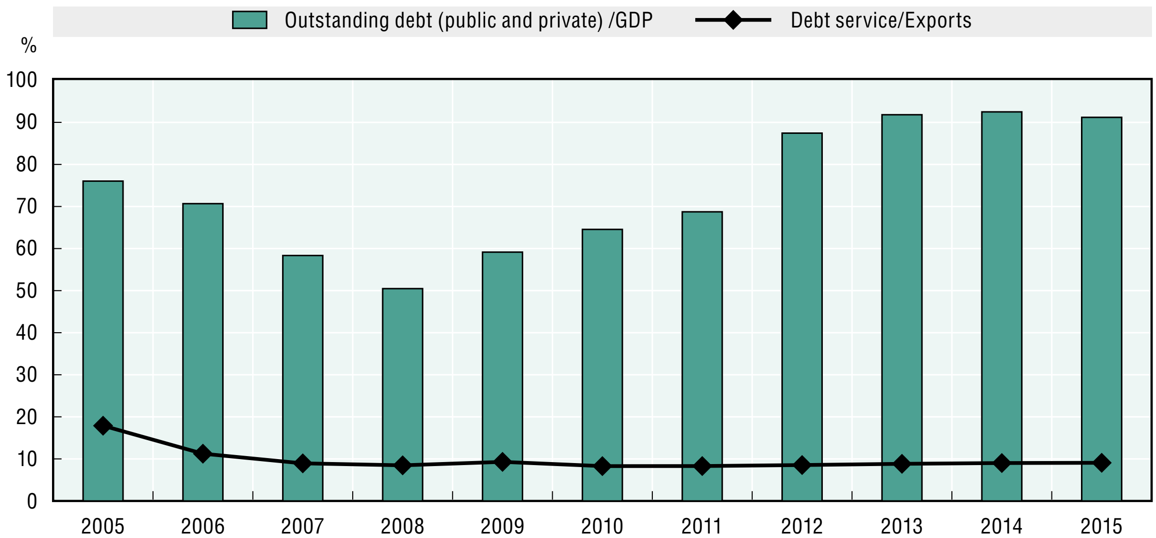
Debt policy

Public debt numbers have been increasing rapidly over the past few years, mainly due to an ambitious public investment programme. The total nominal government debt has increased from 69% of GDP in 2009 to an estimated 86% in 2012. The external debt represents 64.5% of GDP in 2012 and is predominantly concessional. Contracted mostly from the non-banking sector, the domestic debt represents 21.5% of GDP. Public debt amounts to 93% of GDP in 2013. There was a downward revision of public debt numbers from the ones published in the International Monetary Fund (IMF) staff report for the Article IV Consultation of March 2013, which were too high due to a clerical mistake. However, current vulnerabilities call for more prudent fiscal management which should be reflected in a strong and immediate fiscal adjustment.

The decomposition of the debt increase indicates that changes in the debt to GDP ratio are mainly explained by the evolution of primary deficits and the GDP growth performance. The high primary deficits were largely responsible for the rise of the debt ratios during the 2009-12 period.

The Debt Sustainability Analysis (DSA) jointly conducted by the government and the World Bank in November 2013 concluded on a moderate debt-distress (15% chance of debt distress). It revealed an improving fiscal deficit in the short term. After a peak in 2016 (99% of GDP), Cabo Verde's public debt should fall onward as amortisation payments pick up and deficit is contained. In the mid term, the government has committed itself to re-focusing its public investment programme, limiting it to approximately 10% of GDP. Nonetheless, consolidation of fiscal adjustment is needed to ensure debt sustainability. Especially, strengthening the governance of SOEs is expected to limit their drain on the general government budget and mitigate their public finance risks.

Figure 2. **Stock of total external debt**



Source: IMF (WEO & Article IV).

Economic and political governance

Private sector

The Cabo Verdean private sector is nascent and essentially concentrates around trade and tourism. Most companies are small: an enterprise with more than 20 employees qualifies as a large company. The informal sector is predominant and encompasses 70% of jobs and contributes to about 25% of GDP. While the agriculture potential of the country could constitute a main driver of growth for private entrepreneurship, the limited level of processing of agricultural products and the lack of certification of products are a key impediment to thriving SMEs in this sector. In addition, the fishing potential, mostly lobster and tuna, is not fully exploited.

The World Bank report *Doing Business 2014* shows that Cabo Verde improved 7 positions from 128 to 121. Especially in the Starting a Business indicators, the country moved from 129 to 66 due to abolishment of the minimum capital requirement. The registering property also showed improvements from 69 to 64 due to property transfers made faster by digitising its land registry. The *Doing Business* report also highlights the difficulty created by the lack of a bankruptcy law, the country being ranked 189 in Resolving Insolvency.

The special regime for micro and small enterprises was approved in generality by the parliament. Trade unions have reservations. Some of the major introductions include the introduction of a single tax for the first two years, the payment of a minimum wage, the reduction of severance when fired, paid time off of 8 days, and incentives for SMEs in public procurement. The latter one states that in public procurement 25% of the total cost should be allocated to micro and small enterprises. Also the large public and private enterprises in supply of contracts to the state must reserve at least 10% of the value of contracts for micro and small enterprises.

The prospects for FDI have improved and are focused in the tourism sector. Investments in health care and fisheries, both public and FDI, are envisaged.

Financial sector

Dominated by Portuguese private capital, Cabo Verde's banking sector is an oligopoly in which two major banks are reputed to control 70% of total banking assets. The sector is highly concentrated in real estate and construction activities, and is mainly characterised by a persistent situation of excess liquidity. On the supply side, the banks are averse to lending to the highly indebted corporate sector, while lending to SMEs is considered too risky. On the demand side, borrowers face uncertainty about the economic and business outlook, and also may not be able to afford the interest rates at which credit is being offered. This level of liquidity in the banking system signals a severe credit crunch in which banks prefer to hoard the non-remunerated asset instead of extending marginal quantities of loans. This has resulted in an asymmetrical distribution of loans across sectors and in penalising the productive sectors, by increasing lending rates and making access to credit extremely difficult.

The stability of the financial sector has been strengthened by new regulations adopted since 2009. Cabo Verde's financial system has proven remarkably resilient to the effects of the euro area crisis, and financial-sector activity increased. Nevertheless, its five major domestic banks have been exposed particularly to risks in the tourism and the construction sector, largely related to real estate, which cooled substantially during the crisis. The capital adequacy ratio fell from 14.4% in December 2011 to 12% in December 2012 and non-performing loans increased from 9.8% in June 2012 to 20% in October 2013. New financial legislation is underway to improve the central bank's oversight capacity, strengthening its ability to address threats in the financial system. The private sector identified access credit as the top limitation in doing business. The government is planning to establish a Mutual Guarantee Fund. The objective of this fund is for banks to increase access to finance to SMEs. The guarantee fund will work as a partial credit guarantee where banks take a share of the risk.

Public sector management, institutions and reform

Cabo Verde is widely recognised for its good governance in Africa. It scored 76.7 out of 100 in the 2013 Ibrahim Index of African Governance (IIAG) ranking third out of 52 countries. It scored higher than the continental average (51.6) and higher than the regional average (52.5) for West Africa. Its highest rank was in participation and human rights (1/52) and largest 6-year score improvement was in participation (+20.6). Its lowest rank was in gender (14/52) and largest 6-year score decline was in personal safety (-26.0). Transparency International's 2012 Corruption Perception Index ranked Cabo Verde as the second least-corrupt African country. Its ranking improved from 41st in 2011 to 39th out of 176 countries in 2012.

The implementation of Public Finance Management (PFM) reforms has made some strides. Although revenue and expenditure forecasts (deemed adequate in 2008) deteriorated from the impact of the global economic and financial crisis, significant progress was made in terms of exhaustiveness, transparency and supervision, seen especially in the introduction of a programme-based classification, the reform of the state treasury management (*bancarização*), revision of tax codes, extension of an integrated PFM system (SIGOF) in all departmental ministries, and regular use of the MTEF for the preparation of annual budgets. Despite these achievements, several weaknesses remain. The external control of public spending remains inefficient, some components of the system of public procurement are not yet operational. There is a need for Cabo Verde to improve the effectiveness of its General Finance Inspectorate (IGF) and to give more power to the Court of Auditors (CCT). In addition, SOEs operating in key sectors such as energy and transportation continue to experience financial losses, thereby causing additional costs for the state and the private sector. An accurate assessment of contingent liabilities of the state is necessary for better management of the overall public debt and financial risk.

Natural resource management and environment

Cabo Verde's unique flora and fauna, with high levels of endemic species, is due to its geographic isolation from the main continent of Africa and its dry climate. It is one of the world's top ten coral reef biodiversity hotspots and it harbours 639 species of fish and sea mammals including at least 17 species of whales and dolphins – with Boa Vista and Sal having been identified as important humpback whale mating/calving sites. The islands are also an important breeding and/or foraging ground for five sea turtle species.

In the last two decades, tourism in Cabo Verde has boomed and triggered the development of real estate. The annual number of tourists increased from around 30 000 in 1995 to 350 000 in 2011, and the number of tourism establishments more than doubled, from 88 to 195 in the same period. Most of the tourism is concentrated in the islands of Sal and Boa Vista.

The development of tourism, especially mass tourism in the islands of Sal and Boa Vista, is a threat to the biodiversity. The development of tourism infrastructure, including roads, has led to the degradation and fragmentation of natural ecosystems (e.g. destruction of natural habitats during construction, scarring of adjacent landscapes, widespread and uncontrolled disposal of building debris and off-site extraction of building materials, especially sand).

In response to this threat, the government is building a network of protected areas that encompass 47 natural habitats.

Soil and water conservation is also a priority with the construction of dams to increase the harvesting of surface water. In addition, a series of soil conservation measures are being implemented to halt severe soil erosion mainly caused by wind and aggressive tropical storms.

Climate change is a real threat to the country. Indeed, several niche habitats are at risk due to climate change, with the threat level rising for some ecosystems and risking the extinction of less resilient species. Rising sea level, as a result of climate change, is also likely to exacerbate pre-existing beach erosion problems, impacting coral, marine turtles and other organisms. Mitigation and adaptation to climate change is one of the key aspects in the government post-2015 agenda.

Political context

Cabo Verde is characterised by the quality of its democratic system established in 1991 and consolidated over the years. The 2012 Freedom House Report ranks it among the leading African countries in terms of civil liberties, political rights and stability. Cabo Verde's observance of the rule of law and the fundamental principle of separation of powers between the executive, legislative and judicial branches of government is on a par with that of developed countries, thus making it one of the model countries in Africa in terms of democracy and good governance. Press freedom is a reality in the country and the absence of ethnic, political and religious conflicts has fostered socio-cultural cohesion.

Since 1991, presidential and legislative elections have been marked by a peaceful transition of power between the two major parties in the country: the African Party for the Independence of Cabo Verde (PAICV) and the Movement for Democracy (MPD). The PAICV captured parliamentary elections in February 2011, while the opposition MPD won the presidency in August 2011. Municipal elections held in July 2012 resulted in the opposition MPD controlling 13 municipal councils (up from 11 in 2008), and the ruling PAICV holding 8 (down from 10 in 2008). However the cohabitation is peaceful and sustainable, due to consensus among the main political parties regarding the country's development strategy. The next presidential and parliamentary elections are scheduled for 2016.

Social context and human development

Building human resources

Cabo Verde's Human Development Index (HDI) of 0.586 is below the average of 0.640 for countries in the medium human development group but above the average of 0.475 for countries in sub-Saharan Africa.

The literacy rate among the 15-24 year-olds remains high and close to 98.1%. This high rate reflects the universal, obligatory and free primary education system. Secondary school remains a challenge because of high dropout rates: 40.7% for the 15-19 age group and 54.3% for the

20-24 age group. Quality of education varies significantly and remains a concern. Indeed, quality education was stressed as one of the biggest concerns of the public during the post-2015 National Consultation Process, conducted in May 2013. Enrollment in tertiary education is estimated to be concentrated in the highest income groups. There has been some investment in vocational training with the goal to improve employability.

Child mortality dropped, in particular, due to a strict immunisation policy. The under-five mortality rate dropped significantly from 56% in the 1990s to 23.7% in 2009, close to the MDG target of 18.7%. Infant mortality has also improved to about 23% in 2011 (the MDG target is 14). Evidence suggests that infections and parasites are a significant cause for death among children under one, which calls for continued improvement in the water and sanitation system and public health education.

In 2009, the maternal mortality rate reached 53.7 per 100 000 deliveries, above the MDG target of 17.3 and higher than 16.2 recorded in 2007. In absolute terms, however, seven women died of pregnancy-related causes in 2009, compared to two in 2007 and in 2008. The proportion of births attended by skilled health professionals dramatically improved from 36% in 1998 to 76% in 2009. Post-natal visits remain very low and a concern, however: more than 50% of mothers did not visit doctors after birth in 2009. The government designed a strategy to integrate health care of children and mother so as to increase the share of post-natal visits.

The incidence of HIV/AIDS is relatively low (less than 1% of the population) but the number of people infected with HIV rose steadily from 114 in 2000 to 399 in 2010, with the majority being women. This could be partly explained by the increase in the number of people getting tested for the disease, especially among women. The number of people dying of AIDS, while relatively small, has more than doubled between 2000 and 2009. This is partially explained by some infected people seeking treatment only at late stages of the disease. The third national strategic plan against AIDS was launched in 2011 and primarily focuses on vulnerable groups. Tuberculosis remains a risk: it registered an incidence rate of 69 cases in 100 000 people in 2010; of those cases, 70% were men. The government has a comprehensive plan to fight the incidence of tuberculosis that includes vaccination at an early age and the availability of free diagnosis and treatment services.

Poverty reduction, social protection and labour

Estimates by the World Bank indicate that the poverty rate was close to 25% in 2011, after reaching 21% in 2009. According to the 2007 household survey, national poverty rates dropped significantly from 49% in 1990 to 26.6% in 2007. Progress has been uneven, however. Recent work based on the 2010 Demographic Census indicates that poverty rates on islands with the best tourism infrastructure, Sal and Boa Vista, are less than half of the national average. Meanwhile, poverty incidence in largely rural islands with limited tourism infrastructure such as Fogo and Santa Antão are well above the national average. Similarly, whereas poverty in urban areas dropped from 25% to 13.2% between 2002 and 2007, poverty in rural areas improved only from 51.1% to 44.3%.

Even if Cabo Verde is on track to achieve all the targets of the Millennium Development Goals by 2015, significant challenges remain. Persistent high inequality with the perspective of lower growth rates will inevitably have an impact on poverty reduction going forward.

Although planning documents, including the GRSP, adopt an inclusive approach to growth, they do not present a clear plan to integrate poverty reduction, social protection and job creation with the economic growth strategy. The 2014 approved state budget indicates that the public investment programme (PIP) will mostly focus on building and expanding ports, roads, developing the energy sector and water, as well as infrastructure related to health and education. The PIP also aims at prioritising the development of the creative industries and of the agribusiness as a way to expand employment opportunities.

Cabo Verde is also seeking to reform its social protection system, as part of the country's efforts to build a more inclusive strategy for economic growth and to address its main socio-economic challenges in a more systematic and sustainable way. The country is building a single registry unit for beneficiaries of social programmes and designing a cash transfer programme as a way to increase the efficiency in social spending that could be implemented as early as 2015. Preliminary analysis of the current social protection system, which includes a pension system, health, education and nutrition programmes, indicates that programmes, objectives and implementing agencies are highly fragmented and poorly co-ordinated[4]. While there is a general understanding of socio-economic risks to the population[5], there is little systematic information on vulnerabilities and on factors that exacerbate the risks associated with the inter-generational transmission of poverty.

Another issue of concern is unemployment among the youth, who account for 50% of the working-age population. The 2010/11 fiscal recovery plan helped to scale unemployment down from 13.1% in 2009 to 10.7% in 2010. Yet unemployment rose again to 16.8% in 2012, and the plan has not been able to create enough first-job opportunities for young workers. Indeed, an estimated 32.1% of 15-to-24 year olds were unemployed in 2012.

Gender equality

Gender equality remains a challenge. Women's share of seats in national parliament remains low at around 20.8% (2011). At municipal level, the discrepancy between men and women in power is even more significant: in only 1 out of 22 municipalities in the country is a major seat held by a woman.

Economic inactivity is especially high among women: around 83.4% (53.8% among men). Among the reasons that women cite more often as the cause of inactivity are: *i)* need to attend school (34%); and *ii)* family reasons (23%). Among men, the leading reason for inactivity is school while family reasons are mentioned in only 4% of the cases.

More than a third of women aged 15-24 were unemployed in 2011, well above the overall unemployment rate of 12.2% and the 22.1% recorded for men in the same age category. A recent survey (2012) on the use of time indicates other reasons why women are out of the formal and paid job market: 74% of total time allocated to work (paid and unpaid) in Cabo Verde is unpaid, and women contribute to 68% of the total unpaid work and 44% of the total paid work. The disproportionate allocation of time to non-remunerated activity leads to time poverty among women, which reinforces their poverty and poverty cycles[6]. Access to jobs for women in Cabo Verde is especially important to further reduce poverty, considering that households headed by women tend to be one and a half times more likely to be poor than those headed by men.

Thematic analysis: Global value chains and industrialisation in Africa

Cabo Verde's natural and geographic conditions combine a lack of non-renewable natural resources, a lack of sizeable arable land, a dry climate, which makes it unsuited for large-scale agriculture, and a relative small population of 500 000 dispersed in nine islands. These conditions have limited the country´s ability to integrate into global value chains and to develop a strong industrial sector. Integration through the manufacturing sector is also limited due to the scarcity and price of inputs that are mostly imported, small-scale production of low value products, and limited access to financing at the national level. Today the country connects to global value chains through three main sectors: tourism, labour and sea products.

Tourism is the sector most engaged in global value chains, having become an important engine of growth in the Cabo Verdean economy after 2005. The Central Bank of Cabo Verde estimates that the volume of inflows associated with tourism travel into the country have reached the equivalent of more than 20% of GDP in 2012 and 2013[7]. In 2000, the volume of inflows associated with tourism travel corresponded to less than 3% of GDP. However, the tourism sector's substantial growth relative to the rest of the economy has failed to create jobs and stimulate other sectors of the economy. This is in part a result of other sectors of the economy not being structured to meet the demand from the tourism sector and, also in part, a result of the very model of tourism that is based on all-inclusive hotel chains. Indeed, the archipelagic formation in combination with a relatively small-scale production and high costs of inter-island transportation has limited the ability of national production of goods and services to reach the tourism sector with competitive prices.

Cabo Verde has also a large number of nationals working abroad, which is estimated to be twice as large as the number of nationals residing in the archipelago. The large diaspora connects the country to global value chains through the labour sector and brings remittances that are estimated to have reached close to 10% of GDP in 2012 and 2013[8]. In 2012, the largest share of remittances, around 32%, came from the diaspora from Portugal, followed by the diaspora in France (around 24%) and the United States (14.5%). The weak global economic prospect, especially in the euro area represents a considerable risk for the remittance flows going into the country.

The sector of sea products, which are mostly canned and frozen seafood, also engages the country in value chains abroad. These products represented in 2012 total exports at a value of approximately 2.7% of GDP. Most of these products, about 91%, are exported to one single market: Spain.

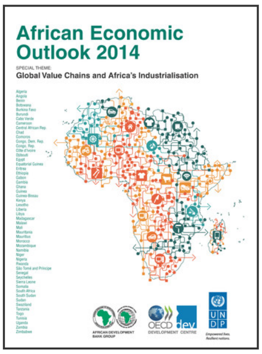
Going forward Cabo Verde is seeking strategies that would more strategically position country at higher-value stages of the global value chains by stimulating new exports of goods and services of higher added-value and expanding existing ones. At the same time, these strategies aim at enhancing employment opportunities, especially among the youth and women, at national level. The strategies, that include the development of a strong creative economy, are centered in three main pillars: *i)* create conditions necessary to produce and sell products and services in the domestic and global markets that present a quality standard, that are adequate to the national producers' cost structures and that, at the same time, can enhance the country's capacity to conform to international standards; *ii)* promote creative capacity to develop new high-value added and niche products and services based on knowledge and creativity that can position Cabo Verde well in a competitive global market; *iii)* enhance the country's market integration by building up its national capacity to produce, store, move, and transport goods and services between islands and abroad[9].

Besides the problems with production scale, limited arable land, climate and small population, there are other barriers that inhibit Cabo Verde's participation in global value chains, including the tourism sector. Included in these barriers are: the difficulty associated with the inter-island transportation and the absence of an effective national system of logistics to efficiently store and distribute goods. While information technologies and Internet-based services offer an opportunity for the country to overcome many of its structural constraints, the fragmentation of the domestic market is a bottleneck that, if solved, would allow a better flow of people and goods inside the country and across its borders.

A growing priority in Cabo Verde's development strategy, as described in the GPRS Paper III, is to develop the creative economy as the driving force for sectors such as the IT cluster, agro industry, fisheries, cultural products and tourism. The creative economy is seen as a strategy to develop niche markets and add value to primary produce through culture and design. The strategy also aims at incentivising a more solid micro and small enterprise network at national level by formulating, for instance, a special tax regime. The strategy expects that the value added and differentiated exports of niche products and services will position Cabo Verde well to compete in the global market at higher-value stages of the global value chains[10]. Cabo Verde is also investing strongly in renewable sources of energy as a way to decrease its dependency on fossil fuel based energy that boosts the cost of production at the national level.

Notes

1. INE, the national statistical institute, recently released new GDP estimates for the period 2007-2011. The new GDP figures indicate that the negative effect of the crisis in the Eurozone on Cabo Verde's economy was much stronger than previously thought. The narrative of Cabo Verde's economic performance for that period had been that the country weathered the crisis relatively well-with a deceleration of growth to 3.7% in 2009, recovering to 5.2% in 2010 and 5.1% in 2011.
2. The idea is to build a competitive, highly diversified and sustainable economy through the development of seven key economic clusters: Tourism, Maritime economy, Aero-business, Information Technology, Finance, Creative economy, Agri-business.
3. Since 2000, the CVE is pegged to the Euro with a fixed parity set at 110.265 CVE to 1 Euro.
4. ILO Report "A Proteção Social em Cabo Verde: situação e desafios", 2012.
5. "Estratégia Para o Desenvolvimento da Proteção Social de Cabo Verde," Ministério da Juventude, Emprego, e Desenvolvimento dos Recursos Humanos.
6. *Use of Time and Non Remunerated Work in CaboVerde*, 2012.
7. *Statistics Bulletin – 20 years*, CaboVerde Central Bank, and *Statistics Bulletin – 3° Quarter 2013*, CaboVerde Central Bank.
8. *Statistics Bulletin – 3° Quarter 2013* (figures 9 and 10), CaboVerde Central Bank.
9. National Implementation Unit (NIU) Enhanced Integrated Framework-CaboVerde Ministry of Tourism, Industry and Energy (MTIE). 2013. *Enhancing Trade Capacity in CaboVerde, Concept Paper for Tier-2 Funding ENHANCED INTEGRATED FRAMEWORK (EIF)*. Unpublished.
10. *Growth and Poverty Reduction Strategy Paper III*, 2012.



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