## Project Data

**Country:** Cabo Verde

**Is this Review for a Programmatic Series?** Yes

**How many operations were planned for the series?** 3

**How many were approved?** 3

**Series ID:** S122669

**First Project ID:** P122669

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**Sector(s):** Central government administration (40%); General industry and trade sector (30%); Vocational training (10%); Transmission and Distribution of Electricity (10%); Aviation (10%)

**Theme(s):** Regulation and competition policy (30%); Public expenditure; financial management and procurement (30%); Infrastructure services for private sector development (20%); Economic statistics; modeling and forecasting (10%); Education for the knowledge economy (10%)

**Second Project ID:** P121812

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**Sector(s):** Central government administration (62%), General energy sector (13%), Banking (13%), General industry and trade sector (8%), Housing finance (4%)

**Theme(s):** Public expenditure, financial management and procurement (37%), Regulation and competition policy (25%), Managing for development results (13%), Administrative and civil service reform (13%), Debt management and fiscal sustainability (12%)

**Third Project ID:** P113306

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**Sector(s):** Central government administration (50%), General industry and trade sector (20%), General energy sector (10%), Sub-national government administration (10%), Banking (10%)

**Theme(s):** Public expenditure, financial management and procurement (29%), Regulation and competition policy (29%), Macroeconomic management (14%), Economic statistics, modeling and forecasting (14%), Other Private Sector Development (14%)

**Evaluator:** Panel Reviewer: ICR Review Coordinator: Group:
2. Project Objectives and Components:

a. Objectives:

The Program Development Objectives were stated as follows:

Poverty Reduction Strategy Credit V (PRSC V): ...to support policies and institutions aimed at developing a
dynamic private sector to be the engine of sustainable growth and poverty reduction, reinforcing the competitive
advantage of Cape Verde’s Service Sector”. This will be done by focusing on two main policy areas: good
governance and competitiveness and growth. Good governance is interpreted broadly and includes the following
issues: fiscal policy, public financial management, procurement, M&E, statistics and state modernization.
Competitiveness constitutes the main multi-sector anchor for the proposed operation and includes human capital,
trade, tourism, financial services, tax, land management and energy issues (Program Document [PD], p. i, 15).

PRSC VI: ...to support the policy reforms and institutional development necessary to foster sustained economic
growth. The operation aims to: (i) preserve macroeconomic stability and improve government service delivery
through the capitalization of a reform agenda for public finance management, procurement, government
structure and M&E; (ii) support human capital through the institutional upgrading of the vocational training
system; (iii) improve competitiveness by strengthening and rationalizing financial sector regulation and ameliorate
the business climate; and (iv) ease bottlenecks to growth through reforms in public utilities management (PD, p.
viii, 19).

PRSC VII: ...(i) to reinforce the effectiveness, transparency and accountability of public sector operations through
the continuity of the government’s public sector reform agenda; (ii) improve the qualifications of the labor
force through the institutional upgrading of the vocational training system; (iii) to improve the business climate
through the rationalization of the fiscal incentive system and the streamlining of firm closing procedures; and (iv)
to enhance the performance of the public energy utility and national air carrier (PD, p. vii, 22).

The objectives are not stated in the Financing Agreements. Based on the above, this review will consider four
sub-objectives: improved governance, improved qualifications of the labor force through the institutional
upgrading of the vocational training system, improved competitiveness and investment climate, and enhanced
performance of the public energy utility and national air carrier. Maintaining macroeconomic stability will also be
assessed as the underlying condition for the series to proceed.

b. If this is a single DPL operation (not part of a series), were the project objectives/ key
associated outcome targets revised during implementation?

No

c. Policy Areas:

The series addressed four policy areas:

- Good governance: issues related to fiscal policy, public financial management, procurement, state
  modernization, and statistical development, monitoring and evaluation (M&E) capacity, decentralization and
civil service reform. In addition, a trigger was proposed for PRSC VII supporting the social inclusion pillar in
the Government's strategy (implementing a targeted safety net). This was later dropped, but a results
indicator was retained in this area.
- Human capital enhancement: vocational training, matching workforce skills to employer demand.
- Competitiveness and investment climate: trade openness, tax policy, the financial sector, reduction in
  regulatory burden, land management and other business climate improvements.
- Infrastructure: capacity and efficiency improvements in public utilities in energy and transportation (air)
  sectors.
  (PDs: PRSC V, pp. 18 - 28; PRSC VI, pp. 21 - 31; PRSC VII, pp. 22-35)

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

IDA financing consisted of three credits for SDR 9.5 million (US$15m: PRSC V), SDR 6.4 million (US$10 million:
PRSC VI) and SDR 7.9 million (US$12 million: PRSC VII). PRSC VII was increased from US$10m to US$12m to
help the country cope with unexpectedly weak aid and foreign direct investment (FDI) flows, and cost of
maintaining the pegged exchange rate, during the global financial crisis. Effectiveness was 01/26/2010 for PRSC V, 12/22/2010 for PRSC VI, and 07/24/2012 for PRSC VII. Each operation was fully disbursed upon effectiveness. PRSC VII was originally planned for 2011, but was delayed until 2012 because of concerns over the macroeconomic framework. There were no extensions, revisions, or other delays. There was no co-financing, but there was complementary support from other development partners mentioned below.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

Substantial. The series’ objectives were substantially relevant at appraisal and at evaluation. The objectives are aligned with the government's Second Growth and Poverty Reduction Strategy Paper (GPRSP II), introduced in May 2008, with its focus on government reform, human resources, economic competitiveness, infrastructure and social cohesion as key reforms needed to guide the country's transition following its graduation from least-developed country status in 2007. The objectives were also in line with the Bank's 2009 Country Partnership Strategy for Cape Verde, which is aligned with GPRSP II. The objectives continue to be aligned with the Country Partnership Strategy adopted in 2014 and its two pillars: (a) enhancing macro-fiscal stability, setting the foundations for renewed growth; and (b) improving competitiveness and private sector development. When the series was designed and approved in 2009, a quick recovery was expected from the global financial and economic crisis. This did not happen, with serious consequences on Cape Verde's tourism and other sectors from the sustained economic downturn in Europe. As the situation worsened, the importance of the policy initiatives supported by the series that supported, inter alia, increased growth and reduction in state owned enterprise (SOE) losses, took on greater importance. In addition, the fiscal space added by the series allowed government to continue financing essential services and investment despite weakened economic performance.

b. Relevance of Design:

Substantial. There is a clear statement of objectives, particularly in PRSC VI and VII, linked to prior actions that have institutional depth, add value, and are measurable. The causal chain between prior actions supported and outcomes is clear and convincing, and improved in PRSC VII.

For example, PRSC V and VI prior actions supported partial reductions of public arrears. The government built on and improved this performance throughout the series, thus contributing to the improved governance objective. In another example, the PRSCs supported various business climate enhancements, including adjustment of procedures and rules to be aligned with World Trade Organization agreements, and adoption of new laws and codes. The government built on this with other business enhancing measures linked to the economic competitiveness objective.

The key exogenous factor, the global financial and economic crisis, was identified and addressed. Though its duration was underestimated in the initial design, the series allowed a meaningful policy interaction to proceed with the government, enabling adjustments to take into account capacity constraints, and the worsening economic climate.

The initial analysis found that the macroeconomic framework was adequate to allow budget support (PD, PRSC V, pp. 4-6), and to mitigate the effects of the global economic crisis, including fiscal space, international reserves, and reform targets that would reduce fiscal risks. However, economic growth projections were overoptimistic: 5.5 percent and 7 percent in 2011 and 2012, compared to actual performance of 4 percent and 1 percent respectively. Subsequent analyses in the following operations concluded that an adequate framework was being maintained. However, the third operation was delayed due to high deficits and a weaker than planned economic environment. A detailed assessment of the macroeconomic framework eventually concluded that the operation could proceed.

4. Achievement of Objectives (Efficacy):

Efficacy of the four sub-objectives was as follows:

a.) Improved Governance. Substantial. The series supported adoption of a new statistical law, the regulations of
a new procurement law, medium-term debt strategy, reduction in arrears, and improvements in auditing, municipal information system, civil service management and M&E. Outcome targets were met in eliminating arrears (down from 15% of the original stock in baseline year 2009), number of years between budget execution and completion of audits (reduced from three to two years), number of years to submit the General Accounts of the State to the Court of Accounts (reduced from three to less than one year), and complete project and program coverage by M&E systems (increased from 80% in 2010). Targets were also met in number of ministries restructured (15, up from 5), and number of municipalities included in the Municipal Information System (22, up from 15). Procurement targets were also achieved in staff trained (401, up from 0), number of staff subject to prior review (9, up from 0) and number of audits prepared (greater than 10, up from zero). There were related improvements supported by the policy dialog of the series, including a Medium Term Expenditure Framework, Medium Term Fiscal Framework. A report on progress of the social cohesion pillar of the GPRSP II was published, meeting a target. Shortcomings included lack of progress on eliminating non-complying sole source contracts, approval of new career system, research functions transferred to university, number of municipalities, embassies and institutes audited, and weakness in national accounts statistics. Overall, the Country Policy and Institutional Assessment public sector management and institutions’ cluster average modestly increased from 4.0 (out of 6) in 2009 to 4.1 in 2013, and it is reasonable to conclude that the actions supported by the series contributed to this good performance in the face of severe exogenous financial and economic challenges.

b.) Improved qualifications of the labor force through the institutional upgrading of the vocational training system. Modest. The series supported implementation of the Technical Vocational Education and Training (TVET) Action Plan, A result was that the target of accreditation of 22 training institutions was met (up from zero). However the number of students trained was 1500, short of the target of 6000, mainly due to planned donor funding being insufficient. The target on percentage of the Training Support Fund used for TVET delivery was not rated.

c.) Improved competitiveness and investment climate. Substantial. The series supported reduction in corporate tax rates and other tax reforms, adjustment of procedures and rules to be aligned with World Trade Organization agreements, reduced exposure to offshore banking, adoption/submission of bankruptcy laws, opening of the one-stop shop to streamline business registration, the adoption of a Cadaster Law, and adoption of new investment code and intellectual property law. Targets achieved included the number of days to open a business (reduced from 24 to 11, meeting the target of less than 24), the cost of property registration (Doing Business indicator reduced from 7.6 to 3.7, meeting the target of less than 4), reduced marginal tax rates for businesses (25%, down from 30% in 2008), and new tax incentive system adopted. Progress was slower than expected in preparation of regional and municipal plans, which were expected to build on the Cadaster Law. Two indicators on issues of closing a business were not rated. The target on increasing trade openness as a percent of gross domestic product (GDP) was met (up from 103.5% of GDP to 109.7% of GDP), despite low growth in 2012. Likewise, the target on increasing net FDI flows as a percent of GDP was greatly exceeded in 2012 (36 percent of GDP vs 25 percent), but this could have been a one off event where investors wanted to benefit from tax incentives that changed in January 2013. There are also problems and limitations in data sources and compilation techniques with this measure. Moving to the financial sector, the output target was exceeded for the weighted average (by assets) capital adequacy ratio (up from 10.7% to 13.4%). A PRSC VI action only supported the preparation of a draft banking law that hasn't yet been approved by the Parliament; thus the result can't be attributed to the law. However, the adoption and implementation of the Rehabilitation of Firms and Bankruptcy Law, and the overall improvement in the business climate, might have been motivating factors.

Overall, the country improved its Doing Business ranking from 142 in 2010 to 121 in 2013, and the actions supported by the operation plausibly contributed to this improved performance. Over the past five years, economic freedom has increased, with improvements in six of the 10 areas, including investment freedom, fiscal freedom, and the protection of property rights. This has improved the country's ranking to third out of 46 African countries rated.(2015 Index of Economic Freedom, Heritage Foundation)

d.) Enhanced performance of the public energy utility and national air carrier. Modest. The series supported improvements in the organizational structure and management of the energy utility ELECTRA, and in the air carrier TACV, including tariff reform, and improvements in accounting and audit. ELECTRA exceeded targets for increasing power generation capacity (116 megawatts, up from 90), and renewable energy (30%, up from 3%, exceeding the target of 18%). The target on reducing losses was not met, and the debt service coverage indicator was not rated. However, in 2013 ELECTRA adopted new tariff and regulatory procedures that combined with other measures helped to increase its first quarter revenue by 18 percent. There was also a reduction in blackouts by more than 50 percent over the previous year. Series’ actions are plausibly linked to these improvements. The air carrier achieved its target of unit revenue (Escudos 783m, up from 720m and exceeding the target of 779m), but ended the series with increased operating costs, rather than the sharp cost reduction targeted.
The results achieved under the four sub-objectives can be plausibly attributed to support from the series, along with complementary support to sub-objectives a and c from other partners in the Budget Support Group, including the African Development Bank, Spain, Luxembourg, Portugal and the European Union. Finally, Cape Verde maintained an adequate macroeconomic framework broadly throughout the series, except for the challenges in 2011 noted above, and continued to do so after the series was completed. Indeed, the IMF notes that if government had not pursued its policy of public investment, and instead followed the IMF’s recommendation for pursuing fiscal consolidation, it might have forced the country into recession in 2013 (cf. PD, PRSC VIII, 2014 and IMF Article IV staff report, 2014).

5. Efficiency (not applicable to DPLs):

6. Outcome:

The operation had objectives substantially relevant to guide its transition following its graduation from least-developed country status. The design was also substantially relevant, providing a clear statement of objectives, linked to prior actions that have institutional depth, add value, and are measurable. There was substantial achievement in improved governance and competitiveness, with top rankings in the African region in various surveys. However, there were some difficulties in measuring and attributing achievements to the series. There was only modest progress on human capital enhancement and state owned enterprise reform, with some targets not achieved or not rated.

a. Outcome Rating: Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:

Macroeconomic risks include dependence on the Eurozone with its uncertain economic and political future, winding down of concessional donor support, a high public debt and fiscal deficit, and estimated growth of only 0.5 percent in 2013. This may have already weakened one of the series indicators, FDI flows, though there are problems with data sources on this. High levels of unemployment could weaken political commitment to deepening business climate and SOE reforms. In the recently approved PRSC VIII, TVET training continues to be supported, with the new target of 5000 by 2016. If achieved, this would help address one of the causes of unemployment. Other risk mitigating factors include political commitment and institutional quality, with a Country Policy and Institutional Assessment rating at the highest level of African IDA borrowers. PRSC VIII launched a new series in 2014 providing continuing support to the governance and competitiveness pillars of the GPRSP II that will help to sustain and deepen the achievements.

a. Risk to Development Outcome Rating: Moderate

8. Assessment of Bank Performance:

a. Quality at entry:

The design built on lessons learned from previous PRSC operations: the value of budget support in harmonizing aid and reducing transaction costs, and complementary capacity building and analytical work. The depth of the analytical work drawn on is particularly impressive (ICR, Annex 9). The analysis of risks and risk mitigation is well done, covering, for example in PRSC VI (PD, pp. 42-3): risks of high deficits, elections, implementation capacity, and natural hazards. A shortcoming was some weaknesses in M&E detailed below in Section 10.

Quality-at-Entry Rating: Moderately Satisfactory

b. Quality of supervision:
Supervision was through biannual missions of the Budget Support Group, which facilitated policy dialog, monitoring progress, and design and improvement of subsequent operations, including an improvement in the quality of the results matrix in PRSC VII (ICR, para 67). The Budget Support Group was led by the World Bank. A shortcoming was that only one ISR (PRSC VI) was prepared for the series because of the lack of credible data.

**Quality of Supervision Rating:** Moderately Satisfactory

**Overall Bank Performance Rating:** Moderately Satisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

Under the leadership of the Ministry of Finance, the government adopted the GPRSP II that was firmly grounded on previous programs and strategies, and provided the conceptual basis for the policy and institutional actions supported by the series. Strong commitment was demonstrated in taking on sensitive political challenges such as SOE reform. Shortcomings in the macroeconomic framework caused a delay in PRSC VII. Weaknesses including the high fiscal deficit and national debt were noted in the 2014 IMF Article IV Staff Report, but were not considered serious enough to delay approval of PRSC VIII. As pointed out above in Section 4, the IMF admits that the country might have fallen into recession in 2013 if it had not pursued the fiscal stimulus that it did.

**Government Performance Rating:** Satisfactory

b. Implementing Agency Performance:

Implementing authorities were broadly successful in achieving targeted results. However weaknesses in statistical capacity (Instituto Nacional de Estatisticas) led to overoptimistic GDP growth projections being used for the period of the series, until they were corrected in 2012. In addition, challenges with record keeping (TACV and ELECTRA) hindered effective monitoring.

**Implementing Agency Performance Rating:** Moderately Satisfactory

**Overall Borrower Performance Rating:** Moderately Satisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:

The performance matrix was designed and implemented by the Ministry of Finance, with involvement of all ministries supporting GPRSP II objectives. Most of the indicators were clear, measurable, and linked with the objectives. Initially there were some indicators without baselines, or without clear units; the quality of indicators improved in subsequent operations. One indicator simply repeated a prior action (reduction in business taxes). Some indicators were not aligned with the indicators of the GPRSP II, for example the indicators covering TACV, which was not being supported by other donors. In such cases, data had to be supplied directly by the authority concerned.

b. M&E Implementation:
By the end of the series, most indicators had baselines, and were rated. There were problems with weak statistical capacity, and record keeping challenges at TACV and ELECTRA.

c. M&E Utilization:

The improvement in indicator quality in the later operations indicates that the system was being used. An ISR prepared mid-way through PRSC VI by a joint mission comprising the Bank and other budget support donors usefully presents key issues and indicator performance.

**M&E Quality Rating:** Modest

## 11. Other Issues

### a. Safeguards:

Not relevant for program loans.

### b. Fiduciary Compliance:

The ICR does not report on fiduciary issues. The Bank of Cape Verde has adopted international Financial Reporting Standards, developed reserves-management procedures, introduced an internal audit function, and a process for rotating external auditors (PD, PRSC VIII, p. 31). These seem to have addressed the fiduciary challenges indicated in PD, PRSC VII, p. 35.

### c. Unintended Impacts (positive or negative):

As mentioned in Section 4, there was a sharp, unexpected increase in FDI in 2013, perhaps because investors wanted to benefit from tax incentives that changed in January 2013. Yet even after the increase, FDI was still significantly lower than prior to the onset of the global financial crisis in 2008.

### d. Other:

### 12. Ratings:

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**NOTES:**
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.
13. Lessons:

Lessons in the ICR include the importance of quality indicators, robust M&E, and donor harmonization, which are all supported. In addition, during periods of exogenous, economic and financial crisis, budget support can be a useful tool to protect fiscal space, while focusing government attention on key reforms. Supported actions and policy dialog is most likely to be effective when the borrower governments already have strong political and institutional commitment to follow through on sensitive measures.

14. Assessment Recommended?  ○ Yes ● No

15. Comments on Quality of ICR:

The ICR provides mainly good quality evidence and concise analysis consistent with Bank guidelines, and focusing on results achieved in regard to the series objectives. A particular strength is that it is careful to separate results attributable to the operation, from results that seem to have had more wide-ranging causes. Lessons are based on evidence and analysis.

a. Quality of ICR Rating: