



# Growth and Poverty Reduction Strategy III (2012 - 2016)

---

**DRAFT**



December 2012

## Contents

|   |           |
|---|-----------|
| <b>1. Introduction to the GPRSP III .....</b>   | <b>4</b>  |
| 1.1 From the iPRSP to the GPRSP III .....   | 4         |
| 1.2 Establishing the GPRSP III .....  | 5         |
| 1.3 GPRSP III .....   | 7         |
| <b>2. Analysis of the Current Status: Ten-year overview of growth and poverty .....</b>     | <b>8</b>  |
| 2.1 Growth and Poverty in Cape Verde .....  | 8         |
| 2.2 Growth in Cape Verde (2002–2011) .....  | 9         |
| 2.3 Poverty in Cape Verde (2002–2011) .....   | 10        |
| 2.4 Other Dimensions of Poverty .....   | 13        |
| 2.5 Explaining Cape Verde's progress in combating poverty .....                             | 20        |
| <b>3. Analysis of the Current Status: The Macroeconomic Framework .....</b>                 | <b>24</b> |
| 3.1 Introduction .....  | 24        |
| 3.2 The macroeconomic environment of Cape Verde .....                                       | 24        |
| 3.3 Prospects and challenges for Cape Verde .....   | 30        |
| <b>4. GPRSP III: Strategic Agenda .....</b>   | <b>35</b> |
| 4.1 Cape Verde's National Agenda and Vision .....   | 35        |
| 4.2 Growth and Poverty Reduction Strategy III .....   | 37        |
| 4.2.1 National Reform Agenda .....  | 38        |
| 4.2.2.1 Maintaining macroeconomic stability and the reform of public finance management ..  | 39        |
| 4.2.2.2 Labor market flexibility .....  | 44        |
| 4.2.2.3 Improving the quality and role of education and training in combating unemployment; | 45        |
| 4.2.2.4 Improving the quality of infrastructures and services .....                         | 47        |
| 4.2.2 Fostering growth through economic diversification .....                               | 48        |
| 4.2.2.1 Agribusiness .....  | 48        |
| 4.2.2.2 Tourism .....   | 54        |
| 4.2.2.3 Maritime Economy .....  | 60        |
| 4.2.2.4 ICT Cluster .....   | 65        |
| 4.2.2.5 Creative Economy .....  | 70        |
| 4.2.2.6 Financial cluster .....   | 72        |
| 4.2.2.7 Cluster of Aerobusiness .....   | 75        |

|   |            |
|---|------------|
| <b>5 – Implementation and Programs of the GPRSP III.....</b>                | <b>81</b>  |
| 5.1 – Implementation of the GPRSP III .....                                 | 81         |
| 5.2 – Program and Goals of the GPRSP III .....                              | 86         |
| 5.2.1 Programs of AXIS I: Infrastructuring.....                             | 87         |
| 5.2.2 Programs of AXIS II: Human Capital .....                              | 90         |
| 5.2.3 Programs of AXIS III: Good Governance .....                           | 95         |
| 5.2.4 Programs of AXIS IV: Reinforcement of the Private Sector.....         | 102        |
| 5.2.5 Programs of AXIS V: Global Nation .....                               | 104        |
| 5.3 The GPRSP III Macroeconomic Framework .....                             | 106        |
| <b>6. Costs and Financing of Growth and Poverty Reduction Strategy.....</b> | <b>123</b> |

## Acronyms and Abbreviations

CAT – *Código de Articulação Transversal* (Transversal Identification Code)  
DGPOG – *Direcção Geral de Planeamento, Orçamento e Gestão* (Directorate-General for Planning, Budget and Management)  
DNP – *Direcção Nacional do Planeamento* (National Directorate for Planning)  
ECOWAS – Economic Community of West African States  
FAO – United Nations Food and Agriculture Organization  
FDI – Foreign Direct Investment  
GDP – Gross Domestic Product  
GNP – Gross National Product  
GPRSP - Growth and Poverty Reduction Strategy Paper  
GSB – General State Budget  
HDI – Human Development Index  
ICOR – Incremental Capital-Output Ratio  
ICT – Information and Communication Technologies  
IDRF – *Inquérito às Despesas e Receitas Familiares* (Household spending and income survey)  
IMF– International Monetary Fund  
INE– *Instituto Nacional de Estatística* (National Statistical Institute)  
INPS– *Instituto Nacional de Previdência Social* (National Social Security Institute)  
iPRSP - Interim Poverty Reduction Strategy Paper  
LDC – Least Developed Country  
MDG - Millennium Development Goals  
MFP – Ministry for Finance and Planning  
MIC – Middle-Income Country  
MRD – Ministry for Rural Development  
MTBF- Medium Term Budgetary Framework  
MTEF - Medium Term Expenditure Framework  
NOSI – *Núcleo Operacional para a Sociedade de Informação* (Government IT office)  
PNIA – *Plano Nacional de Investimento Agrícola* (National plan for agricultural investment)  
PNLP - *Programa Nacional de Luta Contra a Pobreza* (National program for combating poverty)  
QUIBB – *Questionário Unificado para os Indicadores Básicos de Bem-estar* (Unified survey of basic well-being indicators)  
SDA – State Development Aid  
SGA - State General Account  
SIGAE – *Sistema Integrado de Gestão e Acompanhamento de Estudantes* (Integrated student management and monitoring system)  
SIGE – *Sistema de Informação sobre a Gestão da Educação* (Education management information system)  
SIGOF – *Sistema Integrado de Gestão Orçamental e Financeira* (Integrated budget and financial management system)  
SIM – *Sistema de Informação Municipal* (Municipal information system)  
SISP – *Sociedade Interbancária e Sistemas de Pagamento* (Interbank and payment system company)  
SMART – Specific, Measurable, Achievable, Relevant, Timebound  
TACV - *Transportes Aéreos de Cabo Verde* (Cape Verde Airlines)  
UNDP - United Nations Development Program  
WTO - World Trade Organization

# 1. Introduction to the GPRSP III

---

## 1.1 From the iPRSP to the GPRSP III

The Government of Cape Verde adopted for the first time, in 2002, the Growth and Poverty Reduction Strategy Paper as its core medium-term planning instrument, during the preparation of the iPRSP (Interim Poverty Reduction Strategy Paper). The iPRSP identifies poverty as a persistent scourge, in spite of the social-economic progress achieved by Cape Verde since its independence. The document described poverty in the country as a “deep structural” problem, expanded by several weaknesses, i.e. little rainfall, geographic fragmentation, and lack of resources. Consequently, the iPRSP recommended that the fight against poverty be maintained as an integral part of the development agenda.

The focus on fighting poverty was not new, however, as it followed several policies adopted by the government after the Country became independent in 1975. The problem was tackled in the beginning through national development plans, which were drafted regularly during the 15 years after independence. The following key political, anti-poverty measures were adopted: widespread education, expanding primary health care, and social programs for the promotion of employment through road construction and reforestation, *inter alia*. The National Anti-poverty Program, adopted in 1987, also envisaged adding impetus to poverty reduction and was one of the Government's strongholds during the 2001-2005 legislature.

Within the Framework of the 2002-2005 National Development Plan, and following the new Government Program (2001-2006), the National Assembly adopted in 2002 a new instrument – Major Planning Options – which considered poverty reduction the cornerstone of development and elected it as one of the legislature's primary goals. Poverty was addressed from a long-term perspective against the backdrop of social and economic sustainability and human development. Politics began to focus increasingly on promoting sound and sustainable economic growth, strengthening the economy so that it would create pro-poor opportunities, improve living conditions for the population, and enhance productivity and social cohesion.

The first Growth and Poverty Reduction Strategy Paper (GPRSP I) followed; it lasted from 2004 to 2007 and its mission was to integrate the intervention measures in the areas of economic growth and poverty reduction. The GPRSP I continued to highlight poverty reduction as an essential component of the development process, and it clarified the parts that the Government and the private sector had to play. The GPRSP was based on five strategic pillars:

- Promoting good governance, enhancing efficacy and ensuring equity;
- Promoting competitiveness for fostering economic growth and job creation;
- Developing and modernizing human capital;
- Developing infrastructures, promoting land planning and environmental protection;
- Improving the efficacy and sustainability of the social security system.

While the aforementioned pillars provided the priority strategic areas, the GPRSP I also identified crucial areas where intervention policies would foster growth and poverty reduction. These include: (i) macroeconomic growth and stability; (ii) decentralization; (iii) employment; (iv) agriculture; (v)

productive sectors with a high multiplier effect on job creation; (vi) redistribution and social protection; and (vii) environment.

The following edition, GPRSP II, was published in 2008 and lasted from 2008 to 2011. Besides the achievements to date – macroeconomic stability, improved public finance management, gradual reduction of unemployment and poverty, more FDI, increase in tourism revenue, and good performance in the education and health sectors - the GPRSP II also outlined some of the more resilient weaknesses:

- Lack of economic diversity and a limited economic base;
- Costly basic services (water, energy, transports, telecommunications);
- Need to improve the quality of education and professional training and to work on its alignment with the labor market's needs;
- Rigidity of the labor market;
- Incipient financial system, and sometimes underdevelopment;
- Weak regulatory system, focusing entirely on financial/economic aspects and on the procedure compliance, and not on quality;
- Administrative barriers against investment.

The GPRSP II sought to build on the successes of the past, while focusing on the remaining chronic challenges. Unlike the GPRSP I, the second edition reclaimed the agenda for change as the long-term development vision and as the path for fostering sustained growth and economic expansion, with a view to reducing poverty and inequality. This entailed institutional reforms in several sectors, the GPRSP II thus focusing on five strategic domains:

- Continuation of the good governance reforms, which became the trademark of Cape Verde;
- Development of the country's human capital, in terms of quality and alignment with market needs;
- Fostering the country's competitiveness;
- Construction and improvement of the country's infrastructures;
- Guaranteeing social cohesion.

Cape Verde continues to make progress in all the fronts. However, critical challenges have persisted as the country climbs up the development ladder and has to rely increasingly on endogenous capacities for competing in a global market. The third edition of the GPRSP embraced the critical challenge for the new period (2012-2016). The GPRSP has become, more than ever, essential as a strategic instrument for translating the agenda for economic change and the Government's Program for the 8th legislature (2011 to 2016) into concrete actions promoting sustained economic growth and development on the one hand, and the substantial reduction of poverty and inequalities on the other.

## **1.2 Establishing the GPRSP III**

Considering the challenges that Cape Verde will have to face in the upcoming years in the context of the country's graduation to a Middle-Income Country and the resilient global crisis, it soon became clear that the GPRSP III had to be designed based on the purpose of efficiently and clearly translating a set of priorities that had to be implemented over a period of 5 years. In view of achieving a more incisive strategic approach and benefiting the largest number possible of

stakeholders, a multidisciplinary task force - lead by the National Directorate for Planning (Ministry of Finance and Planning) - was appointed to coordinate the development of this strategy.

The challenge of designing the GPRSP III achieved progress on two core levels. The first is the operational plan for efficiently implementing, monitoring and assessing the strategy. Based on the conclusions and recommendations of the GPRSP II (2008-2011) implementation assessment, several reforms are currently in progress, aimed at introducing more efficacy and efficiency in public expenditure and progressing towards result-oriented management. The following are briefly some of the reforms hereunder (described in greater detail in Chapters 4 and 5): (i) program-based budgeting in the State General Budget; (ii) alignment and coherence between the different instruments (Government Program, GPRSP III, MTEF, SGB), in order to combine the short and medium-term planning using the same programs; (iii) introducing result-based management through logic tables for monitoring and assessing objective-based and investment programs; and (iv) introducing a dynamic and computable general macroeconomic equilibrium (CGE) model in the Ministry of Finance and Planning<sup>1</sup>, developed in-house with technical aid, which will support programming under the Medium Term Budgetary Framework (MTBF), which will also help create and test different implementation scenarios of the GPRSP III. This model was developed and fed with information provided by the official statistics production entities of Cape Verde.

Considering the complexity and depth of the reforms, the DNP drafted a GPRSP III development manual, providing support to all Government sectors and the necessary guidelines for the new operational methodologies. The development partners were also paramount in the provision and funding of surgical technical assistance, particularly by helping the different sectors identify SMART indicators for the logic frameworks of the strategy's different programs.

As for the second intervention plan - translating the priorities of the Government's Program into actions - the MFP organized the strategic priorities around a matrix with the seven clusters that drive competitiveness - maritime economy, aerobusiness, information and communication technology, financial services, creative economies, tourism and agribusiness- and the five intervention axes of the Government's Program- infrastructure, human capital, good governance, private sector and global nation. The DNP has also begun consulting a large number of stakeholders in the central and local administration, the private sector and civil society. In 2012 three consultative forums were held (on 18 April, 14 September and 12 November), when thematic groups were formed for each area of competitiveness – namely the seven clusters fostering competitiveness/productivity of the agenda for change. The thematic working groups, composed of several counter parties from the public and private sectors and civil society, were asked to answer several questions intended for diagnosing the current circumstances and supplying recommendations on how to overcome barriers for building each “cluster”. These were specifically the questions put to each group:

1. Where are we – What is the status of the cluster today?
2. What are the opportunities for Cape Verde?
3. What are the main constraints and challenges hindering and may negatively affect the cluster's growth?
4. How can we seize the opportunities and minimize/resolve these constraints?

---

<sup>1</sup> Detailed description of the model in Appendix III.

5. What should be the sector's vision?
6. What should be our goals for the next 5 years?
7. Which actions should be undertaken to meet the 5-year objectives? In each cluster two questions should be answered for each of the 5 axes:
  - Which policies and reforms for meeting the objectives (that will foster growth and reduce poverty)?
  - Which programs, projects and investments for meeting the objectives (that will foster growth and reduce poverty)?

The thematic working groups met several times and the results, monitored by the technical team of the DNP, were presented in the form of memorandums (summarized in Chapter 4), which provided important inputs for articulating the strategic elements of the GPRSP III. Another important activity which was conducted with the support of the development partners, under the coordination of INE, was the updating of the poverty profile using the World Bank methodology called the Poverty Map, which estimates poverty by geographical area. The findings are important for designing and/or updating the current programs, in view of increasing their efficiency in combating poverty and meeting all of Millennium Development Goals by 2015.

### 1.3 GPRSP III

The GPRSP III focuses on how Cape Verde may implement the agenda for change, while fulfilling the goal of ensuring a competitive and sustainable economy, in view of reducing poverty significantly during the implementation period from 2012 to 2016. The document is composed of 7 Chapters. Chapters 2 and 3 summarize the *status quo*. Chapter 2 provides an overview of the past ten years of growth and poverty reduction in Cape Verde. The historical overview reviews the results of the past ten years, and outlines the challenges hindering growth and poverty reduction. Chapter 3 continues its analysis of the current framework, while focusing on the country's recent macroeconomic framework, and particularly on the impact of the global economic and financial downturn.

Chapters 4 and 5 introduce the “what?” and “how?”. Chapter 4 anticipates a strategic agenda for 2012-2016, including a vision, the strategies and the priorities of the national reforms agenda. Chapter 5 introduces the implementation of the GPRSP III, including a summary of the core strategy programs, the indicators and overall goals, by axis. This chapter is supplemented by Appendix I, which includes all logic tables of the objective-based and investment programs, which constitute the strategy. The relevant indicators and targets will measure progress in the implementation of policies. It also describes the macroeconomic framework and the relevant implementation scenarios for the GPRSP III – namely the base scenario and an alternative scenario.

Chapter 6 discusses a crucial challenge, considering the global realities and circumstances emerging from the fact that Cape Verde is a Middle-Income Country, which is that of funding its own GPRSP III. The chapter presents the medium-term budgetary framework and provides recommendations for the core challenges, such as raising tax revenue, mobilizing traditional and new partners in an environment of decreasing aid and increasing FDI, specifically from the Diaspora. Cape Verde's capacity to diversify the financing sources and obtain funding will be crucial for implementing the strategy. Chapter 7 addresses several issues, including implementation, follow-up and assessment, and other critical risks and relevant mitigation factors.

## 2.

# Analysis of the Current Status: Ten-year overview of growth and poverty

---

### 2.1 Growth and Poverty in Cape Verde

This chapter provides an overview of the past ten years – 2002/2011 – of economic growth and poverty in Cape Verde. The purpose is to review, using social-economic data, the impact of economic growth in Cape Verde on poverty over the past ten years. However, it does not seek to resort to the academic discussion of the relation between growth and poverty<sup>2</sup>. Some economists defend that economic growth is the main driver of poverty reduction. This school finds that the most efficient form of reducing poverty is by focusing on growth-promoting policies. Another spectrum of the economic debate finds in turn that the approach to growth takes too long to produce results and they recommend rather a commitment to redistribution policies, specially in countries with high levels of inequality.

This kind of debate raises important issues for policy-makers, based on the specific governance realities. Should rulers focus on growth-promoting policies, or rather foster redistribution policies which will ensure that poor people profit from such growth? The challenge is all the more complex when we consider the extent to which growth impacts inequality, how existing inequality affects the impact of growth on poverty, and how inequality affects growth<sup>3</sup>. The lack of consensus on any of these issues makes life difficult for political leaders. In face of the uncertainties underpinning the different opinions/visions, Cape Verdean authorities chose a mixed approach. Governance philosophy in Cape Verde may be analyzed in the strategy documents and Government programs and the approach can be described briefly as follows: “economic growth is crucial and necessary, but it is not enough for reducing substantially poverty”. It is widely acknowledged that a large proportion of the population is often incapable of seizing the opportunities provided by growth without additional support.

The approach in Cape Verde is thus justified considering the urgent need for tackling the poverty levels in the country. In effect a two-pronged approach had to be taken simultaneously and quickly: promoting economic growth and reversing the trend of growing poverty. Examples taken from other parts of the World show that GDP growth occurs often without social, economic or political change. Besides, there is the persisting paradox, for example, of high absolute poverty levels in new

---

<sup>2</sup> Ebba Dohlman and Mikael Soderback. “Economic growth versus poverty reduction: A “hollow debate”?” *OECD Observer*. No. 260, March 2007. Source:

[http://www.oecdobserver.org/news/fullstory.php/aid/2173/Economic\\_growth\\_versus\\_poverty\\_reduction:\\_A\\_hollow\\_debate\\_94\\_.html](http://www.oecdobserver.org/news/fullstory.php/aid/2173/Economic_growth_versus_poverty_reduction:_A_hollow_debate_94_.html)

<sup>3</sup> J. Humberto Lopez (2004). *Pro-poor growth: a review of what we know (and of what we don't)*. Paper Prepared in "Pro-poor Growth" programme sponsored by PREM Poverty Group of the World Bank. *World Bank Mimeo, Washington, DC*

middle-income countries (and in the other low-income countries), in spite of high growth rates<sup>4</sup>. What were the outcomes of the approach elected by Cape Verde for promoting growth and reducing poverty? The following section addresses this topic through historical data of growth in Cape Verde.

## 2.2 Growth in Cape Verde (2002–2011)

The economy of Cape Verde performed well from 2002 to 2011, in spite of the weaknesses and vulnerabilities. One of the products of growth was the steep rise in GDP - nominal GDP was approximately USD 620,974,807 in 2002, and increased to USD 1,648,093,063 in 2010. (In effect, it more than doubled over 10 years). Mean growth from 2002 to 2010 exceeded 5 per cent (Figure 2.1). This rate hides, however, some of the volatility in growth in this period and the fact that growth slowed down considerably in the last years, due to the global financial crisis. Nonetheless, growth impacted *per capita* income directly. Income *per capita* has indeed been growing at a constant pace since the 1980s, but from 2002 to 2010 it increased significantly (Figure 2.2).

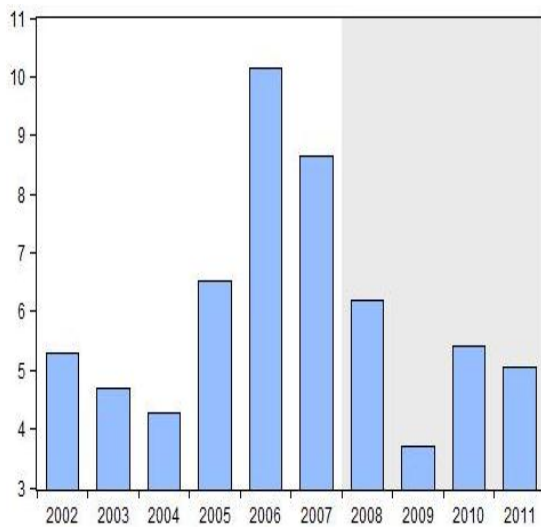


Figure 2.1 – GDP Growth (%)

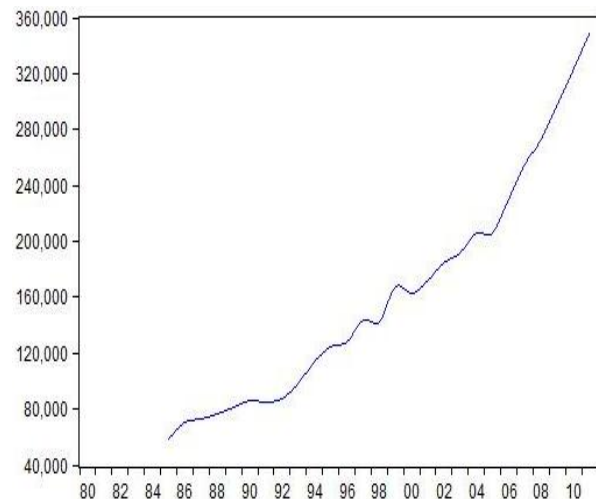


Figure 2.2 – Per Capita Income (CVE)

Source: INE (until 2007) and GPRSP III model - MFP/DNP<sup>5</sup>

Growth was driven by several factors: i) strong investment in education and health in the post-independence era; ii) the process of opening the economy, initiated in the late 1980s; iii) market reforms and privatizations in the 1990s; and iv) deep reforms implemented in the first decade of the 21st century. These reforms also include the State's reform agenda, the focus on maintaining a stable macroeconomic environment and several administrative reforms for improving the business environment. Several other relevant factors should also be mentioned, e.g. the support from the Diaspora, efforts to win the trust of donors since 2001, investment in infrastructure in the last

<sup>4</sup> Montek S. Ahluwalia, Nicholas G. Carter and Hollis B. Chenery. *Journal of Development Economics*. 6 (1979) 299-341.

<sup>5</sup> Model developed by the DNP/Ministry of Finance with data provided by INE - IDRF I, IDRF II and QUIBB 2007 – see Appendix III.

decade, consolidation of democracy, and more Foreign Direct Investment. A recent study commissioned by the African Development Bank actually highlighted 4 main reasons for the success of Cape Verde since the Country's independence in 1975<sup>6</sup>. These are:

- Sound investment in human capital;
- State and economic good governance and management;
- Political-social stability;
- International community generosity and the strong ties with the Diaspora of Cape Verde worldwide.

GDP growth also brought changes to the composition of the economy. All sectors - primary, secondary and tertiary – grew substantially, particularly the latter. In this sector and during the last decade, under the Agenda for Change, Cape Verde developed the tourist sector successfully, which is currently the driver of the economy, accounting for about 20% of GDP. Tourism also played a catalytic role in other key industries, such as civil construction, real estate, transport and trade.

The increase in growth in the last decade produced a significant impact and provided the Government with the means to implement anti-cyclical measures that will help fight poverty and counteract some of the effects of global slow-down. Furthermore, data suggests that growth helped improve significantly income of the population in volume and distribution terms.

## **2.3 Poverty in Cape Verde (2002–2011)**

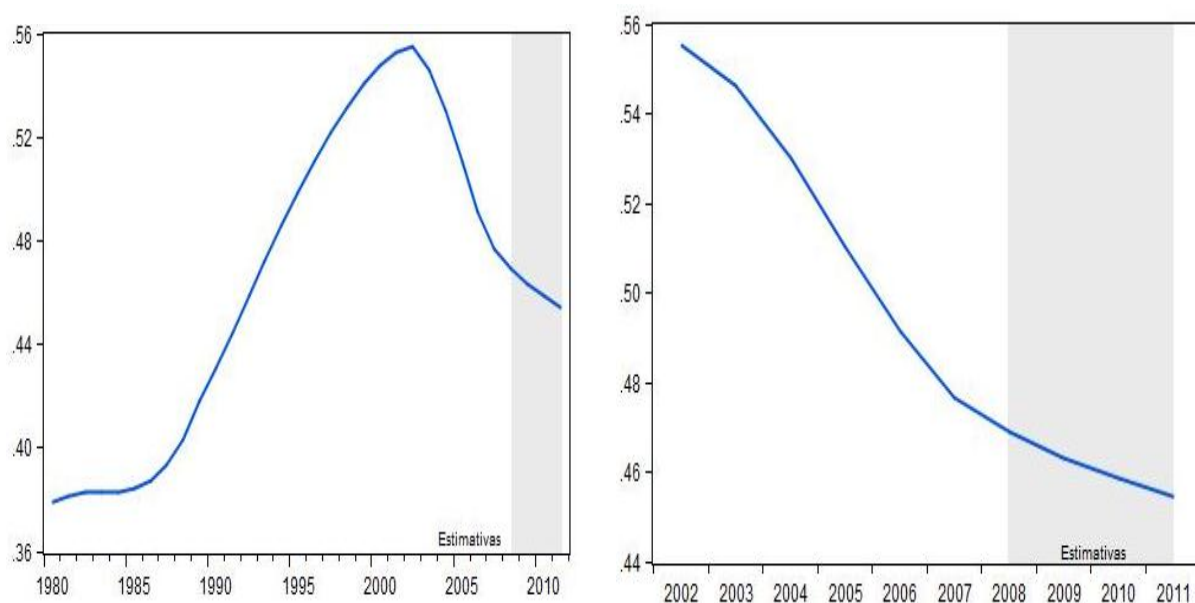
Cape Verde has achieved remarkable progress since the independence. The spectrum of draught and hunger which marked the country's history, and impacted its demography significantly, are now largely memories in a history book. The expanding economy, through deliberate efforts and policies, has helped reduce poverty significantly and fostered large scale social development. The deliberate effort to promote economic growth and reduce poverty through employment and social programs is producing results.

Income distribution has improved. The Gini-coefficient for Cape Verde grew during most of the 1980s, while performing worse in the 90s and until 2002. However, since 2002, the coefficient is estimated to have fallen steeply until 2008, when the pace of decline moderated, although it was still high in spite of continuous improvements in income distribution since 2002. On a scale of 0 to 100, where 100 represents full inequality and 0 full equality, the Gini of Cape Verde was around 55 in 2002, and dropped to 48 in 2010 (Figure 2.3).

---

<sup>6</sup> African Development Bank, *Cape Verde: A Success Story*

Figure 2.3 – Gini Coefficient



Estimates, 2008 to 2011 - Source: GPRSP III Model - MFP/DNP

The progress achieved had proven that Cape Verde has been able, from 2002 to 2011, to reduce inequality (as according to the Gini index) in parallel with the poverty rate. The high levels of inequality, however, are still a concern, since the high degree of initial inequality can affect the efficient impact of growth on poverty reduction. As suggested by Martin Ravallion, inequality is bad for the poor<sup>7</sup>, since “the higher the initial inequality in a country, the less the poor will share in the gains from growth”<sup>8</sup>. Essentially, economic growth reduces inequality more rapidly in countries where income distribution is more favorable than in countries where inequality levels are high.

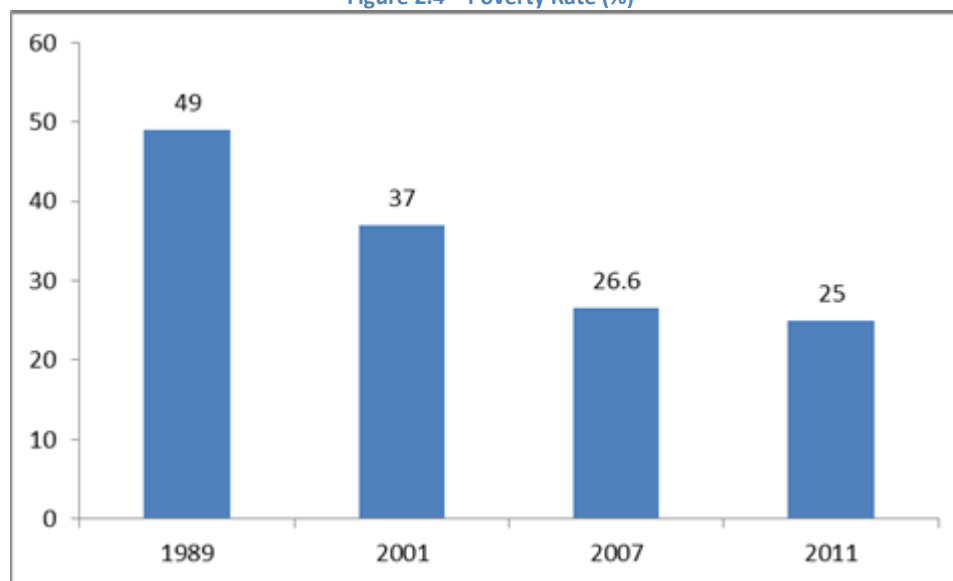
Poverty has been decreasing at a constant pace over the last 20 years. According to INE statistics, several studies based on welfare indicators suggest that the proportion of the population living below the poverty threshold dropped from 49% in 1988/89 to 37% in 2001/2002 and then to 26.6% in 2007. According to preliminary estimates based on information in a study commissioned by the DNP, conducted jointly by the World Bank and INE (Poverty Map)<sup>9</sup>, poverty in Cape Verde continues to drop. The rate of decrease has slowed down, however, due to the global crisis, and poverty is estimated at around 25% of the population (Figure 2.4).

<sup>7</sup> Martin Ravallion (2005). “Inequality is Bad for the Poor.” *Policy Research Working Paper Series*, Number 3677, World Bank, Washington, DC.

<sup>8</sup> Martin Ravallion. *Inequality is Bad for the Poor*

<sup>9</sup> Erica G. Rascon-Ramirez with Thomas Ieuan Martin (2012).

Figure 2.4 – Poverty Rate (%)



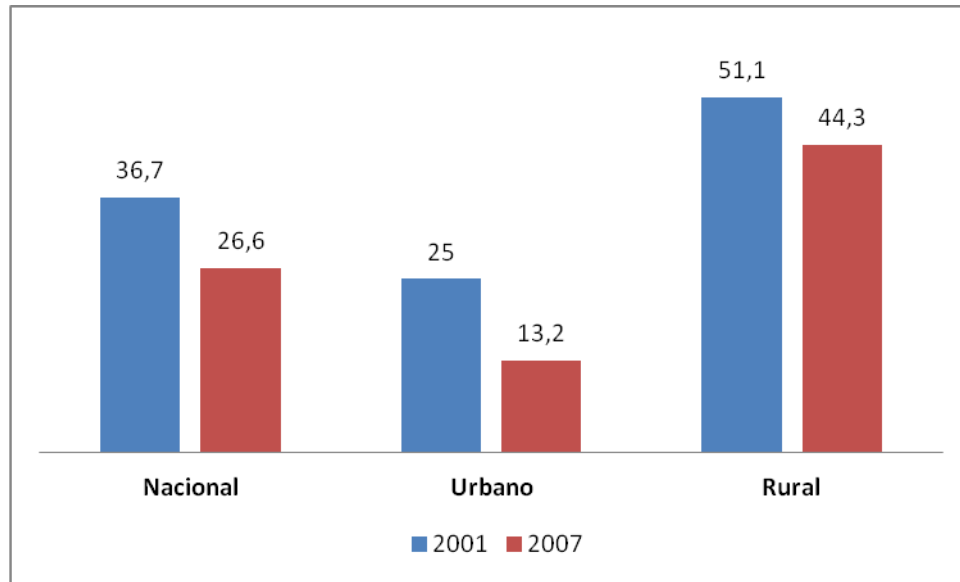
Source: INE from 1989 until 2007; preliminary study Poverty Map MFP/WB 2011 Poverty Map

The proportion of the population in extreme poverty also dropped significantly in 2002. This rate is estimated, according to the GPRSP III, at around 12% in 2011, indicating significant progress since 2002 (when the official rate was 20.5%), still pointing downwards. Nevertheless, the crisis reinforces the need to keep alert and avoid reverting gains to date. Cape Verde's success in reducing poverty suggests that it will be able to meet the MDG of reducing to half the rate of monetary poverty from 1990 to 2015.

As for the different impacts on each population group, poverty in Cape Verde is an historical issue, considering the nation's weaknesses and vulnerabilities. Poverty is generally rural and a higher proportion of women (compared to men) are poor. The same applies to households lead by women, against men-lead families. Thus, poverty in Cape Verde is said to be rural and feminine. Broken down poverty data in the 2007 QUIBB clearly highlight the poverty concentrated in rural areas, while noting that poverty dropped more in urban areas. Between 2002 and 2007, for example, poverty in urban areas decreased from 25% to 13.2%, whereas in rural areas poverty in the same period fell from 51.1% to 44.3% (Figure 2.5). The draft of the Poverty Map study conducted in 2012, which used data from the 2007 QUIBB and the 2010 Census, demonstrates that poverty is still a rural phenomenon.<sup>10</sup>

<sup>10</sup> Erica G. Rascon-Ramirez with Thomas Ieuan Martin (2012).

Figure 2.5 – Progress of rural and urban poverty (%) - 2001 and 2007



Source: INE, IDRF 2001 and QUIBB 2007

A persistent problem in Cape Verde is the limited formal job opportunities in non-farming sectors in the rural areas. Rural populations depend greatly on subsistence farming and small-scale fishing. Subsistence farming is a challenge for the poor, due to the soil and climate conditions and considering that only 10% of the country's land is arable. Furthermore, mountainous terrain and steep slopes are barriers to mechanized and large-scale production. Another key constraint concerns irregular rainfall, poorly distributed over time and space, and cyclical draught periods. Additionally, land organization is fragmented, divided in small pieces of land. There are however prospects of a paradigm shift, based on increasing investment in the sector and the expectations that agriculture may become a priority sector, considering the potential impact of this on job creation and poverty reduction.

## 2.4 Other Dimensions of Poverty

Cape Verde made some progress in the fight against poverty, although it still faces challenges. Poverty is a multidimensional phenomenon, which involves more than just income. It is a dynamic concept that encompasses several elements, including health, mortality, security and access to basic services, such as water, sewage and electricity, which may not be connected with conventional anti-poverty measures.<sup>11</sup> What was Cape Verde performance regarding non-income poverty?

Cape Verde did do well at the level of several anti-poverty measures which are not linked to income, including capacity-building and the consolidation of freedoms.<sup>12</sup> From 2002 to 2011 it was used by the Government to conduct investments in basic infra-structures of social-economic nature

<sup>11</sup> Guillermo E. Perry, et al (2006). *Poverty Reduction and Growth: Virtuous and Vicious Circles*. World Bank, Washington, DC.

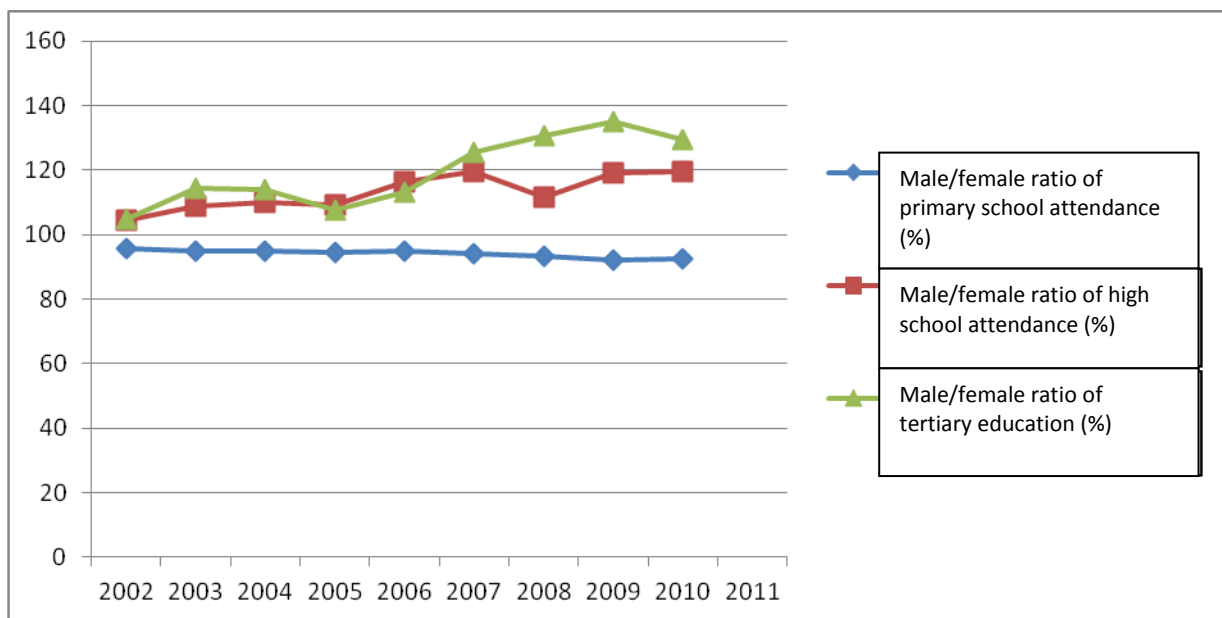
<sup>12</sup> A. Sen (199). *Development as Freedom*. Oxford University Press, Oxford, United Kingdom.

– building schools, expanding the primary health care network, and increasing access to electricity, drinking water and sewage.

The country's performance also compares well to other sub-Saharan and low-income countries' performance in several human development indicators. For example, in the UNDP Human Development Index (HDI) Cape Verde scored the fifth highest HDI of sub-Saharan in 2011 and is well above the regional average of 0.463<sup>13</sup>. The country is still in a position to meet all of the Millennium Development Goals, since it has already achieved around half of the targets set. Cape Verde is also doing well in terms of regional averages of life expectancy, adult literacy rates and educational levels. Its performance is also good regarding civil liberties, including the safeguard of essential citizens' rights and freedom of press. In the *Economist's* rank of democratic states, Cape Verde is in 26th place, ahead of most African countries and other countries like France, Italy and Portugal<sup>14</sup>. In the Good Governance Index of the Mo Ibrahim Foundation, Cape Verde comes in second (to Mauritius only).<sup>15</sup>

Concluding, these figures indicate that most of the non-income indicators improved strongly in Cape Verde. Primary school enrolment rate is still above 100% (111.6% in 2010<sup>16</sup>). There is, however, a gender gap, where boys have an advantage. In secondary and tertiary education girls have the advantage (Figure 2.6).

Figure 2.6 – Attendance ratios (gender): Primary, Secondary and Tertiary Education



Source: World Bank Indicators

<sup>13</sup> United Nations Development Programme (UNDP), *Human Development Report 2011*. The HDI figures were reviewed in 2010 according to the methodological changes adopted by the UNDP.

<sup>14</sup> *The Economist*, *The Economist Intelligence Unit*, *Democracy Index*, 2010.

<sup>15</sup> Mo Ibrahim Foundation, *Ibrahim Index*, 2011

<sup>16</sup> Core Indicators of Education 2010/2011, Ministry of Education and Sport of Cape Verde, September 2011.

Regarding sewage, the proportion of the population with improved sewage facilities<sup>17</sup> grew from 38.1% in 2000 to 62.8% in 2010. Although the situation has improved significantly both in rural and urban areas, with the share of rural population with access to sewage facilities increasing from 18.1% to 42.2% and urban population's access growing from 53.3% to 75.6%, there are still great disparities between the two environments. The gap is not as great as far as access to an improved source of water<sup>18</sup> is concerned. At national level, the share of the population with access to an improved source of drinking water grew from 69.2% in 2000 to 82.6%<sup>19</sup> in 2010, in particular the public water supply network which grew from 23.2% to 56.6%. In the same period, access to an improved source of drinking water increased from 77% to 90.3% in the urban environment and from 60.2% to 70% in rural areas. In brief, between 2000 and 2010 the proportion of the population without access to safe drinking water halved.

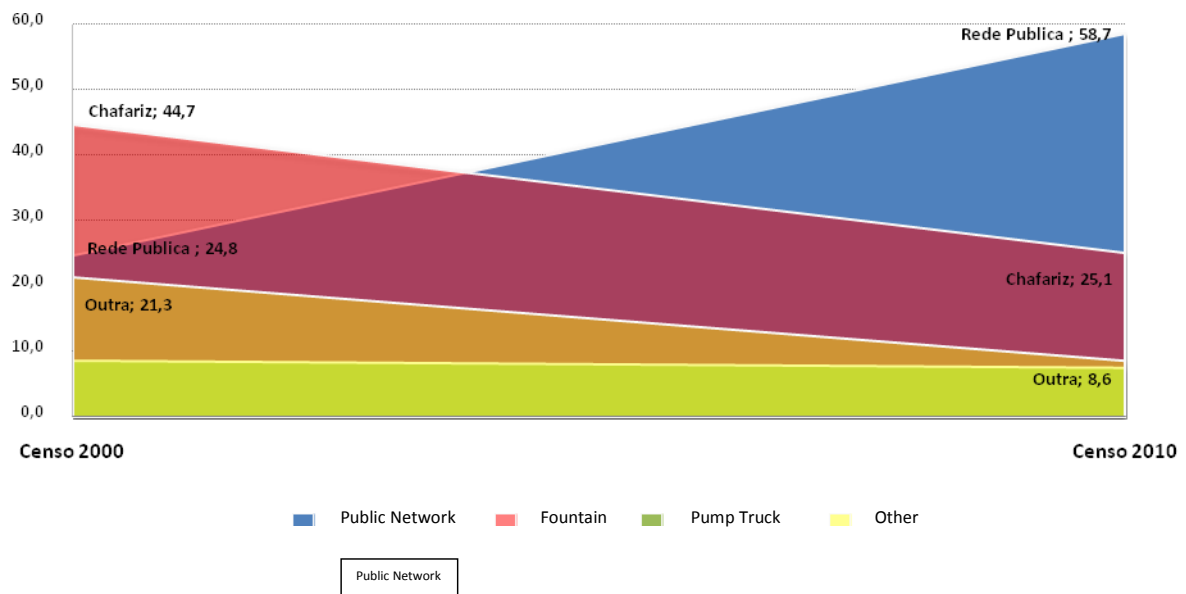
---

<sup>17</sup> Population with access to sanitary facilities- toilets/lavatories

<sup>18</sup> For the present purpose improved source means the public network and fountains.

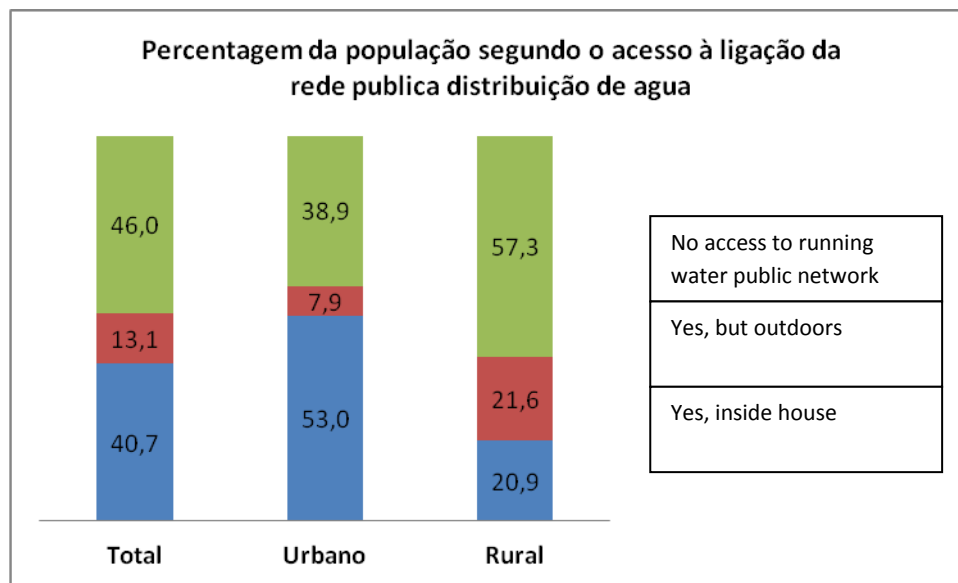
<sup>19</sup> It includes, in 2010, the proportion of population with access to a source of water from the public network, albeit in their neighbours' home.

Figure 2.7 – Water Sources (%)



However, the improvement in water and sewage indicators omits some underlying critical problems. As mentioned before, there is a bias in favor of urban centers. The costs are high and the sectors are negatively affected by significant inefficiencies. Water supply shortages happen often. Quality is questionable and quantity insufficient. Water consumption *per capita* in Cape Verde is actually low and does not meet the recommended global standard. In the capital city of Praia, distribution is biased, as the poorer and more vulnerable proportion of the population is supplied only a small amount daily. Additionally, the form of access to a sustainable water source is not the same for everyone. Peri-urban and rural areas mostly depend on solutions outside of the network, such as public fountains and auto tanks (Figure 2.7). These sources are more expensive, both in terms of time and price, since collection takes up a lot of families' time— and this is mostly the responsibility of women and children, especially young girls, so it impacts gender equity.

Figure 2.7 – Proportion of the population, according to access to the public water network



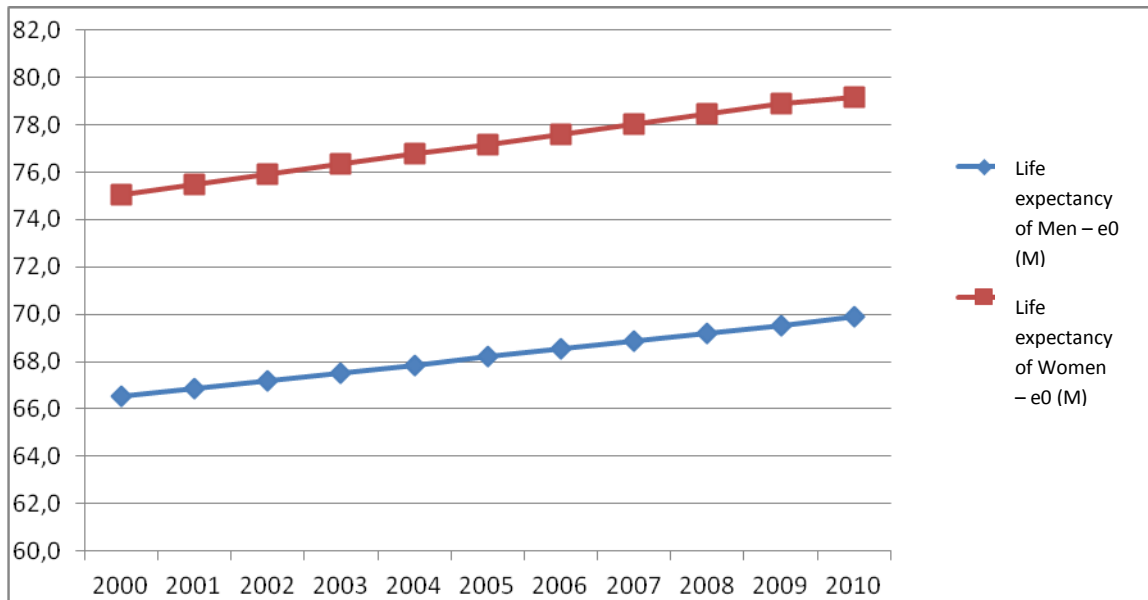
Source: INE 2010 Census

These water and sewage issues are compounded by the poor quality of governance, since the institutional environment does not permit efficient management and governance. There are still significant voids and the overlapping of functions between entities without clear demarcation. In the water sector, for example, eight agencies/ministries are in charge of managing the sector. The operational management is mostly conducted by 22 Municipalities in a country with 491,575 inhabitants (in 2010). This fragmentation is a problem and results in the lack of coordination and management, monitoring and regulation are insufficient, and inefficiencies with high loss rates and financially unsustainable companies in the sector. As for waste water treatment and draining, the lack of institutional appropriation and leadership is manifest. So there is a void. Recently, however, the Government introduced a new vision of governance and management of the water and sewage sectors<sup>20</sup> and is currently implementing the much needed reform by creating the water and sanitation Reform Committee.

Another key impact of Cape Verde's progress is the average life expectancy, which reached 74 years in 2010, growing by approximately 3.5 years since 2002 (70.5). Although life expectancy at birth of men is lower – 66.5 and 70 years in 2002 and 2010, respectively. Women's is 75 and 78 for the same period (Figure 2.8). Although women live longer, the life expectancy of men also increased, but the growth rate of both genders leveled. One of the factors linked to increase in average life expectancy is the improvement in health care, which resulted in a significant drop in child mortality from 44 per 1000 births in 2002 to 36 per 1000 in 2010 (Figure 2.9). The rate of immunization also improved. As for measles, the immunization rate for 12 to 23 month-olds rose from 89% in 2002 to 96% in 2010. Triple bacterial vaccination (diphtheria, tetanus and whooping cough) for the same age group rose from 91% to 99% during the same period (Figure 2.10).

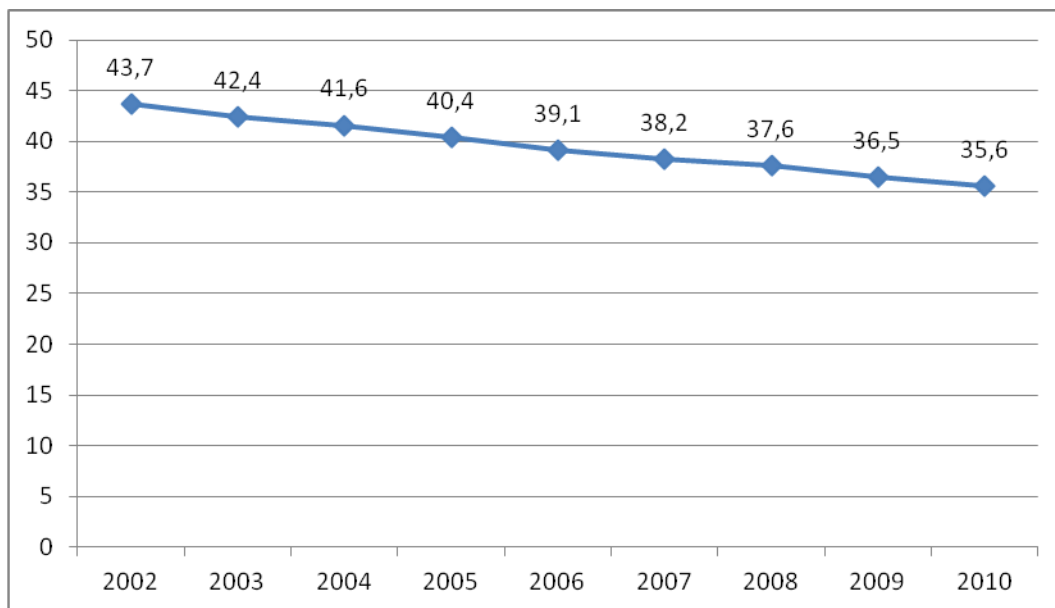
<sup>20</sup> Government of Cape Verde (2011). *New Institutional Direction for the Water and Sanitation Sectors. A policy Letter*. Praia, Cape Verde. 19 August 2011.

Figure 2.8 – Average Life Expectancy



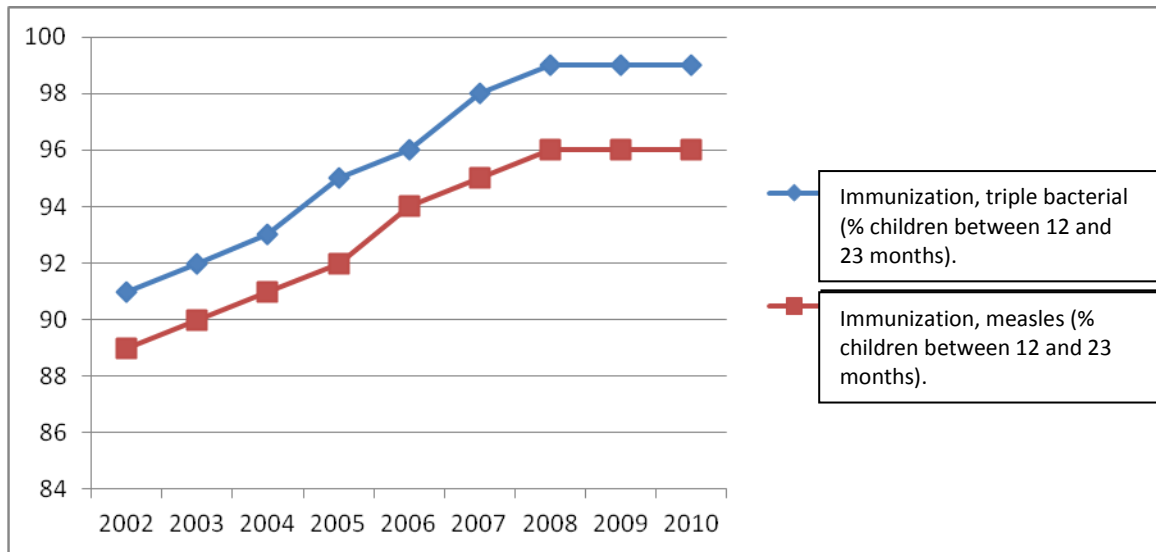
Source: INE

Figure 9 – Mortality rate under 5 years (per 1000 births)



Source: World Bank Indicators

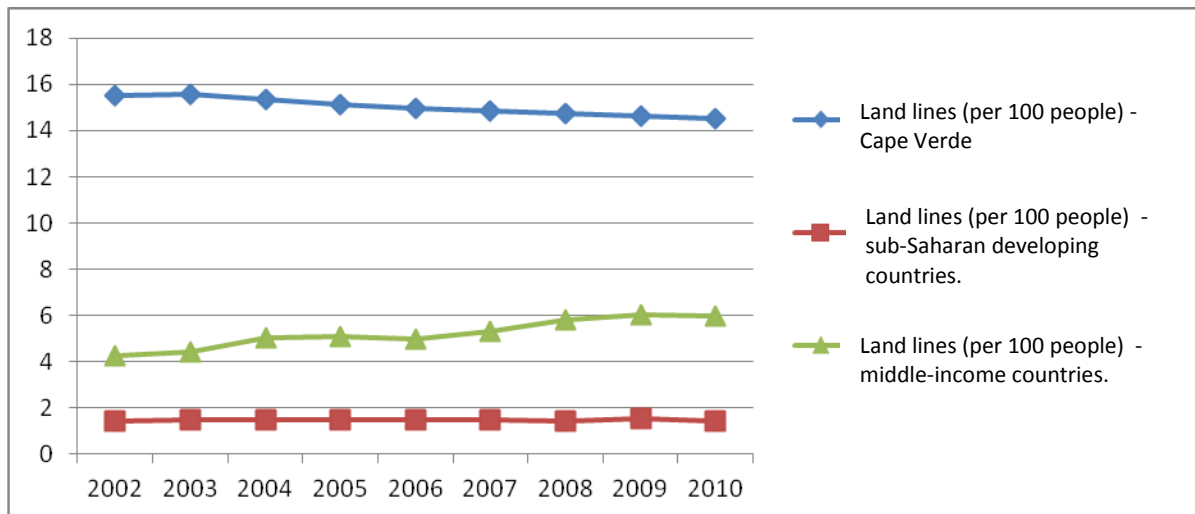
Figure 2.10 – Immunization (triple bacterial vaccine and measles)



Source: World Bank Indicators

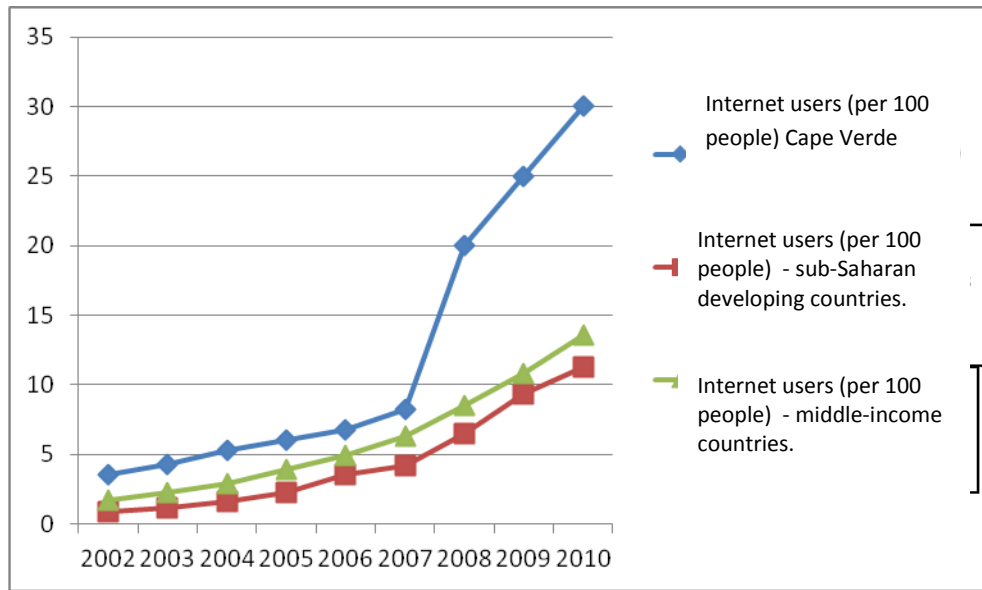
Access to communication means also increased in general, although there is still plenty of room for improving quality, cost and regulations. As with other services, e.g. utilities, telecommunication prices are also quite high. However, Cape Verde has a good performance when compared to other developing countries in sub-Saharan Africa and other low-income countries in specific indicators like the number of land lines per 100 people. Although this indicator dropped slightly and has stagnated since 2006, the decline is due to the advent and popularity of mobile phones. Cape Verde is also ahead of the same two groups of countries regarding internet use per 100 people (Figures 2.11 and 2.12).

Figure 2.11 – Telephone lines per 100 people



Source: World Bank Indicators

Figure 2.12 – Internet users per 100 people



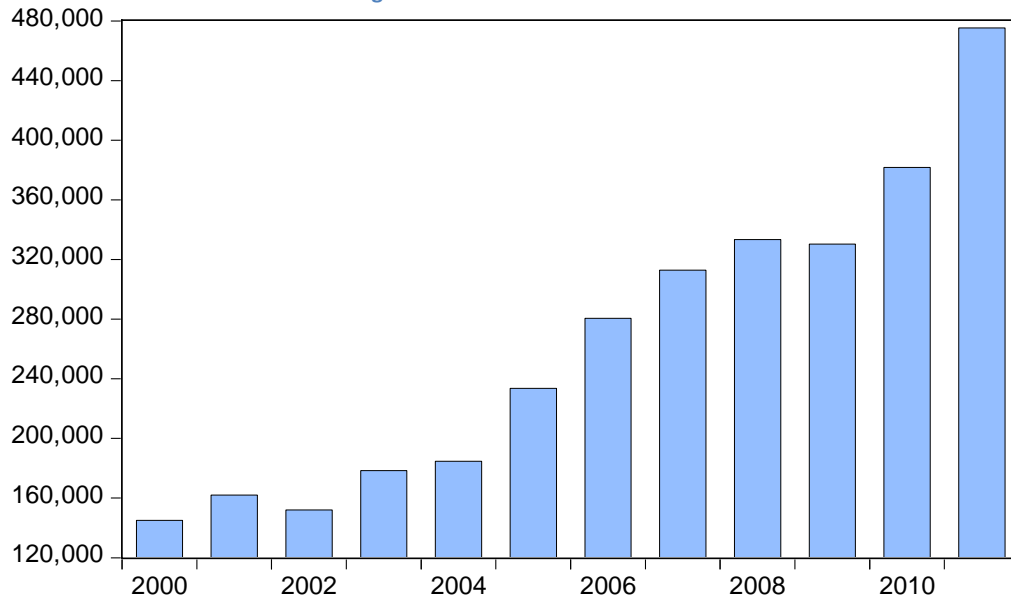
Source: Indicators of the World Bank

## 2.5 Explaining Cape Verde's progress in combating poverty

How can we explain the success in poverty reduction over the last 10 years? Briefly, the following are the ingredients for the successful fight against poverty: (i) sound economic growth; (ii) investment in farming; (iii) investment in social programs; and (iv) training. These are the core ingredients, but there are other factors. The aforementioned factors are developed next.

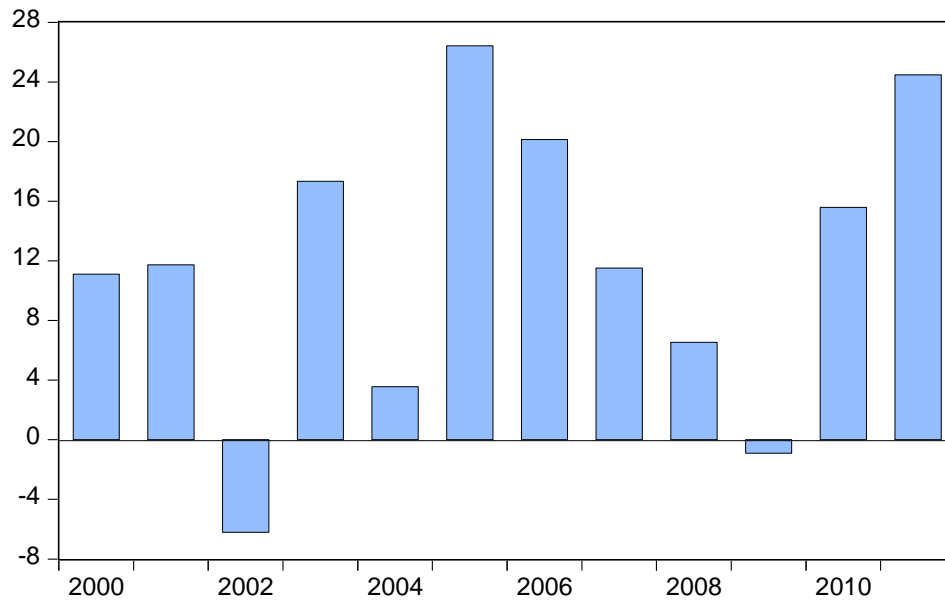
Cape Verde achieved good growth levels in the past 10 years, as described in the previous sections. The economy not only grew, but also witnessed the launch of critical sectors like tourism, construction and real estate. Tourism, for example, grew on average 10 % /year; tourist arrivals tripled from 2002 to 2011 (Figures 2.13 and 2.14). The sector had enjoyed spectacular success, notwithstanding the global economic slowdown and the successive crises. The Government supported this growth by implementing several reforms, investing substantially in infrastructure (roads, ports and airports) and attracting FDI. One of the results of this growth was the net creation of jobs, especially in the tertiary sector - S3 (Figure 2.15).

Figure 2.13 – Number of Tourists



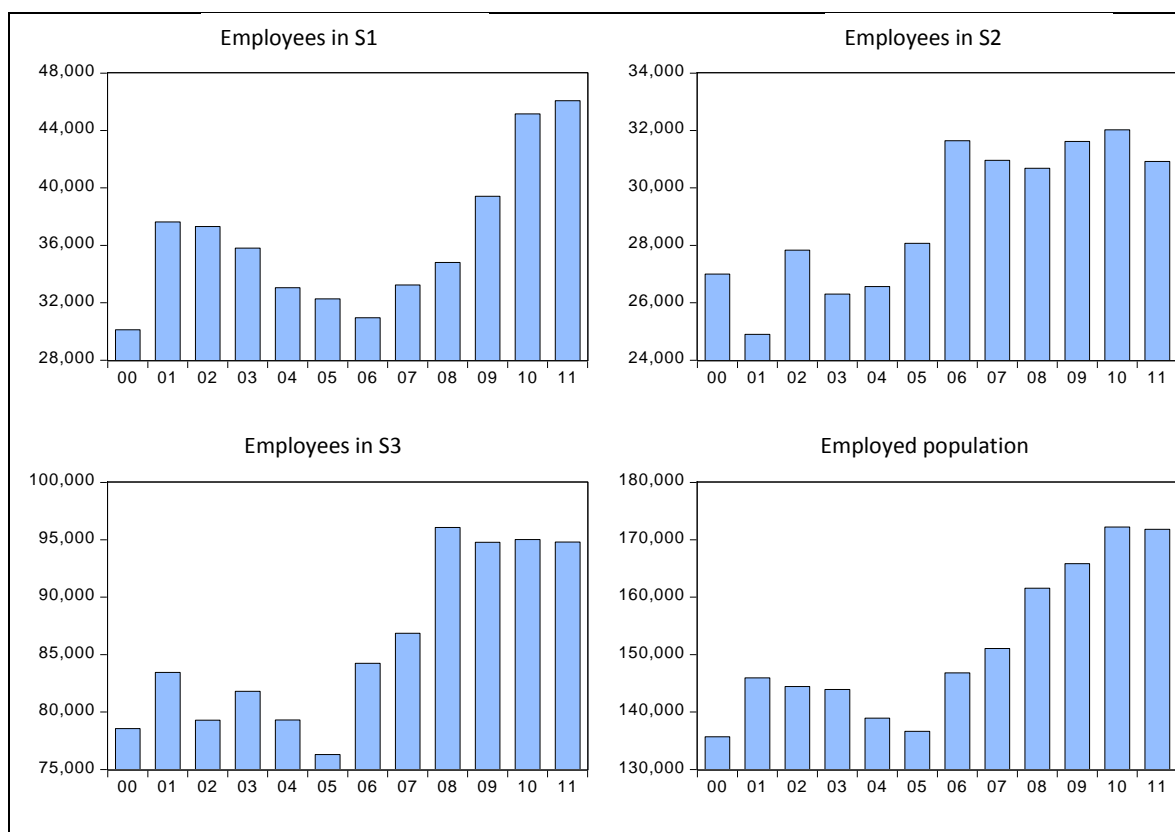
Source: INE

Figure 2.14 – Annual variation in tourist numbers (%)



Source: INE

Figure 2.15 – Jobs by sector (primary– S1, secondary– S2, tertiary– S3)



Source: GPRSP III model - MFP/DNP

Investments in the farming sector - water mobilization, easy access to credit for farmers through microfinance, fostering drip irrigation and support to rural extension - have played a very important part in reducing poverty and increasing agricultural output and income, although the poverty rate in rural areas remains higher. On some islands, like Santiago, farming production grew and the prices of some locally produced foods dropped. The access roads and bridges built have made the transport of agricultural products to the markets easier. These measures fostered both the development of rural areas and poverty reduction. Although progress has been remarkable, there are still some issues affecting the sector's productivity - most are small farms in a non-irrigated regime, with great productivity variability depending on climate conditions.

The Government also embarked on several reforms in the social security and pensions system. Among the reforms which produced quite a positive effect on poverty reduction there is the expansion of the minimum social pension to cover new classes of pensioners and the extension of the INPS system to new categories of workers, such as independent professionals and maids. The system already provides broader health insurance to many people, hereby facilitating access to health care. The expansion of the minimum social pension granted the most disadvantaged sections of the population a social security safety net and the conditions for a better life.

The fourth ingredient is education, technical and vocational training in particular. Although there is still the need for more improvement in this matter, the efforts put into reforming and improving

technical and vocational training are generating good results. The Government and development partners' investment in the sector has helped increase the employability of new entrants to the labor market.

In brief, the progress made by Cape Verde against poverty was most relevant at several levels, and not only that linked with income. This however does not hide the underlying challenges that remain. Poverty is still a significant challenge for the country. Additionally, the urban-rural and gender divide are matters which should be addressed in order to continue progressing in the fight against poverty.

# 3.

## Analysis of the Current Status: The Macroeconomic Framework

---

### 3.1 Introduction

This chapter goes on to analyze the *status quo*, while focusing on the emerging realities. The previous chapter provided an overview of growth and poverty, and the present chapter initiates the process of exploring the potential for the future and for the GPRSP III implementation period. The strategy is geared towards building and developing a better future – combines “what” (the vision) with “how” (the actions) for creating the desired future. In this case, the purpose is clear: significantly improve the performance of economic growth and reduce poverty drastically – not only at the level of income, but also in other aspects. What are the hypotheses? Can Cape Verde exceed its performance in the last decade, considering the more challenging external environment and the moderate growth of the global economy?

Cape Verdean economy is open and very much integrated in the global economy, largely depending on international trade and capital flows. Increasingly, it must be an economy that is capable of competing in the global markets and must, therefore, expand its manufacturing base in order to grow. However, the capacity to compete is limited, considering the challenges arising from the weaknesses of a small open economy, which is extremely susceptible to external shocks, with growing concerns resulting from the global slowdown.

Economic trends in Europe are particularly important, since the country's growth cycle is increasingly synchronized with that of European countries<sup>21</sup>. The remaining part of the chapter will seek to focus on future perspectives, by exploring the macroeconomic scenario, beginning with an analysis of the importance of the ties with Europe.

### 3.2 The macroeconomic environment of Cape Verde

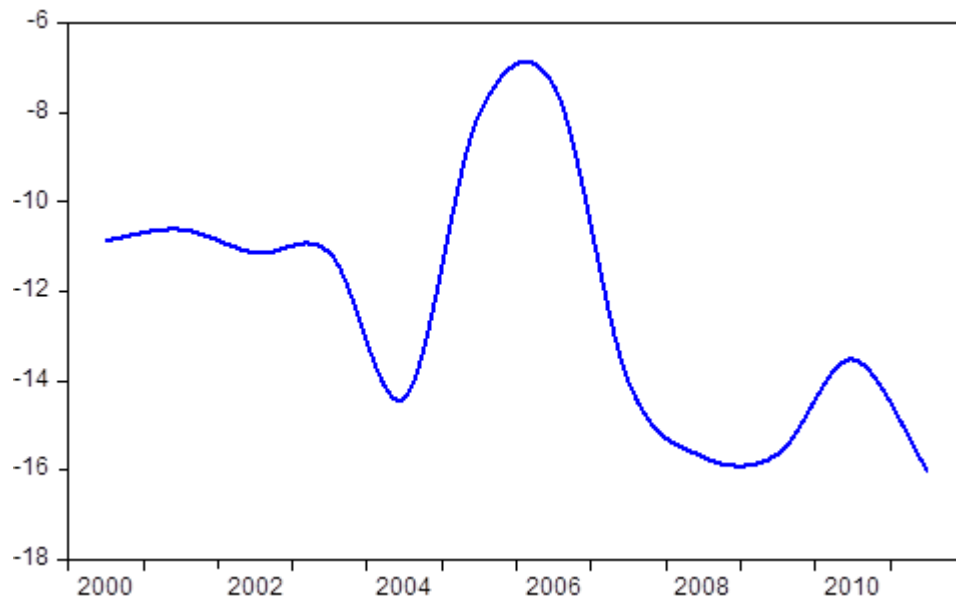
In the last decade, tourism has become the most important component of Cape Verde's GDP, whereas fisheries lead the goods exported. In 2009, for example, fisheries accounted for almost two thirds of total exports of goods from Cape Verde, while tourism made up for almost 20% of GDP. To proceed with economic growth, the Government is betting on the agenda for economic change, the main purpose of which is to transform Cape Verde into an international platform of high value-added services provision, built on seven competitiveness clusters: tourism, maritime economy, financial services, information and communication technology, agribusiness, creative economy and aerobusiness.

---

<sup>21</sup> IMF. *Cabo Verde: Selected Issues*. 9 June 2008. Washington, DC. Source: [www.imf.org](http://www.imf.org)

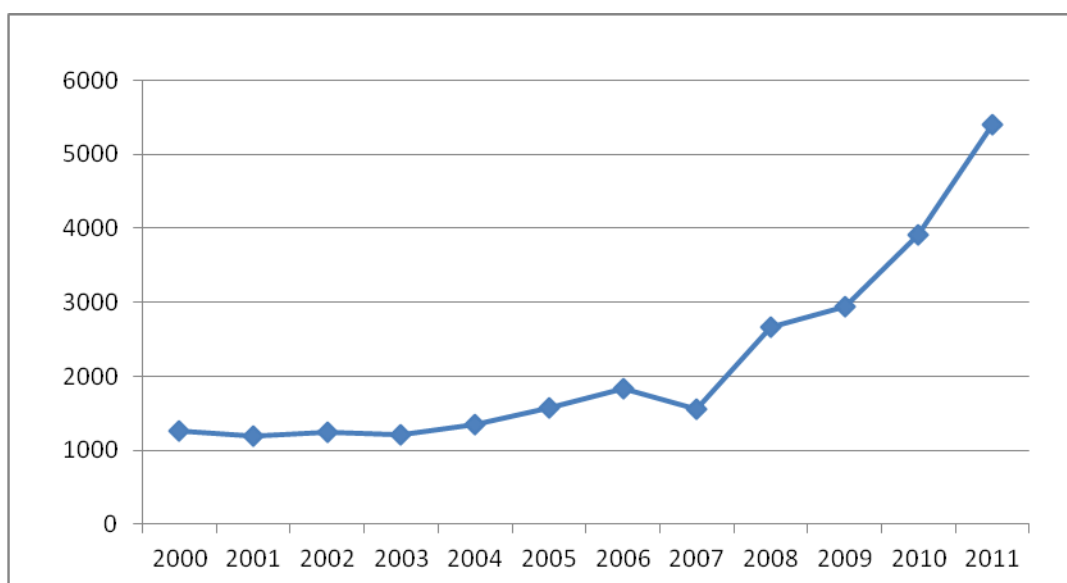
The external environment is particularly important for Cape Verde, since most of the capital funding and technology is obtained through international trade. Cape Verde's external accounts clearly reveal the country's weaknesses, namely dependence on external flows, like state development aid (SDA), emigrants' remittances and Foreign Direct Investment (FDI). In the absence of an export base, the trade balance is structurally running a deficit (Figure 3.1). Nevertheless, the projections suggest a slowdown in the trade deficit, since exports have been growing since 2000 (according to INE figures) - growth rate peaked in 2008 following the drop in 2007, but growth was sustained until 2011 (Figure 3.2).

Figure 3.1 – Current Account Deficit (% of nominal GDP)



Source: GPRSP III model - MFP/DNP

Figure 3.2 – Total Exports (millions of CVE)



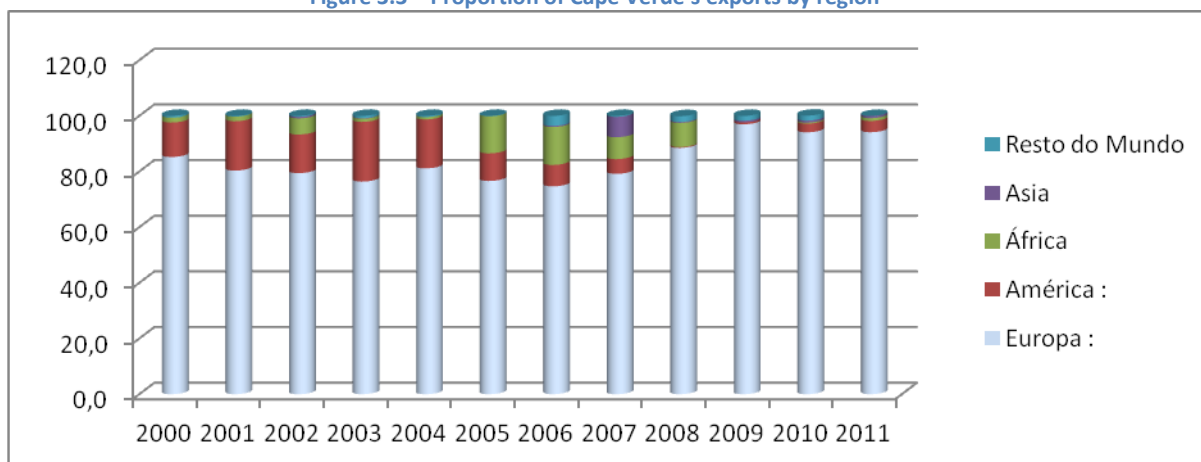
Source: INE, Movements in Foreign Trade, by main destination countries, 2000 to 2011.

As for exports there are two large concerns: the small export base of Cape Verde and the lack of diversity in the export markets. The country's economy seems to be specialized in two exports: tourism and fisheries, almost always with Europe as its main customer. Goods exported include essentially fishery products – which accounted for more than 60% of the total in 2009<sup>22</sup>.

Considering the economic crisis which persists in the main commercial partner countries of Cape Verde, the slowdown in external demand is clearly conceivable, and is one of the core risks of the implementation of the GPRSP III. From 2000 to 2011, Europe received over 70% of Cape Verde's annual exports. Indeed, the lowest share was reported in 2006 of 75%, and the highest in 2009, approximately 97% (Figure 3.3). Furthermore, exports to Europe went mostly to Portugal and Spain, which received over 70% of the country's total goods exported. Cape Verde also depends strongly on Europe as the home country of tourists, since the continent's nationals account for 80% of total arrivals (Figure 3.4).

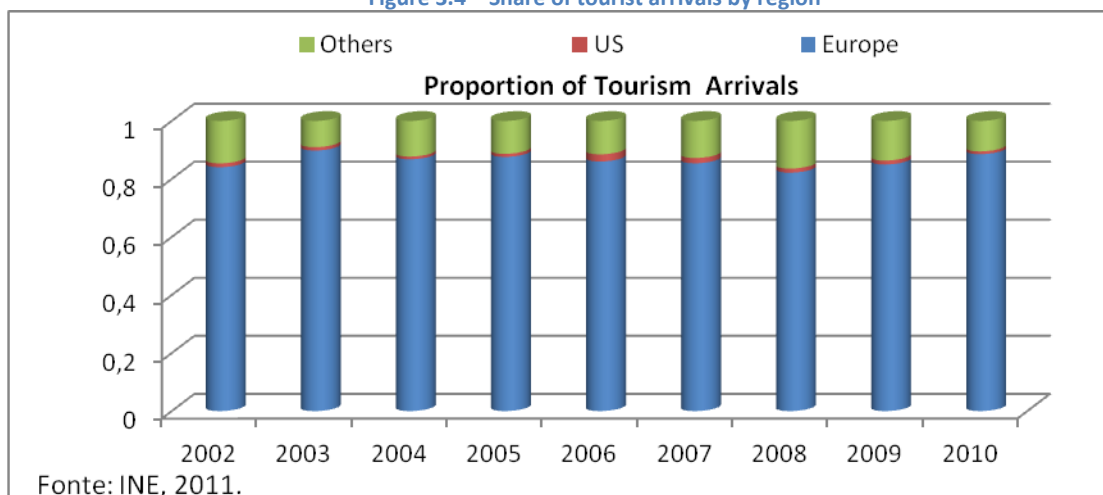
<sup>22</sup> *Constraints Analysis*, 2010, Ministry of Finance of Cape Verde

Figure 3.3 – Proportion of Cape Verde's exports by region



Source: INE, Movements in Foreign Trade, by main destination countries, 2000 to 2011.

Figure 3.4 – Share of tourist arrivals by region



Cape Verde's success since the independence is also partly thanks to the generous aid provided by the development partners, the Diaspora's remittances and FDI. Private capital flows, in the form of FDI and remittances, are some of the main sources of funding of the Cape Verdean economy. Emigrants' remittances, although decreasing as a share of GDP in the economy– have already represented 20% of GDP, but from 2001 to 2011 represented on average 10% of GDP–, continue to play an important part in financing the economy. Foreign Direct Investment has played a very important part since the 1990s, with the greatest share going to the tourist sector. It grew significantly from 2002 until 2008, and dropped steeply in 2009, with some volatility ever since. FDI flows are, however, expected to start recovering from 2012, according to the projections of the base scenario in the GPRSP III (described in Chapter 5), and stable growth is expected to continue until 2016 (Figure 3.5).

Figure 3.5 – Foreign Direct Investment (actual and estimates from 2012) – millions of CVE



Source: GPRSP III model - MFP/DNP

These elements have played a crucial part in the country's growth path. Europe has also provided significant input on this matter. For example, Cape Verde received from donors approximately USD 218.5 million in net SDA in 2008, more than half of which derive from European countries (Figure 3.6). In 2008, around 30% of all remittances came from Portugal, ahead of France, the USA and the Netherlands. In total, more than 80% of remittances are from the Diaspora living in Europe (Figure 3.7). FDI became the main driver of growth since the mid 1990s, with the European countries providing the largest share; 45% of FDI comes from four European countries, namely Spain, Portugal, United Kingdom and Italy. (Figure 3.8)

Figure 3.6 – Net SDA by donor (2010) (USD millions)

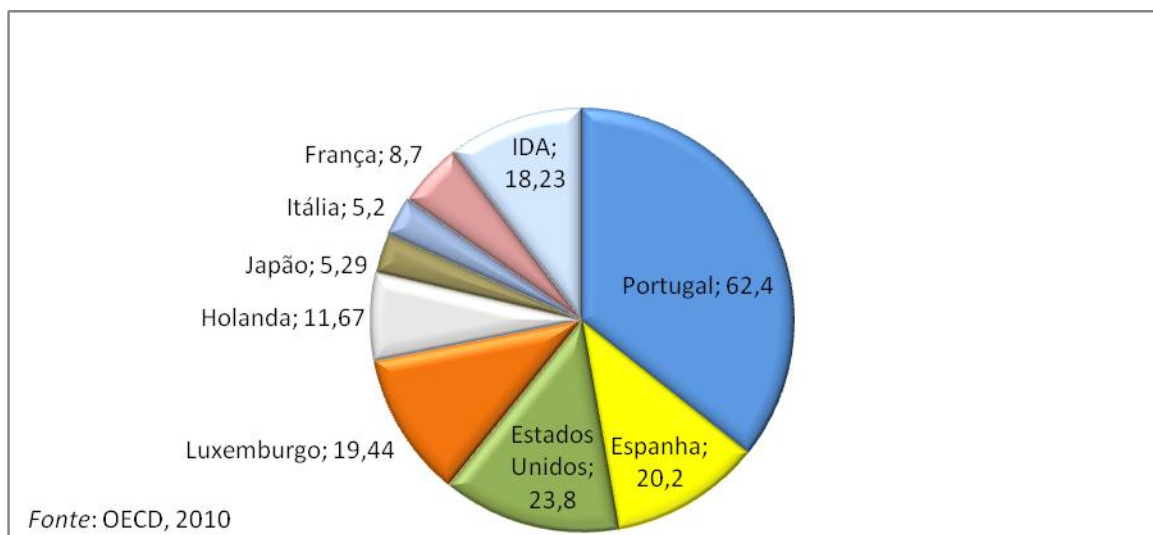


Figure 3.7 – Remittances by country (2008) (%)

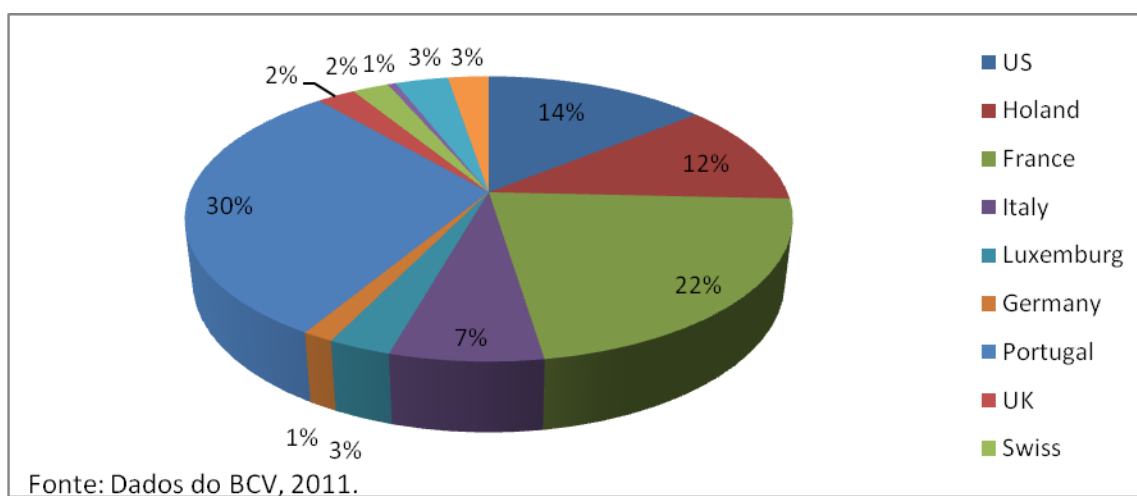
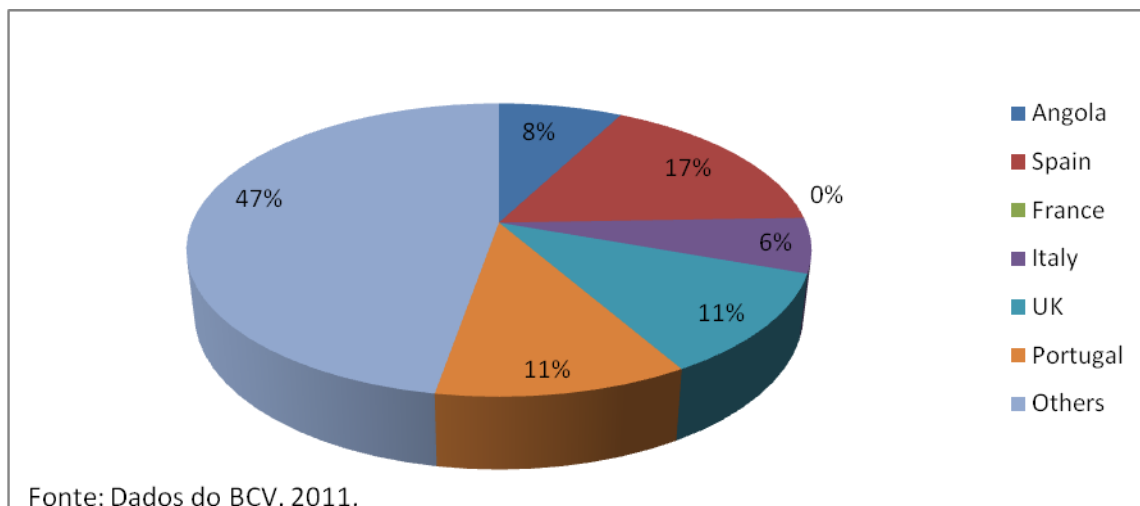


Figure 3.8 – FDI Flows by country



It should thus be understood that the growth prospects for Cape Verde are associated with Europe's economic outlook. Its proximity to Europe is thus not only geographic, but also economic, cultural and diplomatic. Cape Verde is furthermore the only country of the ECOWAS that has entered into a special partnership with the European Union.

The challenge identified is that the prospects of economic growth in Europe are not encouraging due to the global shocks and the escalating crisis of the sovereign debt in the Euro Zone which, according to the IMF "is having a more wide-spread effect on domestic demand, as the confidence shock spreads beyond the periphery to core countries' consumers, bankers, and investors."<sup>23</sup> The IMF expects "a general convergence toward low growth, deeper fiscal austerity measures (both revenue and expenditure), sharper private-sector balance sheet deleveraging, and more severe structural unemployment. Higher interest costs on the sovereign debt, front-loaded fiscal adjustment, and increased tensions surrounding banks will constitute additional drags on already soft activity in some European countries."<sup>24</sup>

The possibility of continuous albeit anemic recovery of Europe puts strategic challenges before Cape Verde and adds urgency to the agenda for economic change. This will require the development of new skills and the enhancement of national company competitiveness in the global market. Export diversification by product and destination, building new partnerships and seeking new sources of finance are the critical priorities.

### 3.3 Prospects and challenges for Cape Verde

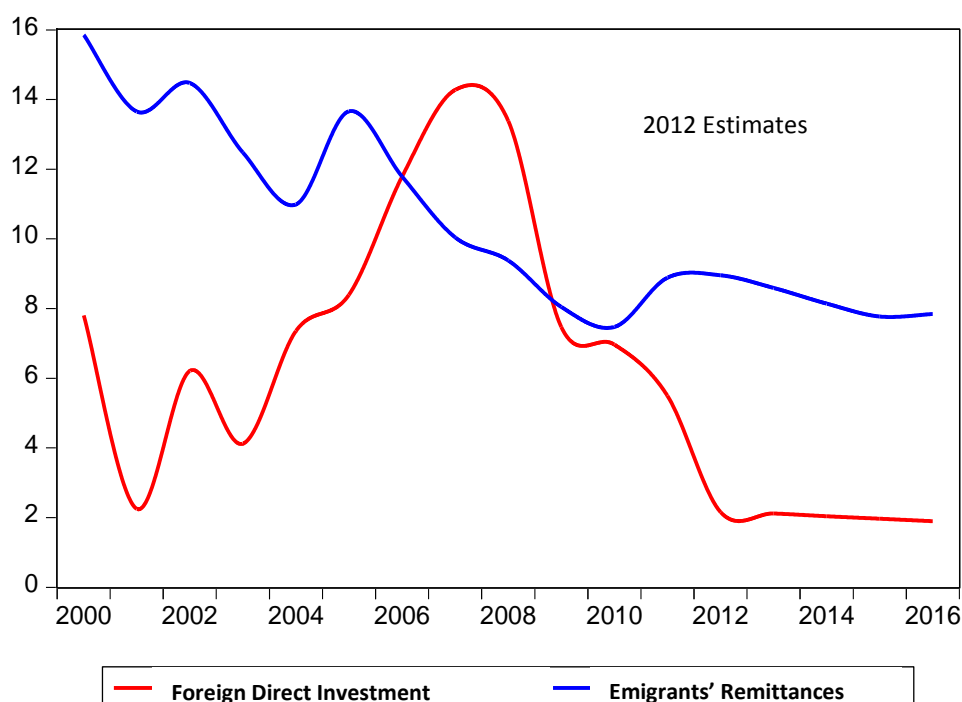
In spite of the deteriorating external environment, Cape Verde sustained a reasonable growth in the recent years. Growth in 2011 is estimated at around 5% and it is expected to remain at about 5 per cent in 2012 and 2013. The slowdown in growth reflects the adverse external environment, but growth was sustained by the dynamics of tourism, fishery exports, remittances and public

<sup>23</sup> FMI (2011). "Europe. Navigating Stormy Waters." *Regional Economic Outlook*, FMI. October 2011.

<sup>24</sup> Ibid, FMI (2011)

investment. The Government put a lot of effort into investing in the recent years to counteract the effects of global slowdown in domestic demand and investment. Seizing the window of opportunity provided by concessional loans made available to Cape Verde to complete the transition from a Least Developed Country to a Middle Income Country, the Government implemented an important investment package; the goal was to win over some of the constraints of long-term growth identified, particularly economic infrastructures. This effort caused the debt to rise, which however, due to the Government's commitment to sustaining macroeconomic stability as an absolute requirement, is still in sustainable levels, according to the regular *Debt Sustainability Analysis* conducted by the International Monetary Fund<sup>25</sup>. Nevertheless, there are still accrued risks stemming from slowing activity in the construction sector, the deepening financial crisis in Europe, and the rapid rise in raw material prices, which may affect the level of economic growth needed to sustain short-term stability. Potential slowdown in FDI and remittances accrued, these factors has put Cape Verde in an increasingly vulnerable position (Figure 3.9).

Figure 3.9 – Remittances and FDI as a share of GDP



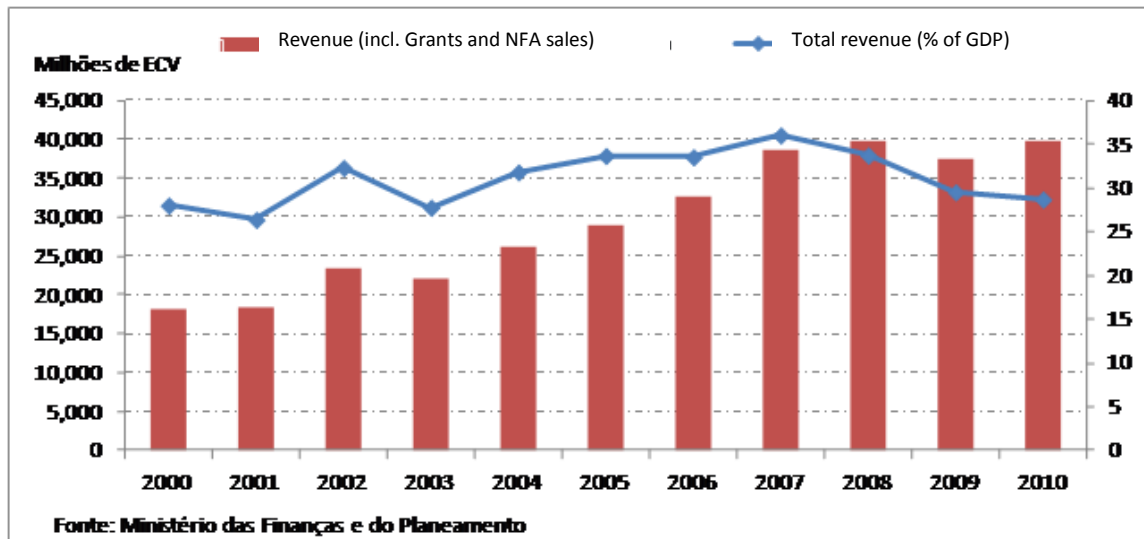
Source: GPRSP III model - MFP/DNP

To partly mitigate the risks arising from the external scenario, endogenous development funding capacities need to be urgently mobilized. Considering the need to maintain domestic debt at levels which are compatible with the Euro exchange peg, improving domestic revenue collection - specially taxes - is paramount. Several tax reforms conducted from 1995 to 2009, and efforts to enhance the collection capacity, resulted in a constant increase in revenue during that period. However, revenue collection as a share of GDP dropped slightly in 2009 and 2010 (Figure 3.9). There is room for improving significantly tax administration efficiency and efficacy, although the

<sup>25</sup> *Country Report* by the International Monetary Fund for Cape Verde No. 12/29, February 2012

lack of capacity and resources are still constraints. The Government is developing a proposal, as part of the State reform, for transforming the tax department into a revenue agency or authority, endowed with the right means and resources. Besides improving tax administration, Cape Verde must also examine and streamline the tax incentives regime.

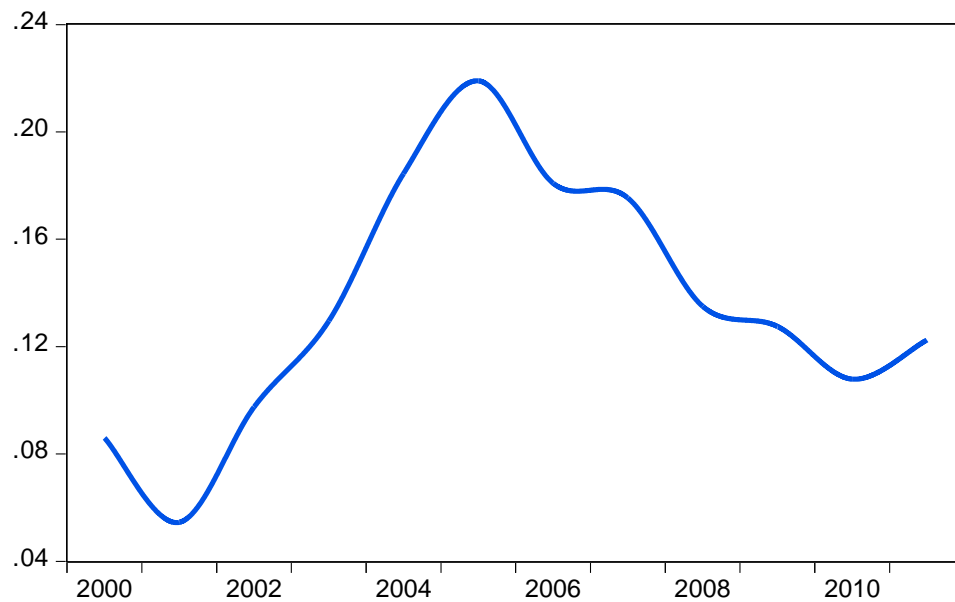
Figure 3.10 – Government Revenue



The challenge before the Government now is the need to build an economy with a high level of sustainable and inclusive growth in view of surpassing the key constraints – structural vulnerability, external dependence, unemployment (specially in the younger population), poverty, inequality in income distribution, low emigration opportunities and subsequent fall in remittances.

The growth dynamics of the last decade generated a considerable amount of jobs, specially in the services and construction sectors, which, as mentioned in the previous section, lead to a significant reduction in poverty. Unemployment figures are still high, however, above 10% (Figure 3.11). Unemployment in Cape Verde does not solely concern the least educated. Although most jobless people are not very qualified, a share of unemployed people holds higher levels of schooling, particularly young people. The data suggest that the skills acquired at school are not in tune with market's needs. Additionally, labor costs (formal sector) are very high. Cape Verde must do more to guarantee inclusive growth and economic diversification as a way of circumventing the unemployment issue.

Figure 3.11 – Unemployment Rate

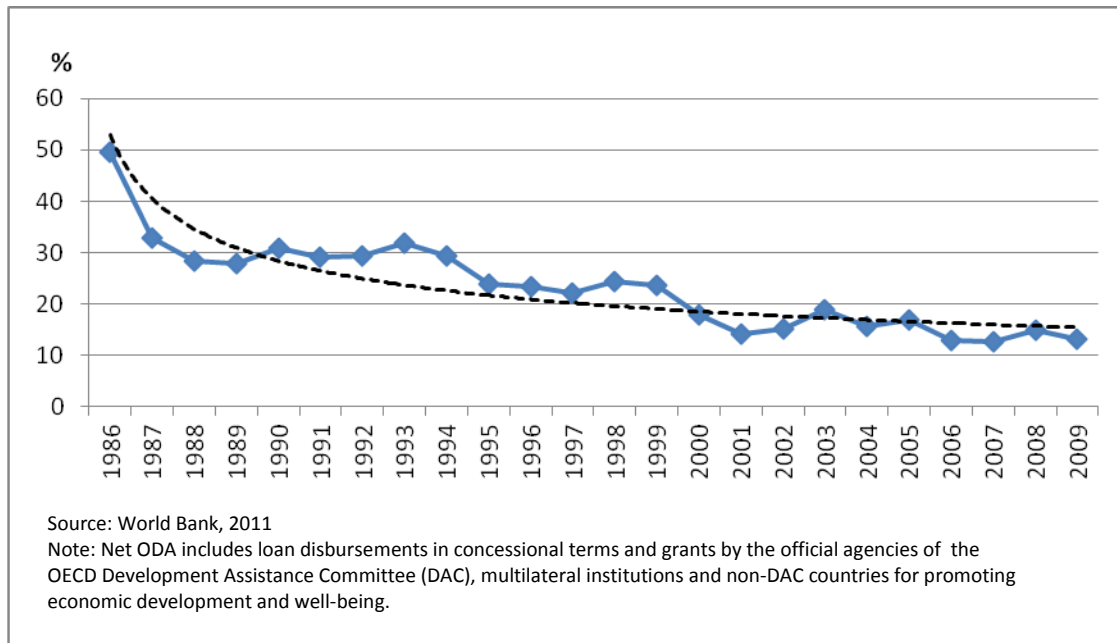


Source: INE

Cape Verde is still very dependent on SDA. The current global economic challenges, Cape Verde's graduation from the LDC group and the emerging perception that Cape Verde is no longer a poor nation, can lead in time to the substantial drop in SDA flows. Although net SDA as a share of GDP, specially grants, has decreased recently, a continuous and steep drop can expose Cape Verde to a series of risks, specially considering the high debt/GDP ratio and the relatively low level of international reserves (Figure 3.10).<sup>26</sup> Remittances as a share of GDP have also decreased, as illustrated in Figure 3.9. In time, ties with the country of origin weaken, as the Diaspora grows into the second and third generation and emigration opportunities decrease with tougher legislation in the destination countries. The current goal is to engage the Diaspora in the agenda for change – either as investors or agents for the transfer of know-how and knowledge in several areas of expertise.

<sup>26</sup> Organization for Economic Cooperation and Development (OECD), *Africa Economic Outlook 2009*. OECD, Paris.

Figure 3.12 – Net SDA (% of GNP)



Underpinning the emerging reality is Cape Verde's ongoing vulnerability. Cape Verde graduated from the list of LDC by meeting two of the three criteria— *per capita* income and human development index—, while the criterion of economic vulnerability was not met. The country is still weak and susceptible to external shocks, either economic or natural. Environmental and agricultural challenges, overdependence on imports, growing insularity and fragmentation costs, overdependence on external transfers, as well as growing global security threats and transnational crime are some of the sources of Cape Verde's vulnerabilities.<sup>27</sup>

All of these are structural challenges which can affect growth and the economic development process negatively. Cape Verde responded with an agenda for economic change, which provides broad guidance for the Government's actions during the last decade. Further implementation of the agenda for change as a way to drive growth and reduce poverty is the goal of the GPRSP III, as described in Chapter 4 next.

<sup>27</sup> UNDP (2001). *Vulnerability Study, Action Plan for 2001-2010*, March 2001. United Nations Development Programme, New York.

## 4. GPRSP III: Strategic Agenda

---

### 4.1 Cape Verde's National Agenda and Vision

The agenda for economic change has guided the development process of Cape Verde. The agenda provided the long-term vision on which Government policies and actions have been sustained for most of this century so far and which points to a changed economy, focused on taking advantage from Cape Verde's geostrategic location for developing the country as an international platform for high value-added services. The agenda aims in particular to develop a diversified and productive economy by developing clusters and competitiveness poles based on a growth model sustained by the dynamics of the private sector, which will foster the change of comparative edge into competitive edge. In this framework the following areas are outlined as the ones where Cape Verde has a strong potential, considering the position it occupies in the trade route linking the three continents (Africa, Europe and the Americas):

- Tourism: promoting tourism with high added value;
- Maritime Economy: development of a maritime economy geared towards fishing, transshipment of goods and maritime services;
- Aerobusiness: transforming Cape Verde into a regional hub for air cargo, free trade zone and services provided to airlines;
- Information and Communication Technology (ICT): promoting Cape Verde as an island that attracts advanced technology and especially ICT companies, which may use the country as their headquarters for doing business, particularly in the subregion;
- Finance: transforming Cape Verde into a financial service and investment service center;
- Creative Economy: building a service industry founded on Cape Verdean culture, geared towards exports and promoting the brand of Cape Verde;
- Agribusiness: conducting agribusiness activities and creating agribusiness companies in view of promoting more quality production, which may replace imports, including the link with the tourism value chain, and which will create an export base for some more competitive product niches.

The agenda for change introduced a comprehensive long-term vision for the development of Cape Verde, considering the potential for capitalizing on Cape Verde's few competitive and natural advantages – large ocean, geostrategic location and tropical climate. The agenda seeks to lead the country to a modern economy, high output and service-based, which would require the development of new sectors of activity as the drivers of growth, considering the current small and limited productive base. Some progress has been achieved, but the challenge lies in accelerating the process of change and reform in order to trigger new competitive factors which will foster the structuring of clusters.

The Government Program of the 8th Legislature 2011-2016<sup>28</sup>, notwithstanding the constitutional requirements, was drafted with a view to accelerating the country's agenda for change. The vision of the country's development under the program framework is that of “an inclusive nation, fair and prosperous, providing opportunities for all”. The 8th Legislature is geared towards "building a

---

<sup>28</sup> Government Program of the 8th Legislature 2011 – 2016, published in the *Official Gazette of the Republic of Cape Verde no.20, Series I, Supplement*, 14 June 2011

dynamic, competitive and innovative economy, and shared prosperity". To meet this goal, the Government identifies seven strategic challenges which are intended to be resolved during the Legislature:

- How to build a dynamic, competitive and innovative economy, with prosperity for all;
- Fostering the private sector, investment and productivity growth;
- Promoting development and social cohesion and facilitating access to basic services;
- Capacity building and producing knowledge fostering economic growth;
- Consolidating Democracy, enhancing Freedoms and reinforcing Good Governance;
- Modernizing and expanding infrastructures;
- Asserting the Global Nation and developing partnerships for competitiveness.

Meeting the aforementioned challenges cannot depend merely on the Government's intentions; it requires the commitment of the Cape Verdean society at large, considering the overall adverse domestic and external environment. This is where the GPRSP III comes in, by structuring policy measures and programs for addressing the challenges identified by the Government as obstacles to implementing the development vision.

Cross-cutting issues also have an important part to play, e.g. environmental good governance. Aspects like environmental sustainability of infrastructure, energy and urbanization projects, and programs cannot be forgotten; better management of natural resources, including land, water, fish and forest must be encouraged; and economic, social and physical resilience to natural disasters and climate change phenomena must be enhanced to mitigate associated risks.

Cape Verde has demonstrated the political will to implement a “green” economy, clearly illustrated through its strong bet on renewable energies. Yet it is also faced with significant challenges, mostly linked with the lack of water, inefficient energy services and the need to strike a balance between natural resource conservation and the country's development process. The focus on a framework for sustainable environmental growth has already earned the close support of several development partners, including Spain, the United Nations and the African Development Bank.

Given the heavy dependence of Cape Verde on other countries and on a global and competitive market, to attract investment through custom tax incentives is not enough. Therefore, new components of competitiveness are of growing importance: access to export markets; knowledge and training; the existence of national skills (public and private sectors) in the fields of international policies and negotiations; affordable communication and transport infrastructures (road, sea and air); loans; the development of viable and affordable information and communication platforms; and the availability of production factors, like energy and water. These are thus decisive factors in the economy's competitiveness.

The Government's Program calls for a trade that values national production. The projects and activities programmed in the GPRSP III for the trade sector envisage improving the legal and institutional environment, while fostering the development of an environment propitious to the development of the commercial activities, to the sector's modernization, to reinforced external competitiveness of national companies and products in the areas mentioned before, to the diversification of markets and to trade facilitation, namely with the Economic Community of West African States (ECOWAS).

## 4.2 Growth and Poverty Reduction Strategy III

The growth and poverty reduction strategy is an instrument that implements the Agenda for Economic Change by structuring, in the multiannual framework, measures and actions for meeting the objectives laid down in the Government Program of the 8th Legislature. The main goal of the Agenda and the Program is to promote inclusive economic growth with opportunities for all as the driver of poverty and inequality reduction. In this framework, job creation is paramount and the private sector must be the economy's main engine, while the public sector should play the part of a catalyst and facilitator of an investment and business-fostering environment.

Despite substantial efforts, poverty and unemployment remain serious obstacles to Cape Verde. New and more efficient approaches must be found in order to accelerate growth and reduce poverty. Consequently, the strategy should present clear and focused priorities for economic growth, poverty reduction and unemployment. However, the domestic and external environment is significantly different. The resources, including access to concessional loans and grants, will not be as readily available as in the past. SDA did indeed decrease in 2011 and the prospects of further decline are quite high. Furthermore, domestic macroeconomic and social space is substantially smaller, and to achieve success a sound and innovative approach will be necessary, focusing on clear priorities.

Cape Verde's poverty reduction strategy will still feature the non-exclusive commitment to growth or redistribution. The single focus on growth will not turn out to be very quick and may even not work at all. On the other hand, to focus only on redistribution in such a small economy like that of Cape Verde is also unsustainable. Which means that a strong emphasis should be placed on: (i) programs and policies promoting growth within clusters; (ii) programs and policies implemented for enabling the poorest and increasing their productivity and their participation in the economy, and (iii) social programs geared towards the most vulnerable within our society.

Coupled with growth and redistribution, Cape Verde will embark in a three-tier strategy for the development of the agenda for change. This means that the priorities will have to be set at different levels, initially among clusters and later within the clusters themselves. This exercise is necessary for identifying the value chains in the clusters where Cape Verde has the potential to grow and which may be leveraged quickly to generate growth. By setting the priorities between clusters and within them, the weighing factor shall be the cluster or action's potential to promote inclusive growth by creating business and generating employment.

The clusters are divided in three groups according to the country's current capacity, the international context and the capacity of Cape Verde's private sector to foster the reinforcement of the Gross National Product. Clusters cannot be tackled only from a strictly academic perspective, but rather through a pragmatic approach of generating business opportunities which create value in the economy. Agro-business, tourism and maritime economy are the top priorities, since these are the clusters which may have the greatest impact on poverty reduction and growth generation. The second set of priorities includes the ICT and creative economy clusters, and the third financial services and aerobusiness (Figure 4.2).

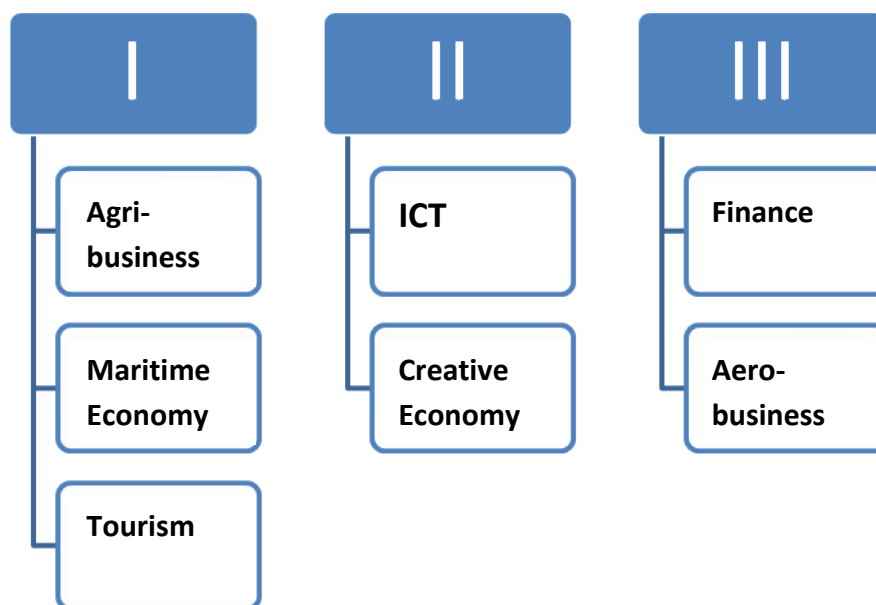


Figure 4.1 – Classification of Clusters

Due to scarce resources, the prioritization of investment in agribusiness and maritime economy is paramount for meeting the strategy goals. The purpose is to focus on areas where the impact is the greatest and which provide the grounds for developing the other clusters in the long-term. The transformation or development of a cluster, as a rule, is a process that takes at least five years and sometimes even a whole generation or more. Although the Government orients its investment towards enhancing national capacity, the private sector should create and implement these clusters. The Government may facilitate public-private partnerships where they are viable, support the development of the private sector and implement policies and create the necessary incentives, but it is up to the private sector to lead the process of business development and of the value chains in the clusters.

#### 4.2.1 National Reform Agenda

However, the private sector will not be capable of playing the leading role, nor will Cape Verde be in a position to improve global competitiveness if some substantial reforms are not undertaken to improve the environment of doing business and certain cross-cutting constraints are not resolved. Cape Verde is facing today new realities and challenges which are also the direct consequences of the past decade's successes. There is urgent need for reform considering the challenges on the horizon and the country's aspirations.

Cape Verde's graduation from the UN list of LDC is an important achievement since it was only one of two countries to have ever graduated from this list – the other was Botswana, which however has a lot of natural resources, specially diamonds. After graduating Cape Verde will be in less of a position to mobilize concessional funding and obtain grants which generally favor the poorer countries. Cape Verde's membership in the WTO, although a success, means that Cape Verde must open its markets and depend more on the endogenous capacity to compete.

In the last decade crucial progress was also achieved through the substantial growth of the tourism sector, which represents a quarter of GDP with over 60% of exports. The impact of tourism on the economy is greater if some related industries, like construction and real estate, are considered. The tourism sector also gets over 90% of all FDI channeled to Cape Verde and has been the driver of economic growth and critical for generating employment. Its success, however, made the country overly dependent on a single sector and increased Cape Verde's exposure to external shocks. So any drop in tourism demand, either due to external shocks or domestic challenges, may have a great impact on the country's economic performance.

Cape Verde cannot afford to be overcome by some inertia arising from the globally positive performance of the past decade. The financial crises in the Euro Area, the anemic recovery of the global economy and the challenges stemming from Cape Verde's successes underscore the need to implement the agenda for change and to build a more resilient and diversified economy which may grow in a more sustainable and inclusive manner. More productivity is a fundamental aspect which requires quick action.

The GPRSP III provides an opportunity for Cape Verde to update its strategy. The purpose of the implementation period is to transform Cape Verde into an international services center, supported by a productive base, and thus accelerate the process of change. For this Cape Verde must accelerate, enhance and expand reforms, which should cover all levels of public administration, including Municipalities, agencies and public companies, with the purpose of building an efficient State, geared towards helping the private sector create wealth.

The State reform agenda must be reviewed, enhanced and extended so that the country may prepare itself to face the emerging challenges. Until now, Cape Verde has done fairly well as a reformer, as the *Doing Business* rank illustrates – it went from 143rd place in 2009 to 119th in 2012, although it dropped to the 122nd in the 2013 report. To reinforce and keep up the reform drive, it should focus its efforts on learning and building on the experience of other small insular States, which have set the benchmark through their performance. Reforms should focus particularly on promoting productivity and competitiveness.

The new reform agenda should address the issue of ensuring higher growth rates and diversifying the economy. The following are the four top reform areas:

- Maintaining macroeconomic stability and the reform of public finance management;
- Enhancing labor market flexibility and promoting more productivity;
- Improving the quality and relevance of education and training as a way of combating unemployment;
- Improving the quality of infrastructures and services.

#### **4.2.2.1    *Maintaining macroeconomic stability and the reform of public finance management***

Cape Verde would not have been this successful had it not been for the political decision to prioritize macroeconomic stability as the core factor of good governance. Related reforms allowed the State to increase revenue collection and depend more on domestic resources. However, important challenges still lie in the horizon. The decision to use the window of opportunity, while Cape Verde is still eligible, to mobilize concessional resources for funding infrastructures, has

fostered growth and provided a countercyclical measure in an environment of global economic slowdown. The present consequence is that the Country's capacity to borrow has decreased. Furthermore, SDA and FDI granted to Cape Verde, mostly by Europe, are decreasing and may produce a negative impact on the implementation of the agenda for change.

The Government is still committed to preserving macroeconomic stability – as proven by the successive positive assessments of the International Monetary Fund, and of the Budget Support Group<sup>29</sup> and the *rating agencies*<sup>30</sup> - but Cape Verde will face new challenges. A new wave of tax reforms will be implemented to change the tax regime in order to streamline and rationalize the rules in line with international best practices, thus seeking to optimize the tax base. Improving the tax administration's efficiency in collecting and supervising tax payments is paramount for the Government to collect the resources it needs to finance the development process and to generate the necessary flows for remunerating and repaying the loans contracted. These reforms will be supported by the International Monetary Fund and will essentially target, on the institutional plane, capacity building, and the installation of IT for dematerialization.

Aligned with the reforms that will help the State improve revenue collection capacity, another front will guarantee that the resources are used much more efficiently. The State will have to adopt management systems that will allow it to "do more with less". The idea is to build a frugal State that is capable of managing and efficiently prioritizing the resources and investments. In this framework, a paradigm shift towards a result-based management is paramount.

In detail, public finance management reforms and the implementation of the National Planning System (SNP), stemming from the actions conducted under the relevant Action Plan for the Reform of Public Finance Management (2009-2012), which attracted the recommendations of the PEFA<sup>31</sup> assessment concluded in 2008, achieved progress on several fronts. The following are the large reforms in progress: i) banking of the treasury – for an integrated and dematerialized system of revenue collection procedures and the implementation of expenditure in all of the central administration; ii) decentralization of budget implementation – which has already endowed several central administration sectors, through the integrated budget and financial implementation system (SIGOF), with autonomy in the implementation of the relevant budget and in the multiannual programming of expenditure in line with the sector's priorities (drafting of the Medium-Term Expenditure Framework); iii) reform of public debt management - which points to efficiency gains in public debt management, specially domestic, in order to progress towards the development of a net secondary and marketable market of Government securities for all economic agents interested; iv) implementation of an integrated monitoring and assessment system – fundamental pillar of the SNP and which seeks to link the physical implementation of projects with the relevant financial implementation and hereby develop to a result-based management paradigm and which may allow the mitigation of the risks of project budget slippages; v) implementation of the national

---

<sup>29</sup> The Budget Support Group was created in 2006 and is composed of development partners which provide direct financial support to the State General Budget of Cape Verde. In 2012 these partners were the African Development Bank, the World Bank, Spain, Luxembourg, Portugal and the European Union.

<sup>30</sup> *Standard & Poors e Fitch Ratings*

<sup>31</sup> *Assessment of Public Expenditure Management in Cape Verde, Application of the PEFA Methodology – Public Expenditure and Financial Accountability*, December 2008, review financed by the European Commission.

procurement system according to international best practices – reform incorporating several advances on the regulation front through the creation and enabling of ARAP, the reform of the procurement legal framework, the creation of procurement management units in several sectors, the implementation of an e-procurement platform, and the inventory and improvement of State asset management; vi) improvement of the budgetary and financial management of Municipalities through the development and dissemination of the Municipal Information System; vii) State-owned enterprise management reform – that intends to mitigate contingent financial risks stemming from these entities and also to improve the provision of services at the level of quality and aligning the business plans with the priorities of the GPRSP III (at this level, the actions proposed will be discussed further ahead in detail in the subsection on the reform of the management of State Owned Enterprises); and viii) introduction of a macroeconomic model of overall computable balance – such instrument provides essential input to reinforcing the endogenous capacity to generate macroeconomic projections and test different scenarios for the implementation of the GPRSP III.

The aforementioned reforms provide the motto for the implementation of a National Investment System as the integral pillar of a National Planning System (SNP). The purpose of this system is to improve *ex-ante* assessment of capital expenditure, including technical assessment of projects, and particularly by implementing an assessment cycle of projects which analyses and selects the best choices in the light of social-economic profitability and environmental sustainability criteria. It will also seek to assess proposals according to the capacity of public counterparties to take ownership and manage assets in a sustainable manner. As for another pillar of the SNP – the National Statistics System – the alignment of the National Statistics Agenda, lead by the National Statistics Office (INE), with the GPRSP III points towards the reinforcement of the SEN through capacity building of the official bodies which produce statistical data, particularly this Institute. The goal is to provide, in a regular and timely manner, – through new products like the multi-objectives survey – information about the social and economic context of the country, seeking to keep all public and private counterparties and civil society informed for decision-making. This information will also make it possible to monitor the effect and impact indicators of the GPRSP III itself.

The Action Plan of the Reform of Public Finance Management is in its final stages of updating, taking into account recommendations of the PEMFAR<sup>32</sup> diagnosis conducted in 2011 and 2012 with the support of several development partners. The new version of the plan, concluding, will highlight the aforementioned initiatives. Expanding the reforms to areas where there are still constraints will also be attempted, namely ongoing improvement of financial and budgetary management of the Municipalities and more efficient external and internal supervision. These reforms are essential for the implementation and monitoring and assessment of the GPRSP III objectives. Monitoring the progress of the actions laid down in the action plan for the public finance management reform, as well as the follow-up and assessment report of the implementation of the GPRSP III, both submitted on an annual basis, are essential conditions for all budget support partners to disburse their aid. Besides, there is the mid-term review of the GPRSP III which is expected to take place in 2014.

---

<sup>32</sup> *Public Expenditure Management and Financial Accountability Review*, May 2012, review financed by the World Bank, European Union, United Nations Development Program, Spanish International Cooperation Agency for Development and the African Development Bank.

#### 4.2.2.1.1. Reform of SOE Governance

The options for consolidating the management of State-owned enterprises are set on two pillars: the State as owner and the State as supervisor and inspector. All of the measures advocated may produce a positive effect on the State's capacity to suitably manage State enterprises, make strategic decisions, manage better the aggregate budgetary risk, and monitor the performance of the services provided.

The Government will conclude management agreements with the Administration Boards of these companies, and will be required to perform its duty as shareholder more efficiently. The activities linked with this function include:

- Developing supervisory policies and guidelines;
- Developing policies for the adoption of the main corporate decisions;
- Appointing the boards of directors of the State-Owned Companies;
- Establishing good performance incentives;
- Promoting administrative best practices of State companies, including transparency and the dissemination of information.

Global best practices point to the development of a centralized ownership model. There is a growing trend of centralizing the State's function as the owner of an entity which should enjoy some level of independence from the Central Administration. The centralized approach clearly delimits the functions of the owner, separating the State's function as owner from its policy-making and regulatory duties. Finally, the ownership functions are delegated to a specific entity. This is a growing popular approach, which envisages improving the performance and efficacy of State enterprises. Centralization has several objectives:

- Enhancing the clarity of the purpose of State enterprises, separating commercial objectives from non-commercial ones;
- Managing State assets for protecting shareholder equity (OECD 2010) <sup>33</sup> in a context of scarce resources, to ensure minimum political interference and bring in greater professionalism by mobilizing specialized skills;
- Fostering greater coherence and consistency in the State's role as owner;
- Achieving greater transparency and accountability in SOE operations through an improved performance-monitoring and assessment system.

The Government will reinforce in the short term the existing system in order to improve its duty as owner, while the more structural medium-term changes are being planned towards an increasingly centralized system. The stages presented in Table 4.1 may help improve, progressively, the State's ownership performance.

---

<sup>33</sup> Shareholder equity protection is considered the principal objective of the State's supervisory function in many countries, whereas the other objectives are of a social character. Inclusion as an objective is intended to provide simple criteria for conducting decision-making and assessing the performance of the Government's supervisory function. More specifically, the goal is to improve SOE performance and, subsequently to increase the corresponding value of shares, while reducing the associated tax risk.

**Tab. 4.1 Contingent stages for consolidating the State's ownership function in State-owned enterprises in Cape Verde**

| Stages  | Objectives   |
|---|--|
| 1) Consolidating the capacity of the current State enterprise unit ( <i>Direcção de Serviço de Participadas Estatais</i> of the Directorate-General of Treasury) of the MFP | <p>Developing and implementing a strategic plan for the Unit, based on the institutional needs and capacities required to exercise effective ownership. The activities to be implemented may include:</p> <ul style="list-style-type: none"> <li>• Delivering intensive training to staff in auditing, financial analysis and commercial law;</li> <li>• Increasing exposure to international trends and creating a forum for the regular exchange of experiences;</li> <li>• Recruiting experienced company executives and entrusting financial and technical specialists with support to the unit;</li> <li>• Developing guidelines and working methodology for structuring the Unit better;</li> <li>• Creating an internet portal where the Unit may publish documents and reports.</li> </ul>   |
| 2) Consolidating or implementing essential monitoring and supervisory activities through the State enterprise unit.   | <p>Objectives of the activities where the Unit could provide advisory and other services to the Ministry of Finance and Planning:</p> <ul style="list-style-type: none"> <li>• Supporting the development of supervisory policies and guidelines;</li> <li>• Supporting the process of appointing the State company board members;</li> <li>• Supporting the design and implementation of monitoring and assessment systems (developing in-house monitoring tools, developing financial and non-financial performance indicators, etc.);</li> <li>• Supporting the preparation and negotiation of performance contracts with each public enterprise;</li> <li>• Analyzing the audit reports and external monitoring reports;</li> <li>• Preparing reliable and exhaustive information on State-owned enterprises for management and regular reporting purposes.</li> </ul> |
| 3) Initiating consultations on new supervisory agreements.  | <ul style="list-style-type: none"> <li>• Fostering the exchange of knowledge with partners and similar institutions on the strengths and weaknesses of existing arrangements.</li> <li>• Initiating consultation in the Government on the sustainable consolidation of the supervisory functions in Cape Verde.</li> </ul>   |
| 4) Concluding sustainable institutional agreements for consolidating the ownership.   | <p>The institutional agreements chosen should:</p> <ul style="list-style-type: none"> <li>• Safeguard plenty of political support and collect public awareness;</li> <li>• Lay down a clear and focused mandate, with a large degree of autonomy;</li> <li>• Empower the Unit or a potentially new Directorate-General or institution to become a role model in supervision and ownership of State enterprises;</li> <li>• Empower the entity to provide strategic advice to the Government in the State-owned enterprises;</li> <li>• The Unit's staff would be presumably transferred to a hypothetical new institution for the ownership.</li> </ul>  |

An additional feature concerns the communication strategy which may enhance State-owned enterprises' accountability before the State, other owners and the general public. Submitting State-

owned companies to external scrutiny may enhance public image and perception of the business conducted by these enterprises and can help improve their performance. Furthermore, when issues are revealed, their dissemination may drive the momentum for change. The information disseminated by State-owned enterprises should include audited financial statements and non-financial reports, and the reporting of policies and social objectives.

Annual external audit reporting of the financial statements of State-owned enterprises are paramount for good management. The financial audits are essential for offering owners and the public guarantees, since they provide a suitable picture of the companies' financial and operational status. Reporting is also a strong element of accountability.

Clearly, accountability in State enterprise management would be significantly improved with greater transparency. The following are the core measures which the Government intends to implement:

- Timely performance and reporting of annual external financial audits of each State-owned enterprise;
- The development, by the State enterprise unit of the MFP, of a public enterprise thematic portal where information on legal and financial issues, governance, performance and non-financial aspects are published;
- Drafting and publishing a consolidated annual report with the portfolio of the State-owned enterprises.

#### **4.2.2.2**    *Labor market flexibility*

Cape Verde did very well in the past decade in terms of reducing unemployment, as a result of the implementation of the agenda for change. The current unemployment rate is estimated by the INE to be around 12.2% (in 2011). This rate however varies between islands with more rural population, where unemployment is higher.

Several factors explaining the persistent unemployment in Cape Verde have been identified. Macroeconomic conditions play a key part and some of the crucial aspects include negative productivity of all factors, deterioration of the terms of trade, and negative job demand.

As concluded in a recent study conducted by the World Bank<sup>34</sup>, Cape Verde has a formal job market with varying characteristics, but on average labor legislation may be considered rigid, and deters investment and, subsequently, employment. The study also mentions that Cape Verde has a poor performance in the World Bank's *Labor Market Efficiency Index*, which measures the capacity of companies to increase the flexibility and manage the labor force. The index is derived from the following indicators: (a) cooperation in employer-employee relations; (b) flexibility to fix wages; (c) rigidity in employment; (d) hiring and dismissal practices; (e) dismissal costs; (f) salary and productivity; (g) dependence on professional management; (h) brain drain and (h) female participation in the labor force. Cape Verde is among the worst classified when compared to other Sub-Saharan African countries; its score is 3.75 out of a maximum score of 7 and ranks 30th in a list of 35 countries.

---

<sup>34</sup> Oliver Azuara and Rita Almeida. *Fostering Skills, Employability and Productivity To Promote Competitiveness In Cape Verde*. World Bank, May 2012. Framework study prepared for the GPRSP III by the World Bank.

Focusing on two indicators as examples– rigidity in employment and redundancy costs in weeks of salary– Cape Verde's labor market needs significant reform. Rigidity in employment is calculated on the basis of three sub-indexes: hiring difficulties, rigid timetables and dismissal constraints. In this indicator Cape Verde occupies 43rd place out of 57 countries. Redundancy costs in weeks of salaries takes into account the pre-warning requirements, compensation for early termination, and the penalties payable to a redundant worker, in weeks of salaries. Cape Verde is one of the countries with the highest redundancy costs. This index of Cape Verde is 93 – which is almost ten times more than that of countries like Algeria, Tunisia, Uganda and Mauritius.

Concluding, Cape Verde's labor legislation is among the most restrictive in the World. Although the goal is to protect workers, excessive regulation promotes informality and fosters the hiring of foreign workers, who currently represent a significant share of the total labor force in the tourist and construction industries. Additionally, over-rigid rules make Cape Verde less attractive to investors and inhibit the creation of jobs by domestic companies.

The country will have to conduct significant reforms in the labor market with a view to fostering job demand, reducing unemployment and making the labor market more fluid. These reforms are crucial to the extent that, considering the country's demographic structure, the labor force should continue to grow with more people joining the group of working population. However, the much needed reforms are not easy. A national dialogue should be conducted through a consultation procedure between the Government, unions, private sector and political parties in order to find the consensus which may provide the necessary support for drafting and implementing a reform agenda of the labor market in Cape Verde.

#### ***4.2.2.3 Improving the quality and role of education and training in combating unemployment;***

Linked to the labor and employment market are issues of education, training and productivity. One of Cape Verde's greatest gains has been unquestionably the bet on education. In the first years after independence, Cape Verde embarked on the democratization of primary and secondary education. The country also invested in technical and vocational training. The supply of university education has grown and there is greater access to studies in this level of education. All levels of education, from primary to technical and higher education, are now widely available and accessible.

The success in widespread access to education has led to new challenges: quality and relevance. Improving the quality of all levels of education and enhancing its relevance is crucial for implementing the agenda for change. The quick growth achieved by Cape Verde is largely due to capital accumulation as in other countries, which also achieved equivalent levels of growth. To maintain these levels of growth and to diversify the economy, by increasing competitiveness, the country must increase productivity. The building of a new economy based on the expansion of the productive base and value-added services, as targeted in the agenda for change, may only be achieved if Cape Verde manages to supply highly qualified and productive human capital.

However, rapid growth in education supply may compromise the quality of the educational system. Only now are the quality control system and the relevant standards emerging and they were not created before the expansion of educational institutions. The certification process is weak and has

enabled the setting-up of institutions with different degrees of quality. Then there is the issue of relevance tied with this challenge. The gap between the curricula and the supply of studies and market needs in the agenda for change has created a mismatch between education supply and market needs.

As a result, companies in Cape Verde increasingly identify labor qualifications as a large constraint. In 2009, 49.2% of companies completing a survey said unsuitable labor force hinders productivity growth. Cape Verde has a poor performance and is badly placed in terms of Sub-Saharan and global averages: the proportion of companies pointing to labor qualifications as a constraint is 22.2 and 27.1, respectively.<sup>35</sup>

The lack of qualified labor is a constraint on investments in Cape Verde, since companies do not have the incentive to invest in countries where few workers possess suitable training.<sup>36</sup> Besides restricting investment and growth prospects, unqualified labor is either used to perform low productivity tasks or is self-employment, but without the necessary management skills for successful entrepreneurship. These conditions do not favor the agenda for change.

A reform agenda included in the Integrated Strategic Plan for Technical and Vocational Education and Employment, currently nearing completion, is necessary for the development of skills particularly at the level of technical and professional education, with the necessary review of curricula and qualifications. The Government has also put a lot of effort into implementing a system for reviewing the model of higher education. These efforts should, however, be accelerated and extended to the whole educational system. Quality from pre-primary to university education needs scaling up. The focus should be on guaranteeing that education and programs supplied by the educational system are in line with market's needs and the agenda for change. The Government, to that effect, shall promote the collaboration with the private sector and will change the funding mechanisms in order to ensure the suitable alignment between demand and supply and safeguard the system's sustainability. Several policy measures have to be adopted to tackle the unemployment issue, special oriented towards:

- Promoting skill development programs, especially for the more vulnerable groups. To promote employability and create a more productive labor force, skills must begin to be developed before entering the labor market with the help of more relevant educational curricula, suitable governance structures and sustainable funding for technical and vocational training;
- Underscoring the idea laid down in previous sections, reforming labor market regulations for promoting job demand and making the market more fluid/flexible in order to produce better results for job creation, specially for the most vulnerable in society;
- Enhancing the programs which foster the employability of the most vulnerable through better focused active policies, including employment services, intermediation and support to entrepreneurship. While some intervention, such as labor intermediation and aid to entrepreneurship, require immediate action, other, including the development of skills through technical and professional education (TPE), on-job-training and reforms of worker protection, call for the introduction of long-term merit-based assessment systems and strategic planning.

---

<sup>35</sup> *World Bank World Enterprise Surveys*, 2009 is the latest survey to include data from Cape Verde. Source: <http://www.enterprisesurveys.org/Data/ExploreEconomies/2009/cape-verde#workforce>

<sup>36</sup> Oliver Azuara and Rita Almeida (2012).

The Government also intends to expand the programs which promote education and training for entrepreneurship, especially for the younger, considering this is one of the core drivers of innovation and creating value in the economy.

#### 4.2.2.4 *Improving the quality of infrastructures and services*

Cape Verde's natural constraints stem from insularity, fragmentation and territorial discontinuity. Fragmentation restricts the capacity to develop a unified market and increases the cost of production factors exponentially. A clear example is the need to invest in basic infra-structure on nine inhabited islands. In the last decade the Government has invested significantly in transport, energy and water infra-structure. The country has invested over USD 147 million per annum in infrastructure, which amount to 15% of GDP— among the highest ratios in the continent.<sup>37</sup> National coverage increased substantially for all infra-structures from water, electricity, telecommunications and transport.

Investment in road, airport, port, water network extension, dam, school, health center, hospital development projects and other necessary infrastructures drove significant social and economic progress. However, the infrastructure bottlenecks persist. In 2009, for example, the share of firms which find that transport and energy are still large constraints, according to the World Bank Enterprise Survey, was 24 and 53.1, respectively.<sup>38</sup> Although the need to invest more in infra-structure subsists, one of the most crucial challenges in this stage is regulatory management and governance for promoting efficiency, enhancing quality and reducing costs.

In the transport sector Cape Verde has made substantial progress. However, a lot still has to be done to safeguard the functioning of the transport system in view of reducing asymmetries, facilitating territorial integration and the movement of goods and people. There is also the pressing need to improve governance and regulation. Technical and economic regulations are poor. There is lack of coordination as far as intermodal transportation is concerned, and a mismatch between air and sea transport schedules. Port management and performance also need enhancing. From the perspective of sea transport suppliers, many are simply too small, have reduced capacity and poor management. Most companies operating in sea and air transport are in dire financial straits. There is the need to invest in capacity enhancement and to channel deliberate efforts to restructure and reorganize the sector in view of encouraging the emergence of better operators.

The Government has undertaken to restructure the sector's governance with a specific action plan for the development of inter-island transport (now being finalized). The plan has programmed deep reforms of the structural and regulatory policies, in view of reducing red tape and expenditure in the transport industry, fostering quality services and protecting users. These improvements also seek to enable better programming between different means of transport, to leverage an increase in demand and, subsequently, volume. To achieve a transport system with guaranteed levels of domestic and

---

<sup>37</sup> Cecilia M. Briceño-Garmendia and Daniel Alberto Benitez (2011). *Cape Verde's Infrastructure: A Continental Perspective*. Africa Region, World Bank

<sup>38</sup> World Bank. *Enterprise Survey 2009*. Source: <http://www.enterprisesurveys.org/Data/ExploreEconomies/2009/cape-verde#infrastructure>

external access is a requirement for enabling a model of an economy specialized in services, namely tourism, and for ensuring social and territorial cohesion in a framework of sustainable development.

Similarly, in the energy sector there is the need to improve service quality and reliability and to reduce associated costs. This will include the strengthening of the main operator – Electra - and improvement of the technical and economic regulatory environment. Investment in renewable energies and in new distribution lines for reducing costs and losses should proceed. These efforts should, however, be accompanied by further improvement of the sector's management and capacity so that current and future reforms may be suitably appropriated and managed.

The telecommunications sector, including telephones and internet, faces the same management and regulatory challenges. Cape Verde has made good progress in expanding access to telephones, mobile phones and internet. Costs have reduced significantly in recent years but, as with water and power supply, rates are still among the highest in the world.

The same kind of strategic decision taken by the Government to restructure management and regulation of the water and sewage sector should also be applied to most of the infrastructure subsectors. A draft reform agenda of the water and sewage sector for improving efficiency was submitted, to put an end to the often overlapping parts played by different agencies and institutions, to ensure that water is managed as a resource by a qualified agency, and to guarantee that the sector is regulated by a single entity. The proposed reform also points at the need to eliminate fragmentation and foster the creation of intermunicipal companies providing water and sewage services and which are managed like businesses. The Government has appointed a Reform Committee for conducting the efforts and is planning to use about two-thirds of the funds granted under the second compact of the *Millennium Challenge Corporation* for reforms in this sector. The reform model of the water and sewage sector should be used as an example in similar strategic reviews of other infrastructure subsectors' management and regulation.

## **4.2.2 Fostering growth through economic diversification**

Related to the large cross-cutting reforms mentioned, the diversification of the economy through the development of economic clusters is paramount. The country intends to become a global supplier of services with high added value. The GPRSP III sets the stage for outlining the vision for the clusters, setting the medium-term objectives (2012-2016) and proposing a strategic agenda for these clusters based on the review of the development context and the situational analysis. For the rest of this chapter, we will present a strategic summary of each cluster, which amount to the findings of the thematic groups created under the GPRSP III by competitiveness cluster.

### **4.2.2.1 Agribusiness**

#### **Analysis of the Current Status**

Agriculture is still very much the core of rural economy and is the key to poverty reduction in Cape Verde. A significant part of poverty reduced in Cape Verde resulted from investments in the farming sector. The general computable equilibrium model, of the Ministry of Finance and

Planning, clearly shows that the agribusiness cluster has the highest potential to reduce poverty, compared to the other clusters.

Yet this cluster faces problems and constraints which are multidimensional and intertwined. Not all of them can be solved in parallel or in the scope of the implementation of the GPRSP III, but focused intervention may help develop specific areas which have the potential to promote productivity and growth in rural areas. Investments in the agricultural sector in the past decade led to production and productivity gains. Special effort was put into irrigation management, the building of dams and water tanks, expanding drip irrigation, introducing new technologies, rural extension services, building of rural roads and enhancing access to microfinance.

As a result, small-scale farming has grown and drip irrigation for commercial purposes has expanded. For example, vegetable production has evolved magnificently, with visible gains in production and productivity, hereby driving progressive change in the structure of the primary sector. The introduction of new technologies in the fruit and vegetable sector, namely more productive new species and varieties, more pest resistant and better adjusted to weather conditions, as well as widespread use of micro-irrigation techniques, protected and hydroponic cultures, drove the subsector's general production and the relevant incomes up. According to estimates by the DGPOG of the Ministry of Rural Development (MDR), with the support of the FAO, the *Instituto Brasileiro de Geografia e Estatística* (IBGE, Brazilian institute of geography and statistics) and INE, 26,283 tons of vegetables were produced in total in 2010 (in particular, tomato (12,144 ton), carrots (4,358 ton) and onions (3,180 ton)), which together account for 75% of total vegetable production. As for roots and tubers, according to the same source, production in 2010 reached 12,592 ton. Root production covers all of the domestic market's needs, whereas tubers and the common potato only satisfy about 30% of domestic consumption. Fruit crops, according to the most recent figures of DGPOG, produce every year about 10,363 ton, and this includes banana, mango and paw paw which account for 9,830 ton. This is seen as a weak production, due to the fact that most of the orchards are not irrigated, except for the banana, paw paw and some mango trees.

In spite of the growth in the sector, Cape Verde produces today only 20 to 30 per cent of all food consumed domestically, and imports the rest. There is room for expanding farming sector's production significantly and enhancing the links with other sectors for facilitating the development of the rural economy. One such sector is tourism, and its potential connection with the agricultural supply chain may produce a significant impact on the sector in Cape Verde. For example, in spite of the substantial increase of local product supply to the markets, recent gains have not resulted in the development of high value-added service companies involved in processing, inter-island transport, or establishing clear links with the large hotel chains. There is potential to increase production for local consumption, the tourism sector and exports, especially of some niche products.

In spite of the threshold of the country's capacity to produce the amounts that satisfy domestic consumption or the tourism sector's needs, the sector still has a large potential for expansion of the production of some value chains (e.g. goat cheese, coffee, wine and spirits, fruit and vegetables, among others), thus helping the sector become a significant source of employment, to enhance income, innovation and develop rural-based companies. In some cases, the problem is not only production levels. The transport of products to the markets is another issue – among many

involving a myriad of variables, like high transport costs, lack of cold storage capacity and other conservation means, lack of processing capacity, asymmetric information in the markets, weak quality control standards and lack of certification.

The fact is that there are still a lot of constraints in the agricultural sector. The rate of adoption of drip irrigation is still low. Only a very small number of hectares have irrigation, while most farmers still depend on rainfall. Access to credit is still very much of a constraint, like in other sectors of the Cape Verdean economy, and farmers' access to the market are also a problem due to: i) inefficient product flows because of roads in a poor state; ii) not very reliable and costly transport; iii) inefficient logistics for supplying markets. The sector's weak institutional and human capacity affects negatively water management, agricultural extension and research and development. The weaknesses have hindered the development of the value chains, and particularly the growth of key subsectors, like cattle herding. Weak institutional capacity further impacts certification (of origin and quality), the possibility of transforming agriculture into a business and of penetrating the tourism sector by supplying the large hotel chains operating in the country. Access to the domestic market and to operators in the tourism sector is a requirement for ensuring that agriculture becomes a key driver of growth. Briefly, the sector is facing several constraints (Table 4.2).

Table 4.2 – Agribusiness SWOT analysis

| Strengths   | Weaknesses   |
|---|--|
| <ul style="list-style-type: none"> <li>Abundant surface waters; the estimated potential of 181 million cubic meters is three fold greater than the exploitable potential of underground water.</li> <li>Young and qualified human resources; capacity for vocational training in agriculture, farming knowledge and know-how.</li> <li>Emerging rural and federative organizations.</li> <li>Existing research (INIDA) and training (Universities, National School of Hydroponics) institutes; water abstraction and storage technologies; agro-forestry and forest-pastoral techniques; private technical support.</li> <li>Existing financial institutions, including micro financing.</li> <li>Emerging private sector upstream and downstream of production.</li> <li>Expanding rural infra-structures providing access to the resources and markets; dams/tanks; agricultural product inspection and conservation centers.</li> <li>Decentralization process; will to enhance regional, sub-regional and international cooperation (resources, training, etc.).</li> </ul> | <ul style="list-style-type: none"> <li>Weak natural resources (water, land and biodiversity) and the sustainable management thereof.</li> <li>Insularity, demographic pressure.</li> <li>Weak producer/farmer organization.</li> <li>Lack of technologies adjusted to the production systems, specific of agro-ecological areas.</li> <li>Insufficient improved breed animals and predominance of traditional technology in this subsector.</li> <li>Weak appreciation of products, inadequate and difficult access to rural credit, lack of income and activity diversification.</li> <li>Weak research services in agriculture and rural extension - absence of technical assistance to farmers.</li> <li>Low farmer education and literacy levels.</li> <li>Irregular sea transport connections.</li> <li>Absent cold chain.</li> <li>Deficient forest area maintenance, management and exploration.</li> <li>Weak inter and intra-institutional ties.</li> <li>Absent research and development</li> <li>Lack of efficient land policy.</li> <li>Absent credit policy for financing profitable farming activities and difficult access to financial capital by stakeholders in the agricultural industry.</li> <li>Lack of market monitoring and research.</li> </ul> |
| Opportunities   | Threats  |
| <ul style="list-style-type: none"> <li>Tourism market expanding strongly.</li> <li>Existing market of the Diaspora offering great business opportunities, as “di terra” / “niche” products are much appreciated.</li> <li>Cape Verde as a member of the WTO.</li> <li>Cape Verde's geostrategic position.</li> </ul>  | <ul style="list-style-type: none"> <li>Climate change; draught/flooding.</li> <li>New pests and diseases.</li> <li>International economic framework.</li> <li>Difficulties in raising funds needed.</li> </ul>   |

### Vision for the agribusiness cluster

Agriculture is a means of subsistence for many people living in rural areas. This is a key sector for achieving the national vision of building an “inclusive, fair and prosperous country for all”. Without a strong and modern agricultural sector, a high proportion of the population living in rural areas will be left out of the economy, poverty will rise, the inequality gap will widen and Cape Verde will not fulfill its vision.

The agribusiness cluster is, therefore, paramount for achieving the vision of long-term development, and considering this Cape Verde intends to build a modern and strong agricultural sector which may increase productivity and compete in the domestic and global markets, while focusing exports on some exclusive products. The vision for the sector is to modernize farming for guaranteeing food sustainability and safety, as well as the empowerment of producers. This includes building a cluster that is increasingly capable of responding to and fostering economic growth.

### The Strategic Agenda for Agribusiness

Incisive actions geared towards the development of value chains of some products and for providing a holistic and integrated support structure are needed. Applied research and rural extension services, the development of market transaction systems and support to the development of the post-harvest stage will become key intervention areas, in parallel with actions for exploring the potential of tourism in rural areas. During the implementation period of the GPRSP III there will be an effort to strengthen the current programs and to implement new market-oriented actions in view of tackling the weaknesses identified.

The strategy must include: (i) policy and institutional reforms; (ii) accelerating the National Agriculture Investment Program (PNIA); and (iii) actions for promoting competitiveness and the development of a new class of entrepreneurs in the sector.

Cape Verde has invested strongly in farming infrastructures over the past ten years. Currently, the priority is to find out how to start reaping the return on the existing investment – which is essential for fostering the speedy development of the farming sector. The policy and institutional reforms will include:

- Enhancement of farmer organizations and promotion of cooperatives;
- Development of financial services adjusted to investment in agriculture;
- Refurbishment of the structures and better market organization;
- Restructuring and reinforcement of applied research and specialization of rural extension services;
- Reinforcement of the production, analysis and dissemination of sector statistics.

Another key element of the strategic agenda is the development of the agricultural sector through the implementation and rapid operation of the national agricultural investment program (PNIA). Some key elements which may be accelerated during the period 2012-2016 include: fostering water supply and irrigation systems; development of the agricultural sectors; management of other natural resources (cattle breeding, forestry and fisheries); research, development and dissemination of new production technologies; management of food crises and other natural disasters; and institutional strengthening.

These actions may not be implemented without the support of programs focusing on the building of the agribusiness cluster. The challenge emerging now is how to address the variability of production of some farmers, since logistics (cold storage, processing and transport) is inadequate. In the summer of 2012 crops were again abundant (onions and bananas) and large amounts were left to rot due to market saturation on the island where these crops were grown. To solve all of these issues in parallel with growing productivity, there must be a strategic market access program in place, which

includes the development and implementation of the measures to address the issue of post-harvest storage, quality control and logistics. The program must also help farmers conduct market research to find out which products the market needs in a specific moment.

Farmers cannot be left without support to tackle market fluctuations. There is the need for support activities which help identify the products that must be produced to address the issues of logistics and value chains, as well as the challenges of quality control and certification, processing, marketing and sales. To only provide access to more water and inputs for increasing productivity is not enough. There must be an integrated initiative of agribusiness market competitiveness, involving the sector's institutions (MDR, ADEI, Municipalities, etc.) and focusing farmers' attention on increasing productivity, promoting a broader productive base and safeguarding market access.

An integrated approach to competitiveness will require institutional collaboration and coordination focusing on market-oriented activities and facilitating cluster organization, as a competitiveness-fostering approach, thus enabling the dissemination/adoption of innovation, scale gains (cooperatives, producer associations) and the development of connected distribution, transport and trade firms. Market segments and products which may benefit from the agglomeration process should be analyzed. The sectors identified should - to that effect - be assessed in order to identify the segments where the competitive advantages would justify the development of a cluster. The purpose is to select several products and to work with farmers in the pre-production, production/post-harvest, processing/trade, and end market stages (Figure 4.3).



Figure 4.3 – Agribusiness value chain

#### 4.2.2.2 Tourism

##### Analysis of the Current Status

Tourism is the driver of economic growth in Cape Verde. In the last decade, as highlighted in previous sections, it became the most important sector of the economy, accounting for approximately 60% of total exports, 20% of GDP and about 90% of FDI in 2011. It is also one of the main drivers of employment, as are the related construction and real estate industries. The current goal is to maintain growth, diversify tourist supply and origin, enhance the local benefits of the supply chain and gradually promote tourism with high added value. The sector has had a great impact on growth and correlated technical training may generate more job opportunities at all levels.

According to INE figures for 2011, there are 195 hotel facilities, 7901 bedrooms and 14076 beds. In the same year, about 475 thousand tourists visited Cape Verde: Boa Vista Island hosted 39%, Sal Island around 35% and Santiago Island approx. 13%. As for the tourism spending structure, approximately 57% are incurred in Cape Verde and the rest in the country of origin. According to the 2011 Tourist Spending and Satisfaction Survey (INE), tourists' general assessment of Cape Verde was positive: around 34.1% rated their stay as very good, 48.9% found it good, 15.5% said it was reasonable, while it was poor and very poor for 1.3% and 0.2%, respectively.

Cape Verde is one of the tourism markets worldwide which grew the most. The economic benefits and impacts were significant. There is, however, room for improvement. Growth has taken place in spite of the challenges faced, e.g. sector management and planning. Sectoral strategy planning and implementation are so dispersed among several stakeholders - *CVInvestimentos*, Chambers of Commerce, Directorate-General for Tourism, *Sociedade de Desenvolvimento Turístico da Boa Vista e do Maio* (SDTIBM). The link between public and private sectors is rather weak and the role of local power in the sector is unclear. This reality has caused fragmentation and has not fostered integrated management, from which a lot of inefficiency has emerged.

Weak management of the sector is one such inefficiency, since the capacity to design and implement a strategy is weaker than necessary in this development stage. Inadequate capacity is mirrored in promotion and marketing, data processing and analyses which support decision-making, weak regulatory capacity and lack of product diversity and supply. The issue of diversification is afflicting at several levels: (i) supply seems too focused on the products sun and beach in Sal and Boa Vista islands, in spite of other potential alternatives; (ii) small participation of small local operators in the sector; (iii) sector excessively concentrated as over 70% of tourist arrivals are the responsibility of only two operators with strong vertical integration; (iv) concentration is also found in relation to the countries of origin of inbound tourists.

On the other hand, the management of the foreign investment cycle and the associated formalities are hindered by red tape, low efficiency and lengthy procedures. The cost of key services like water and power supply and transport is still very high, with low quality compared to competitor countries. The transport system illustrates this reality, since inter-island air transport is costly and sea transport connections still require a lot of improvement, which constrains tourist movement between islands and the transport of goods in the domestic market, which comes at a high price.

Other components of doing-business with a significant impact on the tourism sector include the registration procedures which are lengthy, access to credit made difficult, particularly for national operators, and a rigid labor market with direct effects on costs and productivity. The challenges extend to low qualified human resources and an education/training system which is not optimized for introducing the skills required by a services providing industry like tourism. Likewise, unsuitable social services are a serious problem in the main touristic islands. Poor health care and lack of decent housing are manifest in Sal and Boa Vista, considering the migrant inflows from other islands and emigrants who come from the West coast of Africa to work in this industry.

#### *Vision for the Tourism Cluster*

Tourism will continue to be the main engine of growth; wherefore the agenda for change and the Government's program for the 8th legislature are geared towards promoting tourism with high added value. The goal is to introduce quick change in the sector so that it may integrate into the local context and transfer the benefits to the economy and the population.

The medium and long-term vision is to build “Competitive and sustainable tourism with high added value, focusing on the medium/high end of the market, and anchored in locally produced industries and services”. The vision is translated into specific goals for the planning horizon of the GPRSP III (2012-2016).

#### *Strategic Agenda for Tourism*

The tourism sector is expected to continue to grow, in spite of the challenges of global economic slowdown and the financial crisis in the Euro Zone. The political goals for the planning period (2012-2016) are to boost the growth rate and improve the quality and resilience of the tourism sector. This encompasses fostering diversification, leveraging the benefits for the economy and the population, expanding ties with other sectors, and mitigating and minimizing social and environmental impacts. To implement these political objectives, there must be a sound strategic agenda in place.

The GPRSP III proposes to implement a strategic eight-point agenda for transforming the tourism sector:

- Sector management and governance;
- Market and product diversification;
- Marketing and promotion;
- Infrastructure service improvement;
- Education: awareness raising and focus on skills;
- Entry visas and sector financing;
- Access to credit;
- Social and environmental protection.

#### *Sector Management and Governance*

The management and governance of tourism are faced with all kinds of challenges. There is not a single leader among all of the sectors' stakeholders. A reform agenda for streamlining and reorganizing the institutional framework is essential to fulfill this vision and achieve the goals

devised for the sector. The reform agenda must facilitate better management of the sector, including the design and implementation of policies and must also improve efficient management and governance, on a par with the reform and improvement of the regulatory environment.

With a view to this reorganization, which will also mobilize the private sector, the restructuring must be preceded by expert analysis for diagnosing the weaknesses of the current system and submit a sound reform proposal which shall include an implementation plan. A logic of “business manager”, which eliminates fragmentation and combines the largest number of skills under a single agency and authority with a wide a range of duties should be fostered. The model is similar to tourism organization in other countries, where there is a tourism development agency in charge of developing and managing the activity in an integrated manner.

It is however believed that the tourism policy management should remain in the hands of the line Ministry and must be based on the ongoing coordination with other relevant levels of governance of this activity, namely Municipalities and the private sector. There is the need to solve the ambiguity between technical regulation and monitoring (of the relevant stakeholders), namely *ex post* management of the alignment between investments and the project submitted and approved. A code of conduct and the need to enhance supervision are among some of the associated measures.

Such integrated management and governance of the sector may facilitate the effective enforcement of regulations in the tourism activity, the construction of a bridge with the private sector and enhanced collaboration and coordination with all stakeholders, including Municipalities.

Additionally, the tourism sector governance and management reform should promote:

- The creation of an Investments One-stop-shop for potential investors, with guaranteed support from the inception and during the investment management;
- Substantial reduction of time and red tape for investors;
- Transparency in the investment/project approval process so that stakeholders may monitor processes from the beginning to the end in an interactive fashion with the support of information technology;
- Institutional capacity to design and implement sector policies, management and regulations, and for global promotion using innovative promotions and more cost effective tools;
- More resources through a dedicated revenue source for the sector's development.

Institutional reform should also include the streamlining of incentives and the development of a management mechanism, with clear rules regarding investors' rights and responsibilities. Reforms should also promote quick and uniform response at national and local level - the Investments One-stop-shop and the right focus on information and communication technologies may be a steady step in that direction. ICT actually provided the opportunity for implementing a system that promotes integration, transparency and speed.

### *Product Diversification*

Cape Verde is becoming by definition a "sun and beach" holiday destination with the "all-inclusive" model in the forefront. This market has to be consolidated and explored, but different products and niches must be developed for diversifying the tourism product in the country through an assertive strategy of consolidation and diversification, based on pragmatic assumptions which trigger Cape Verde's comparative and competitive edge and take into account the segmentation of

tourism demand in Cape Verde. New market segments may include (i) youth (accompanying families, offer excellent prospects of returning to the country in the future); (ii) families (typical sun and beach customers in resorts); (iii) senior (demand for alternative products and with strong requirements in terms of health care services and access); and (iv) thematic tourists (cultural, natural, sports and rural tourism).

The strategy for expanding the market and diversifying the products will focus on three key elements. The first is the consolidation of the current tourism products, sun and beach. The approach will be to enhance the added value of the current services by promoting complementary activities (e.g. water, sport, etc.). The second will focus on enhancing the cultural component of Cape Verde in the tourism product. The actions are very much in line with initiatives proposed under the creative economy cluster and may include measures, like clearly defining the current and potential product. It is also necessary to bet on tourism product quality and regularity, as well as quality control, and on the qualification of the agents of the tourism supply. An agenda for the “corporatization” of culture and a new framework for a patronage law are paramount. The third element is diversifying for new niches through a proactive approach to the mobilization of partnerships and investments in areas which offer a large potential, according to the profile of the segments of demand. Such areas may include nature, cultural, cruise, and health tourism (e.g. thalassotherapy for high-performance athletes, senior tourism).

As part of the diversification strategy, the African continent and other markets must be explored in view of the great potential now arising from the emerging continent. Cape Verde may address this potential through the development of specific marketing strategies in African countries with a growing middle class population. The ECOWAS and the Portuguese-African markets may be a good move. Asia (due to its large population and global economic weight) and South America (for proximity reasons and the historic ties) may be interesting destinations for marketing campaigns.

### *Promotion and Marketing*

Successful market diversification requires extensive marketing and promotion. Cape Verde will have to implement a new strategy for promoting and marketing tourism products. The national brand which was developed in recent years is not enough; a more inclusive and comprehensive approach is required, with the relevant impact assessment.

Current marketing and promotion efforts must be improved and may benefit from additional resources and intensive deployment of new means, including social networks. Such strategy and approach may benefit from a logic built on an IT-backed, low-cost and high-impact strategy. One idea would be to have a virtual showroom of Cape Verde promoting the tourism product in an integrated fashion, without distinguishing between domestic and external markets and different bodies, with an online hyperlink to other information on Cape Verde.

To ensure the success of the marketing and promotion strategy, the excessive concentration of market control in a few operators will also need to be diversified and diluted. This may be achieved, for example, by promoting a reputed national tour operator functioning as a public-private partnership. Such operator could help enhance the value chain of the national supply of tourism, by providing space for the national tour operators to advertise and manage bookings. The operator

could also invest strongly in information technologies (e.g. virtual view of the rooms and facilities) and in creating links to other national clusters (e.g. transport, culture, agriculture, fisheries, sports, handicraft and entertainment).

Marketing and promoting the country as a tourist destination should engage and involve the country's diplomacy. The fact is that Cape Verde should not continue to conduct traditional diplomacy, rather using diplomatic instances to support marketing and promote the country as a tourist destination or for investments. Economic diplomacy should become the core priority of Cape Verde's diplomats, wherefore the economic and trade attachés should be appointed to some of the key markets. Embassies which incorporate these duties should work closely with the body in charge of managing the tourism business, anchored in an integrated approach.

Last, the supply of a quality product must be ensured to reinforce the brand. Therefore, there is the need to develop and implement certification supporting programs of Cape Verdean companies and products. These programs could be implemented by the prospective Quality Management Institute, with a strong participation of other stakeholders like ADEL. The EU Special Partnership, specifically the chapter on technical and regulatory convergence, will provide a fundamental input for the diagnosis and implementation of the following steps.

#### *Cost and Quality of Inputs*

A crucial competitiveness factor of the sector is the cost of inputs. The Government has invested heavily in the past decade in expanding the coverage of infrastructure and improving its reliability. There is however a gap in management, cost and quality. Utilities and sewage collection, as well transport services are still inadequate and costly, and reduce the country's competitive edge.

One of the biggest challenges is transport, which impacts economic activity in Cape Verde negatively and is a constraint on the development of an integrated national market. It is necessary to increase the efficiency of ports and promote reliable inter-island sea transport, complementary to air connections. It is also important to improve international access to Cape Verde and implement free competition-fostering conditions in the air transport market, especially for certain routes which are currently functioning in a duopolistic market. One of the crucial goals will be to bring new air operators to Cape Verde, which may draw international traffic to the country's international airports. It is therefore important to support the national airline and to connect the relevant business plan with the priorities of the tourism development plan.

Logistics is one of the most important challenges, with an impact on the ties between tourism and other sectors of the economy. There are no reference logistics companies in Cape Verde which may facilitate and establish ties between producers and consumers. Therefore, the incorporation of a logistics and distribution company should be fostered, facilitating large-scale storage and distribution of production in sectors like agriculture, fishing and cattle herding. In other words, a logistics and distribution company, in which the State will hold an initial and actual stake, hereby providing a solution for the lack of scale and the high cost of logistics in Cape Verde.

### *Education: Skills and Awareness Raising*

In spite of the investments and reforms, there is the need to enhance the quality and diversity of the educational supply in an integrated manner, beginning at primary school. Formal and vocational education should focus on capacity building, including foreign languages, ICT, and history. The enhancement of English and French language teaching in the school program is paramount, as is the reinforcement of information technology skills for the development of a competitive and versatile workforce. The teaching of History plays a leading role in improving the country's cultural supply. Vocational education should be a clear option for students, while teacher awareness about the economic reality of the relevant island must be raised so as to ensure a better alignment of education with demand and existing economic opportunities.

Besides capacity-building, there is also the need to raise the general population's awareness about the importance of tourism in the economy, and civic awareness of best practices in the relevant services and their customer assistance should also be developed.

### *Access to Credit*

Access to credit is clearly a constraint in Cape Verde and affects all sectors. Considering the importance of tourism in Cape Verde, a new funding strategy must be implemented. The State has a decisive and aggressive role to play in facilitating and reducing the cost of access to funding for small events linked to the tourism sector. Such approach should include:

- The provision of financing vehicles, a Fund in particular, seeking to create a critical mass of all possible sources of financing for tourism projects by national SMEs – banks, funds, financial institutions and foundations, sovereign funds;
- The provision of institutional capacity which may link large international institutional financial “pools” for the private sector with national tourist projects;
- The provision of investment guarantee schemes (e.g. by creating a prospective private investment guarantee fund);
- Accommodating contingency mechanisms, granting SMEs in the sector access to emergency mechanisms, as credit lines and/or guarantees to cope with any possible (domestic and external) crises.

### *Visas and Sector Financing*

Visa application and issuance procedures must be streamlined. Currently, the fees charged for a visa at a diplomatic mission of Cape Verde and at the airports and entry points are not the same. The process is not agile for many nationalities, since in many countries there is no diplomatic representation. Which creates an additional cost for the individual who must apply by post; and at airports the main issue is that this service is too slow. In some cases, it takes hours, especially if there are too many people arriving on the same flight without an entry visa.

Visa application procedures should be reviewed, especially for tourists. Requirements may be changed and the process can be simplified and dematerialized. Tourists may be authorized to enter the country without a visa e then asked to pay the relevant tax at the hotel or even by an electronic means, providing the digital certificate as proof of payment.

This system could help reduce the cost of issuing a visa. The receipts from the issuance of visas less the collection costs may be assigned to the sector's development and paid to a leading institution in charge of developing tourism. A significant proportion of this amount could be allocated to promotion.

#### *Social and Environmental Protection*

Tourism bears an important social and environmental impact, which is why it is important to bet on programs which are geared towards the mitigation of the negative social phenomena caused by the industry. The problem must be suitably addressed by the tourism industry's strategy and receive the inputs and support from different sectorial programs (e.g. *Programa Turismo Seguro*; *Programa Casa para Todos*; promotion of social accountability strategies from large tour operators). Another key area is environmental sustainability. The Government should continue to implement a cross-cutting environmental governance program for managing environmental balances and biodiversity, in turn promoting nature conservation and good management of natural resources. It is also necessary to ensure the provision of social and support services by promoting social housing projects on the islands where the supply of housing for new workers entering the industry is insufficient. It is therefore important to involve private operators so that they may trigger and implement social accountability strategies for active intervention in the community in collaboration with the Municipalities. Another example is the provision of health services. Primary health care should be improved on the islands with significant critical mass in tourism - particularly Sal and Boa Vista.

#### **4.2.2.3**     *Maritime Economy*

##### *Analysis of the Current Status*

The maritime cluster is often also called the hyper cluster, since it incorporates several activities. This cluster includes: (i) ship registry and clearance; (ii) container transshipment; (iii) fishery transshipment; (iv) fisheries; and (v) bunkering. The agenda of Cape Verde for developing sea activities is based on the assumption that the ocean is the only resource that the country owns in abundance, and considering its strategic location the goal is to transform the ocean into a competitive advantage and to use it for conducting all sorts of economic activities.

The cluster has grown in importance in the economic fabric, as currently fisheries is the country's most relevant base of tradable goods for export. Bunkering has been growing continuously for the past ten years, although the cost of fuel products in Cape Verde is higher compared to its closest competitors (e.g. Las Palmas). Cape Verde's ports have also grown substantially traffic wise. From 1998 to 2011, annual growth rate was 17% for container movement and 9% in terms of processed volumes. Passenger movement from 1998 to 2011 grew on average approximately 7% a year.

International container traffic grew from 27% in 1998 to 40% in 2011. In total percentage terms, container traffic grew from 16% to 24% in the same period. The switch to “containerization” happened especially in 2003. The two main ports (Praia and Mindelo) received about 75% of all traffic and Cape Verde also began to play a part - albeit very discrete one - in the transshipment of goods.

In productivity terms, the ports of Cape Verde are at a disadvantage compared to their direct competitors and to many other ports in Sub-Saharan Africa. For example, container retention time in Cape Verde is 15 days, against 7 days in Dakar. Retention rate in Cape Verde is one of the highest compared to the main ports in Sub-Saharan Africa. Average productivity is 6 tons per hour, which is about 60% below the average of the region's largest ports. Low productivity affects all subsectors of the maritime economy cluster.

Another common challenge that several subclusters of the maritime economy face is the poor institutional environment which, policies and regulatory capacity considered, is fragmented and weak. There are too many players with not so clear roles, which consequently overlap, and red tape is excessive in institutions that are not ready to coordinate and articulate a vision, to devise a sound strategy and to draw an action plan for developing the cluster. The following are other institutional challenges which the maritime economy cluster faces:

- Lack of permanent coordination/ articulation between public policies and the cluster;
- Insufficient dynamic productivity-driving procedures (communication, organizational culture, business management, performance assessment);
- Inadequate funding mechanism of public institution;
- Excess centralization/concentration of administrative duties/powers in the central administration;
- Dim focus of public administration on the business perspective (and too much focus on fixed procedures);
- Weak links between public administration/clients/business owners;
- Insufficient training, regulation and inspection of the diving activity in the country.

There are also substantial weaknesses regarding the crew, fleet, ship repair and building, and goods. As for ship registration and clearance, there are also some constraints, including:

- Deficient standard ship register;
- Large number of authority representatives on arrival;
- Lack of clear rules when applying policing fees;
- All ships are subject to inspection by police authorities;
- Poor procedures regarding docking priorities and breach of applicable legislation;
- Absence of *Duty Free/Refund*;
- Poor compliance with applicable legislation on docking and mooring due to the port authority's lack of human and technical means.

The sub-clusters (fisheries, bunkering, seafood and container transshipment) also face specific challenges, as described in Table 4.4.

**Table 4.4 – Challenges of the Maritime Economy sub-cluster**

|   |  |
|---|--|
| <p style="text-align: center;"><b><u>Fisheries</u></b></p> <ul style="list-style-type: none"> <li>• Absence of a Strategic Development Plan;</li> <li>• High fuel costs for fishing;</li> <li>• Inadequate industrial and traditional fleet;</li> <li>• Deficient cold-storage capacity;</li> <li>• Difficulties in the distribution of fish products;</li> <li>• Incomplete legislative package;</li> <li>• Need to modernize the fisheries support infrastructures;</li> <li>• Fishing pier nonexistent on most islands;</li> <li>• Nonexistence of cold storage depot (traditional and industrial fishing);</li> <li>• Inadequately qualified fisheries operators;</li> <li>• Public service structure does not meet sector's current needs and demands;</li> <li>• INDP and DGP without representation on some of the islands;</li> <li>• Poor monitoring of fisheries sector;</li> <li>• Lack of implementation of Marine Protected Areas;</li> <li>• Need to update the Research Strategy;</li> <li>• Nonexistence of fishing quotas for some species.</li> </ul> | <p style="text-align: center;"><b><u>Bunkering</u></b></p> <ul style="list-style-type: none"> <li>• Fuel prices;</li> <li>• Excessive bureaucracy;</li> <li>• Insufficient knowledge of the business;</li> <li>• Poor articulation of business stakeholders;</li> <li>• Poor port services (Poor supply/ Diversity);</li> <li>• Lack of business regulation;</li> <li>• Lack of a national contingency plan for pollution;</li> <li>• Poor capacity to collect polluting waste;</li> <li>• Inadequate charging of bunkering services (Maritime and Port Services);</li> <li>• Unfavorable business environment.</li> </ul> |
|   | <p style="text-align: center;"><b><u>Transshipment of Seafood</u></b></p> <ul style="list-style-type: none"> <li>• Weak cold storage capacity;</li> <li>• Insufficient/Inadequate port equipment;</li> <li>• Insufficient power supply;</li> <li>• Low labor productivity;</li> <li>• High electricity costs.</li> </ul>   |
|   | <p style="text-align: center;"><b><u>Transshipment of Containers</u></b></p> <ul style="list-style-type: none"> <li>• High tariffs per TEU;</li> <li>• Shallow water ports;</li> <li>• Insufficient/Inadequate port equipment;</li> <li>• Weak articulation between sea and land cycles;</li> <li>• Nonexistence of container repair and maintenance services.</li> </ul>  |

#### Vision for the Maritime Economy Cluster

Cape Verde's long-term objective is to function as a trade warehouse on the Atlantic Ocean and to use the sea as a base for growth and poverty reduction. The cluster is endogenous since the sea is the only primary resource that Cape Verde possesses in abundance and which represents most of its territory.

Maritime economy is essential for transforming Cape Verde into a service supplier to the whole World and has a direct impact on the agenda for change. The medium and long-term vision is to develop a cluster that may lay the grounds for the Country's economic transformation, a maritime cluster that may sustain the development of a new diversified, highly productive and globally competitive economy. The specific goals are to facilitate the continuous growth of fisheries, bunkering and transshipment, while preparing for the development of other sub-clusters.

#### Strategic Agenda for the Maritime Economy Cluster

The development of a globally competitive maritime economy cluster, which provides a significant input for the creation of national wealth will require some time considering the skills and resources needed. There is also the need for a capable private sector and substantial investment in infrastructure at an unprecedented level in Cape Verde.

The strategic agenda for the sector thus includes three areas:

- Reforms for institutional capacity-building;
- Investment in infrastructure and equipment development;
- Human resource development.

Cape Verde clearly still does not have the institutional capacity to build a competitive maritime cluster. Several issues at different levels remain to be solved; the legal environment is inadequate and in some cases the right institutions do not exist or when they do exist they often lack capacity. In other circumstances, however, there are too many stakeholders and each one has individual bureaucratic needs with clear overlapping and duplication of responsibilities. One of the symptomatic examples is the fact that seven different entities are needed to inspect a vessel that docks in Cape Verde to refuel. There is also the case of the vessel register, where the sector's legal framework has loopholes and the regulatory environment is unclear.

During the implementation period of the GPRSP III policies and strategies for the cluster and the sub-clusters must be set up in order to guide development efforts. It is also important to undertake extensive auditing, including of the legal and organizational environment. This may facilitate an institutional restructuring and updating of a reform program which may facilitate effective and efficient governance of the maritime economy. The goal is to safeguard a legal and regulatory framework and supervision with sound coordination mechanisms for planning and management.

The development of a maritime economy in Cape Verde must begin with the refurbishment of infrastructure and the purchase of equipment. There is currently the need to improve ports, invest in more equipment, improve ship repair and ship services centers, and build facilities.

The institutional reforms and the development of infrastructures will only generate results if human capacity is enhanced. Skills should be assessed; a strategy and a schedule for the enhancement of these skills in the sector, as well as the relevant implementation plan should be developed. The skills gap is quite wide, wherefore a clear and sound strategy should be adopted on the basis of the vision for the sector, the size of the skills gap and key constraints such as financial resources and institutional weaknesses of education and training in Cape Verde. Some specific actions for each of the sub-clusters are presented in Table 4.4:

Table 4.4 – Challenges of the Maritime Economy cluster

|   |  |
|---|--|
| <p><b><u>Fisheries</u></b></p> <ul style="list-style-type: none"> <li>• Promoting the competitiveness of enterprises;</li> <li>• Promoting the modernization of vessels and adjustment to fleet capacity;</li> <li>• Promoting funding for the modernization of fishing vessels;</li> <li>• Experimenting with indigenous species and new productive techniques;</li> <li>• Creating an encouraging framework for product and production certification;</li> <li>• Focusing on specie diversification, the supply of new products and prospecting of new resources;</li> <li>• Promoting vocational training geared towards the sector's specific needs;</li> <li>• Fostering a favorable investment environment for new units and retrofitting or extension of existing ones.</li> <li>• Encouraging the use of brands or quality labels.</li> </ul> | <p><b><u>Ship Repair and Ship Building</u></b></p> <ul style="list-style-type: none"> <li>• Providing the conditions conducive to the establishment of fishing vessel owners and others in São Vicente;</li> <li>• Promoting a climate conducive to the establishment of cold storage and fish processing industries and the transshipment of goods;</li> <li>• Developing partnerships to help better seize the opportunities in the ship building sub-sector;</li> <li>• Creating/Developing a free zone to meet the needs of both fleets and crews;</li> <li>• Privatization;</li> <li>• Recovery/Expansion investments;</li> <li>• Enhancing training and adjusting current HR to new challenges;</li> <li>• Facilitating the "spin off" of some activities;</li> <li>• Encouraging the inception of small service-providing companies.</li> </ul> |
| <p><b><u>Ship Register</u></b></p> <ul style="list-style-type: none"> <li>• Resuming the institutional process of ship register;</li> <li>• Creating agencies specialized in the management of seafaring personnel working for international companies.</li> </ul>  | <p><b><u>Fleet</u></b></p> <ul style="list-style-type: none"> <li>• Making financial products more attractive;</li> <li>• Offering qualified training;</li> <li>• Creating a Venture Fund;</li> <li>• Encouraging underwater ship repair.</li> </ul>   |
| <p><b><u>Institutional Reform</u></b></p> <ul style="list-style-type: none"> <li>• Reviewing, simplifying and computerizing procedures;</li> <li>• Institutionalization of piloting services;</li> <li>• Creating higher education studies in maritime affairs and business;</li> <li>• Triggering the creation of an International Oceanographical Research and Development Centre;</li> <li>• Need to create agencies specialized in the management of seafaring personnel working for international companies;</li> <li>• Reinforcing the institutional capacity of the I.M.P.;</li> <li>• Need to create an Operational Centre of the Sea Cluster.</li> </ul>   | <p><b><u>Goods</u></b></p> <ul style="list-style-type: none"> <li>• Revamping port facilities;</li> <li>• Promoting a logistics culture;</li> <li>• Providing logistics facilities;</li> <li>• Promoting value-added services for goods (labeling, packaging, weighing, deconsolidation, consolidation, distribution, etc.);</li> <li>• Resetting and enforcing work procedures for cargo owner, vessel, shipping agent and port.</li> </ul>   |

| <u>Crew</u>  | <u>Passengers / Crew</u>  |
|--|---|
| <ul style="list-style-type: none"> <li>• Investing in Training Centers for seafaring personnel;</li> <li>• Forging national and international partnerships;</li> <li>• Internship grants;</li> <li>• Providing the center with the necessary means to respond to international requirements;</li> <li>• Institutionalizing maritime labor supply.</li> </ul> | <ul style="list-style-type: none"> <li>• Improving port facilities for Ro-Ro vessels;</li> <li>• Construction of specific terminals for cruise ships;</li> <li>• Installing floating pontoons for boarding and landing passengers;</li> <li>• Developing urban port areas and improving port/city interaction (bars, restaurants, discos, leisure, communication, etc.);</li> <li>• Involving the Port Community and Cruise Community of Cape Verde in matters of strategy, means, programs and projects which improve the tourist destination;</li> <li>• Creating a more attractive urban environment for passengers;</li> <li>• Creating a more attractive night-time environment for crew members;</li> <li>• Establishing duty-free shops and free areas.</li> </ul> |

#### 4.2.2.4 ICT Cluster

##### Analysis of the Current Status

Information and communication technologies (ICT) have played an important part in Cape Verde's agenda for change, insofar as the country points to a model where ICT support the necessary reforms for fostering the implementation of clusters, and in this framework it is a cluster in its own right. The country has endeavored great effort to develop ICT, and the results hereof are internationally acknowledged. The sector was regarded as one of the pillars of good governance, while driving entrepreneurship and entrepreneurial development. To move ahead with the agenda, a national plan - the Strategic Plan for Information Society (*Plano Estratégico para a Sociedade de Informação* - PESI) - was published in 2005. The strategic plan foresees the development of information society in Cape Verde and provides a strategic agenda supported by nine pillars:

- Accessibility for all;
- Government closer to citizens;
- New economic opportunities;
- Improved quality of life;
- Capacity building for innovation;
- Stimulating environment;
- Leadership in action;
- Investing for growth;
- Measuring for developing.

The Government has invested significantly in developing the information society and in the growth of the ICT sector. PESI was divided into initiatives and action plans, including: PAGE – *Plano de Acção para a Governação Electrónica* (e-governance action plan); “KONEKTA” – *plano de acesso à Internet e ao conhecimento* (internet and knowledge access plan); and “Mundu Novu” education plan. The outcomes of the governance program have been impressive; e-governance tools have been developed in house, the integrated government budgetary and financial management system (SIGOF) and the local government management system (SIM) in particular.

The use of ICT in Cape Verde as a tool that facilitates the implementation of the reform agenda has played a fundamental part in improving the business environment. The One-stop-shop (*Casa do Cidadão*), providing several services such as the incorporation of a business in one day, mobile government for the provision of services in rural areas, and access to civic information, has helped improve the quality of public services provided to citizens and companies, consequently drawing the State closer to the population.

Cape Verde has earned worldwide acknowledgement of its ICTs, following the successful implementation of e-governance, which has improved continuously since the start of the PESI. Besides the achievements in e-governance, ICTs are now well integrated in schools and in the educational system, as a result of the Mundu Novu program. The following were the program's outcomes:

- 18 Schools and training centers with full Internet access;
- 11 Schools linked to the State's network;
- Wimax antenna network installed all over the country;
- Classroom Kits in 433 classrooms of 29 pilot schools, accounting for 94% of all classrooms;
- ICT studies included in the school curricula;
- Universities of Cape Verde offering new Information Technology studies;
- Students of the universities of Cape Verde with access to digital libraries;
- SIGE developed, but implemented only in two pilot schools;
- SIGAE implemented.

The development of the ICT cluster depends, however, on the solutions devised and developed by the companies, which may be used locally and/or exported. There are currently more companies operating in the field - compared to 2005, the number of companies doubled. Some began developing applications for both the national market, and for exporting. Access to Internet has also grown exponentially, ADSL broadband and 3G wireless service has lead to a quick increase of Internet penetration in Cape Verde. From 2007 to 2011, Internet penetration grew from 8% to 30%<sup>39</sup>. The rapid growth in Internet penetration was sustained by the 35 digital public squares of the Konekta program. Growing competition in the telecommunications sector was also conducive to a drop in prices and increasing catchment.

But there are still some obstacles that must be overcome, including the high cost of telecommunications. A benchmark study conducted in 15 countries found that the weight of telecommunication prices in the average income of each Cape Verdean is 3 fold higher than the weight for the population of Seychelles, 8 fold higher than for Portuguese nationals and 18 times

---

<sup>39</sup> [www.itu.int](http://www.itu.int), 2011

higher than in the USA. These findings are even clearer when analyzed according to the sub-components of mobile phone, whose weight in the average income of Cape Verdeans is 16.6%, and of fixed broad band, with a weight of 12.6% in the monthly income *per capita*. There is also a shortage of skilled workers in the sector. Training quality could use some improvement and international certificates are not widespread. Most enterprises operating in the sector are small and have limited capacity. The sector is constrained by the restricted access to venture capital and the salary cost compared to potential competitors is quite high. The biggest challenge now is to know whether the private sector can build capacity to compete in a sustainable manner, since innovation in the sector has been driven by the government agency NOSI.

**Table 4.5 – SWOT analysis of the ICT cluster**

|  |  |
|--|--|
| <p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Good ICT progress;</li> <li>• Good telecommunication infrastructures;</li> <li>• Good level of political involvement in the ICT sector;</li> <li>• Good penetration rate of mobile phones.</li> </ul>  | <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• High telecommunication costs;</li> <li>• Small stakes of national companies in the ICT sector;</li> <li>• Small number of digital contents;</li> <li>• Lack of incentives for Research and Development;</li> <li>• Reduced investment in promoting technological entrepreneurship;</li> <li>• Insufficient investment in ICT and English and French language teaching;</li> <li>• Maintaining the monopoly of international Internet connections;</li> <li>• Absence of a national stimulus policy for the creation of IT businesses;</li> <li>• Shortage of internationally qualified professionals;</li> <li>• Small size firms.</li> </ul> |
| <p><b>Opportunities:</b></p> <ul style="list-style-type: none"> <li>• Consolidation and export of the e-governance sector;</li> <li>• Positioning Cape Verde as a Gateway to Africa in terms of ICT;</li> <li>• Potential for the development of digital contents for e-governance;</li> <li>• Strengthening the link between the ICT sector and education.</li> </ul> | <p><b>Threats:</b></p> <ul style="list-style-type: none"> <li>• Intense competition,</li> <li>• Dominant nature of large world players;</li> <li>• Rapidly changing market.</li> </ul>   |

Over the past decade, Cape Verde made great strides in e-governance under NOSI. The immediate opportunity is to understand how to turn new designs into a national product of e-governance (including the tools fostering citizen-Government interaction), which may be marketed in other countries. There is also the potential for developing digital contents for e-governance and e-

education with a view to fostering the development of a dynamic sector, which is capable of creating jobs.

#### Vision for the ICT cluster

The ICT cluster in Cape Verde is still at an early stage; NOSi-driven innovation has produced an impact and a triggering effect. However, there is clearly the need to build a strong private sector which may help design and develop innovative products for the Portuguese-speaking markets and other markets worldwide. Cape Verde should position itself as an international service providing center, hereby enhancing its geostrategic position, while tapping into its image of stability and credibility to project itself as a gateway/platform for launching businesses in Western Africa and the PALOP countries. The following functions of the ICT sector are envisaged, which are conducive to the advocated vision:

- Revenue-generating business, and all efforts should be geared towards fostering export capacity, as the national market is limited;
- A tool for other clusters geared towards the development of the country – particularly sea, aero-business, financial services and tourism – for promoting greater efficiency in the private and public sectors;
- Promoter of Foreign Direct Investment (FDI), attracting companies from developed markets which intend to set up in Africa and in a highly politically and socially stable country, with a Western culture;
- Laying the foundations of a strong partnership for the development of a knowledge-based economy and society, ensuring more access to information, sovereignty and technological safety, the participation of people in the development process, fostering entrepreneurship and meeting citizens' Fundamental Rights in view of achieving the Millennium Goals.

For the GPRSP III implementation period, the following are the objectives of the ICT cluster: to help Cape Verde become a recognized reference in some market niches, like e-governance and e-education and mobile telecommunication. The second objective is to have the ICT cluster help improve the productivity of other activity sectors, in particular for the development of other clusters.

#### Strategic Agenda for the ICT cluster

There are opportunities for Cape Verde in the global ICT market and the cluster, although in its embryonic stages in commercial terms, may over time play a key part in the economic transformation of Cape Verde. Progress, such as the one-stop-shop for several public services and the computerization of the election process, the results of which may be announced within approximately two hours after the voting procedure has ended, can become exportable goods. The private sector will play an important part, but will have to become stronger to have the support of services which may guarantee the capacity to compete in the global market.

In the long term, Cape Verde will have to:

- Foster ICT penetration in society, by encouraging the purchase of equipment and the subscription of Internet services;
- Reduce telecommunication costs, which hinder the development of quicker access and use of ICT by:

- procuring international data services from other providers;
- reviewing the current legal and regulatory frameworks, by imposing strict requirements which ensure the availability of wholesale prices conducive to a more competitive environment;
- Support the supply of ICT vocational courses and specific training programs, introducing ICT studies in all school levels and conducting professional certification exams (e.g. Microsoft). Such support can come in the shape of advertising public policies and education grants;
- Create the conditions for the development of a culture of innovation which will support businessmen in the designing and developing of ICT ideas and projects;
- Negotiate with large international companies in the sector their establishment in Cape Verde.

As for specific short and medium-term actions for facilitating the development of the ICT cluster, these are:

#### *Creating an ICT business management body*

The body may be a public-private partnership by nature, its main objective being the strengthening, promotion, organization and functioning of the national network and partnership system for the development of the cluster. The managing entity should also count on greater involvement of civil society, universities, private sector and greater dissemination of ICT, through access to information, education, professional and technological empowerment and private initiative.

#### *Building a technological centre*

The development of a technological center is currently in the pipeline. If its feasibility is proven, the center may become the driver of the development of an ecosystem of innovation and entrepreneurship, enhanced by international players, technology incubators, universities and certified education and research centers, among other stakeholders. The technological center may position Cape Verde as a country of innovation and a regional reference in knowledge economy, while fostering the development of technology-based companies.

#### *Conducting a legislative review of the areas related to the ICT sector*

The legislation applicable to ICT-related areas must be reviewed, to provide the favorable conditions for attracting multinational companies to Cape Verde and creating a healthy competitive environment conducive to the growth of the cluster. Furthermore, an efficient legal framework for the implementation of the information society should be developed, namely through legislation on policies concerning public access to information and on the protection and safety of personal data. Consequently, Cape Verde may safeguard the applicable data protection and intellectual property laws, providing an environment which is conducive to technological businesses. It is also expected to reinforce regulation, thus offering the opportunity to develop a competitive productive fabric and making communication prices more attractive for using information and communication technologies.

#### *Capacity-building for the sector*

To foster the growth of a technology-based cluster will be of little use if unaccompanied by capacity-building of the professionals who will develop it. So, due to the lack of properly qualified

human resources for conducting business in the sector, measures must be taken to reverse this situation. Such action may include: (i) supporting ICT education from early school years, fostering the willingness to use technological tools (extension of the Mundu Novu program); (ii) consolidating the supply of ICT studies at university level, and offering the number of vacancies required for the growth of the sector, and supplying technical and vocational training; (iii) reinforcing in the curricula the development of language skills (English and French), management and marketing skills; (iv) creating specialized training courses in leading edge technologies and in partnership with some international players, for ensuring the qualification of professionals.

#### *Developing suitable financial instruments for supporting investment*

The Government must ensure the development of financing mechanisms which foster investment and national entrepreneurship to avoid good opportunities which are not fully developed or may miss the *time to market*. Therefore, suitable financial instruments should be created, like investment funds which allow financial resources to be matched to good ideas, in many cases kick-starting and expanding projects. This could be backed by national or international financing bodies, bilateral partners of Cape Verde and the Diaspora, among other agents which could be interested in investing in the sector.

#### *Creating a national network of incubators*

Each incubator should provide good project follow-up conditions through mentoring services, support to business planning and current management, and expediting the placing of services on the market. At the same time, the potential of networking with members of the Diaspora who have ties with ICT companies, either as business consultants, entrepreneurs and/or as potential project funders, cannot be discarded.

### **4.2.2.5 Creative Economy**

#### *Analysis of the Current Status*

Cape Verde is famous worldwide for its music, although this is not the Country's only element of Creole culture. It was one of the first Creole cultures to develop worldwide and it emerged mostly from the interactions between African and European cultures. Poetry, dance, religious celebrations, art, drama and carnival are examples of the culture of Cape Verde, which are less well known than music. The country's cultural setting is vibrant, its people are highly creative, and many activities such as festivals and popular festivities of religious nature are held.

The challenge, however, is that cultural activity was not conducive to a large economic sector which contributes significantly to growth and poverty reduction in Cape Verde. In many other parts of the country culture became a crucial component of GDP, providing employment and a livelihood to millions. The economic impact of culture in Cape Verde, although it has not been measured with precision, is believed to be not meaningful. Even music, for which Cape Verde is best known, benefits specially other countries. Great musicians are managed abroad, where the country's cultural products are also produced and later reimported.

Creative economies encompass all sectors involving creativity (either artistic or intellectual), as well as products and services for fruition and broadcast. Besides the arts sectors (music, audiovisual, performing arts and visual arts), the following are also included: telecommunications and radio broadcasting, editing (books and press), handicraft and popular art, popular celebrations and pilgrimage, material and immaterial historical heritage (types of use and dissemination), leisure software, design, fashion, architecture, gastronomy and advertising. These sectors' impact on the national economy will only be felt if they are optimized within a cluster strategy, i.e. a system which places in a network or interconnects independently operating units. This optimizes the functions and the potential of individual units, instead of only exploiting them.

The development of a creative economy which can help enhance tourism and may contribute to the GDP involves a number of challenges. Namely:

- Inadequate inclusion of culture in economic, technological and social policies;
- Inadequate legislation and regulation;
- Weak institutional capacity to articulate, implement, monitor and assess policies, strategies, programs and projects;
- Weak funding capacity both in the public and private sectors;
- Cultural agents and creative workers too dependent on the Government;
- The sector of creative economies lacks organization;
- Absence of national professional associations in several cultural areas;
- Absence of a strong class of businessmen who may work as intermediaries, like managers, producers, technicians, agents or cultural managers;
- Seasonality in handicraft production and insufficient supply for the demand stemming from tourism;
- Shortage of training institutions, promotional, export and distribution entities;
- Shortage of technical capacity at the municipal and local level.

The sectors of creative economies area disconnected: music is not linked to cinema, fashion is not linked to handicraft, editing is not linked to book fairs, handicraft is not linked to tourism. There is also the overlapping of functions currently in the cluster's value chain between tourism, culture and the country's promotion. There is the overlapping of social intervention in neighborhoods and by Municipalities and the central administration as they set a development-oriented cultural policy.

#### Vision for the Cultural Economy Cluster

The GPRSP III will set the stage for the critical implementation in the future of a cultural industry capable of competing globally and providing significant input to growth and poverty reduction. The cultural sector may play an important part in supporting the tourism cluster. Progress towards high added value and a more diversified tourism market model, which is not too focused on mass tourism, will depend greatly on the capacity to gear the country's cultural products towards enriching tourism. The long-term vision is to build a globally competitive creative economy cluster, with a critical component of the national economy.

#### Strategic Agenda for the Creative Economy Cluster

For the development of the creative economy cluster a number of actions must be in place to sustain the sector's growth. Such strategic actions include:

- Regulating public administration activities in culture promotion;

- Introducing cultural events in public ceremonies;
- Regulating the economic activity of cultural agents;
- Capacity building of cultural agents in different areas for the incorporation of commercial undertakings and companies in the field of culture;
- Approving a legislative package for the cultural economy, which may also govern tax incentives and public-private partnerships;
- Certification of companies and entrepreneurs operating in the field of creative economies;
- Creating incentive programs for the corporatization of culture and the management of offsets;
- Promoting national and international business fairs;
- Linking culture and tourism through better coordination and institutional planning;
- Promoting tourist events linked with cultural activities and festivals;
- Fostering arts and handicraft;
- Supporting social media by setting quotas for local production;
- Fostering cultural exports through the internationalization of local festivals and fairs;
- Facilitating vocational and specialized training;
- Setting up a sound framework which ensures intellectual property rights.

There are projects that the Government will implement in the short and medium-term. The following are the target areas in which such projects will be implemented:

- Culture Bank;
- Creative Neighborhood and Culture Houses;
- RENDA (National handicraft distribution network);
- RNSALAS (National network of showrooms);
- MUSEUS (A museum in each municipality);
- *Export Bureau* (Exporting culture);
- *Nova Orgânica* (Institutional reform);
- Library and archive systems;
- National orchestra and ballet;
- National system of artistic education;
- Heritage classifications.

#### 4.2.2.6 *Financial cluster*

##### *Analysis of the Current Status*

The financial sector of Cape Verde is relatively small, compared to other emerging markets. The sector is, however, now developing and will play a crucial part in the agenda for change, especially in supporting the other sectors. The financial cluster may be developed simultaneously as a provider of services for export.

The reforms implemented in the last ten years lead to the liberalization of the financial market, including the development of offshore banks. Currently, the financial sector is relatively well regulated and the market environment is improving. Cape Verde has now five commercial banks, two insurance companies and a stock market. It also has a rather large number of offshore banks, a social security fund (INPS) and parabank institutions like the SISP and Promotora. The SISP

manages the ATM machines and provides payment solutions and Promotora is a venture capital firm.

The reforms conducted by the Government resulted in strong growth of the sector. The asset base is increasing. The asset/GDP ratio is high compared to other countries in the region. In spite of growing concerns regarding credit access, the fact is the surveys conducted by the World Bank suggest that the level of financial intermediation is relatively high and much better than in many of the region's countries. However, credit to SMEs is very limited in Cape Verde.<sup>40</sup> One of the correlated factors is that the banking industry is very concentrated and dominated by two banks – *Banco Comercial do Atlântico* and *Caixa Económica*. Management and leadership structure does not foster competition and the regulatory environment does not focus on competitiveness. A restrictive competitive environment has not fostered innovation in the financial markets of Cape Verde. Market leaders have no incentive to innovate and to discover creative ways of meeting customers' needs. The stock market on the other hand is relatively new and small and is still not an option for financing SMEs. There is on the other hand a shortage of venture capital and only one firm is operating in this segment. These realities suggest that there are key challenges which must be addressed to ensure that the financial sector may provide support to the other clusters and become a competitive cluster on its own (Table 4.5).

**Table 4.5 – SWOT analysis of the financial sector**

| <b><u>Strengths</u></b>  | <b><u>Weaknesses</u></b>   |
|--|--|
| <ul style="list-style-type: none"> <li>• Open culture</li> <li>• Political stability</li> <li>• Telecommunication network</li> <li>• International credibility of the financial system</li> <li>• Ease of creating financial businesses</li> <li>• Strong financial infra-structure</li> <li>• Banking level</li> <li>• Geostrategic position</li> </ul> | <ul style="list-style-type: none"> <li>• Backup services</li> <li>• Specialized services (legal - lengthy criminal proceedings – execution of bank guarantees; financial, business, etc.)</li> <li>• Guarantee systems</li> <li>• Weak know-how transfer</li> <li>• Cost factors (prohibitive telecommunication prices; electricity)</li> <li>• Size (Banks - limited own funds)</li> <li>• Narrow global vision of financial systems</li> <li>• Deficient/inadequate/insufficient Regulatory, supervision and stimulus issues</li> <li>• Financial marketing</li> <li>• Not very innovative market</li> <li>• Difficult access to public debt</li> <li>• Weak economic diplomacy Financial culture</li> <li>• Exposure to financial risk</li> </ul> |

<sup>40</sup> Ministry of Finance of Cape Verde (2010), *Constraints Analysis*.

|  | <ul style="list-style-type: none"> <li>• Country risk/provisions</li> <li>• Absence of global strategic vision of the sector's development</li> <li>• Lack of tax incentives for the general financial activity</li> </ul> |
|--|--|
| <b><u>Opportunities</u></b>  | <b><u>Threats</u></b>  |
| <ul style="list-style-type: none"> <li>• Internationalization (African coast)</li> <li>• Diversification of financial products (Funds)</li> <li>• Encouraging price-based competition, fostering increase in bank capacity</li> <li>• Innovating financial support services (<i>Backup</i>)</li> <li>• Education and training</li> <li>• Creating a sovereign debt market</li> <li>• Developing a microfinance market</li> <li>• Nonexistence of a financial cluster on the regional plane</li> <li>• Updating the legal framework of the financial sector; Adjusting to the sector's needs, e.g. leasing regulation</li> <li>• Development of the capital market</li> </ul> | <ul style="list-style-type: none"> <li>• Sense of insecurity</li> <li>• Investment requirements</li> <li>• Vulnerability (crises, contexts, dependence, etc.)</li> <li>• Transnational organized crime</li> </ul>          |

#### Vision for the Finance Cluster

None of the clusters may achieve their full potential without a sound financial sector in place. This is why the development of a competitive sector, which may foster a local financial market and is compatible with growth and development, is paramount. Also, it is a sector which may compete globally with several well established financial markets, like New York, London and Luxembourg. There are also several competitors emerging in the continental market, like Mauritius, Ghana, South Africa, which have progressed significantly. During the GPRSP III period the necessary reforms will start being implemented to ensure the good functioning of the financial markets, in parallel with an agenda for competing in a global market, starting with the relevant region.

The long-term vision is therefore to turn Cape Verde into a competitive financial market at international level, particularly in the African continent. In the short and medium term, the objective is to foster better structuring, efficiency and efficacy, as well as financial system security, as the foundation for promoting the financial cluster. The objective is to position Cape Verde as one of the safest financial markets, growing at great speed among the CPLP countries and in Western Africa.

#### Strategic Agenda for the Financial Cluster

The Government will embark on a strategy for building a financial system and supporting the development of an agenda for change targeting a globally competitive cluster. It will focus on the

policies and actions in the monetary, banking, insurance and finance areas, while tackling the challenges of developing a capital market (Table 4.6).

**Table 4.6 – Action Plan**

| <b>Monetary policy, banking, insurance and finance</b>   | <b>Development of the capital market</b>   |
|--|--|
| <ul style="list-style-type: none"> <li>• Increasing use of financial policy tools in order to safeguard price stability and balanced economic growth.</li> <li>• Enhancing financial institutions for extending and strengthening the financial sector.</li> </ul> | <ul style="list-style-type: none"> <li>• Ongoing development of the capital market.</li> <li>• Ensuring effective regulation of the capital market.</li> <li>• Improving investor protection.</li> <li>• Increasing and promoting diversified investment opportunities.</li> </ul> |
| <ul style="list-style-type: none"> <li>• Improving the efficiency of the services provided by the stock exchange of Cape Verde.</li> </ul>   |  |

#### **4.2.2.7 Cluster of Aerobusiness**

##### **Analysis of the Current Status**

The aerobusiness cluster belongs to the same group as finance and has an important part to play in fostering the diversification of the economy and implementing the agenda for change. As with the creative economy, aerobusiness is linked to tourism and to other clusters. The growth of tourism in the last ten years has fostered the quick development of the aviation sector and it is not possible to develop a globally competitive tourism sector without a good air transport system, with reliable and quality services.

In 2011, 1.9 million commercial passenger movements in the airports of Cape Verde were reported. This represents an increase of approximately 11% and 27%, compared to 2010 and 2008, respectively. Of the 1.9 million, around 903,909 were international passengers and 877,363 domestic. International cargo reached 1,704 tons in 2011 (22% increase compared to 2010), and domestic cargo was 2,292 tons (2% growth compared to 2010). There are 19 international and 3 national operators in Cape Verde, with 9 registered airplanes.

Cape Verde invested a substantial amount of resources in airport infrastructures during the last ten years. The country has now four international airports (on the islands of Sal, Praia, Boa Vista and São Vicente) and three national airports (Fogo, São Nicolau and Maio). It is also one of the few countries in Sub-Saharan Africa to have obtained a Category 1 rating by the USA aviation authorities. Cape Verde's airspace is also quite large, which it explores by providing navigation services to airlines.

Besides the Category 1 rating awarded by the US authorities, the growing number of tourists, an airline with several routes, a civil aviation agency which enjoys regulatory powers and an operational airport authority which manages all airports, the country has few other advantages. There are significant challenges that must be overcome, including restructuring TACV airlines, reforming the sector and building a suitably empowered human capital base (Table 4.7).

Table 4.7 – SWOT analysis of Aerobusiness

|   |  |
|---|--|
| <p><b><u>Strengths:</u></b></p> <ul style="list-style-type: none"> <li>• Good aeronautical facilities (airports; air navigation; airplanes);</li> <li>• Good geographical location;</li> <li>• Mild and attractive climate;</li> <li>• Political stability;</li> <li>• Good safety regulatory system;</li> <li>• Status Cat 1;</li> <li>• Different air transport agreements;</li> <li>• Sector experience;</li> <li>• Ample airspace (FIR);</li> <li>• Network of flight connections worldwide;</li> <li>• Growing domestic and international air traffic.</li> </ul>      | <p><b><u>Weaknesses:</u></b></p> <ul style="list-style-type: none"> <li>• Lack of training centers; lack of qualified/specialized human resources; and poor human resource planning;</li> <li>• Small domestic market;</li> <li>• Dire economic and financial situation of air operators;</li> <li>• Insufficient regulation of air transport;</li> <li>• Poor airport safety service (screening, border);</li> <li>• Lack of strategies and policies for the sector;</li> <li>• Weak integration of sectorial strategies (tourism, land planning, environment, safety);</li> <li>• Inefficient aviation system;</li> <li>• Poor supply of services (price, taxes, connections, equipment, service quality, frequency; schedules; punctuality; regularity);</li> <li>• Limited private sector access to funding;</li> <li>• Unbalanced competitive environment in domestic operations;</li> <li>• Poor English language proficiency;</li> <li>• Poor entrepreneurial culture;</li> <li>• Work environment not highly conducive to productivity and competitiveness.</li> </ul> |
| <p><b><u>Opportunities:</u></b></p> <ul style="list-style-type: none"> <li>• Growing tourism sector;</li> <li>• Regional integration in the African continent;</li> <li>• Liberalized African market with the Yamoussoukro Agreement;</li> <li>• Strategic partnership with the European Union;</li> <li>• Air links between the USA, Brazil, Europe and Africa;</li> <li>• Air transport market with a large potential (Africa, Europe, Brazil, USA);</li> <li>• Underdeveloped aviation in the ECOWAS;</li> <li>• Political instability in the Maghreb region.</li> </ul> | <p><b><u>Threats:</u></b></p> <ul style="list-style-type: none"> <li>• International terrorism;</li> <li>• Competition from neighboring countries;</li> <li>• Hard international environment;</li> <li>• Draining of skilled labor force;</li> <li>• Political instability in the region.</li> </ul>   |

#### Vision for the Aerobusiness Cluster

The long-term objective of the aerobusiness cluster is to turn Cape Verde into a (passenger and goods) air transport hub. Other connected services are handling, aircraft maintenance, training and catering for airlines operating through Cape Verde and also to provide services to airlines on the islands of the archipelago. The specific objectives are described in the main business areas described in Table 4.8.

**Table 4.8 – SWOT analysis of Aerobusiness**

| Business area                   | Objectives   |
|---------------------------------|--|
| Air Transport                   | <ul style="list-style-type: none"> <li>- Quadrupling international passenger traffic over the next decade</li> <li>- Doubling domestic passenger traffic over the next decade</li> </ul>   |
| Air Cargo                       | <ul style="list-style-type: none"> <li>- Developing the air cargo business to satisfy tourism and domestic demand.</li> </ul>  |
| Airports                        | <ul style="list-style-type: none"> <li>- Projecting the development of airport infrastructures and operations for meeting demand in the transport of passengers and goods by air, and connected activities (general aviation, sports, aerial work, aircraft maintenance/repair, training, military and the like and other non-aeronautical activities).</li> </ul> |
| Air Navigation                  | <ul style="list-style-type: none"> <li>- Developing the air navigation system to respond to growing demand for activities, ensuring service competitiveness and the safety of the airspace in line with international best standards.</li> </ul>   |
| Handling                        | <ul style="list-style-type: none"> <li>- Providing a quality and competitive handling service, in an environment of growing demand arising from the dynamics of growing air transport.</li> </ul>  |
| Aircraft Maintenance and Repair | <ul style="list-style-type: none"> <li>- Increasing the capacity to provide aircraft maintenance and repair services to meet growing demand of air transport services and satisfy regional demand.</li> </ul>  |
| Training                        | <ul style="list-style-type: none"> <li>- Developing and structuring the aeronautical education sector, to ensure the availability of sufficient and qualified workforce to meet demand of an efficient and competitive aviation sector.</li> </ul>   |

#### Strategic Agenda for the Aerobusiness Cluster

During the implementation period of the GPRSP III, the focus will be on reforming the sector and initiating the process of creating a critical mass of services related to airlines. The objective is to increase the sector's capacity to support the implementation of Cape Verde's agenda for development. To fulfill the vision and objectives advocated, the aerobusiness cluster will be built on three pillars:

- An attractive and competitive business environment;
- Training for qualified human resources;
- Private initiative as the real driver of aerobusiness.

Table 4.9 describes some of the actions to be taken according to these pillars.

**Table 4.9 – Action plan for the development of the aerobusiness cluster**

|   |  |
|---|--|
| <p style="text-align: center;"><b>INFRASTRUCTURE:</b></p> <ul style="list-style-type: none"> <li>• Designing, building or refurbishing the relevant aeronautical facilities, based on the principles of need, safety, and economic and environmental sustainability.</li> <li>• Reserving space for airport expansion and/or relocation to meet civil aviation development goals.</li> <li>• Introducing mandatory approval of the airport master plan for all airfields in conformity with the set requirements and specifications.</li> <li>• Advising on the adoption of navigation technologies which support greater navigation precision and safety and foster more regularity and efficiency in air operations.</li> </ul>   | <p style="text-align: center;"><b>HUMAN CAPITAL:</b></p> <ul style="list-style-type: none"> <li>• Promoting excellence in people management, enhancing professional skills, accountability and focusing on results.</li> <li>• Promoting values of strictness, authority, responsibility and accountability, for maximizing the culture of quality and efficiency in the provision of services and improving the country's competitiveness.</li> <li>• Identifying human resource training and qualification needs in civil aviation and guiding and raising the awareness of young people to the sector's professions through intra and inter-sectorial coordination.</li> <li>• Fostering the structured qualification and specialization of human resources in the different sectors of civil aviation, promoting excellence of knowledge.</li> </ul> |
| <p style="text-align: center;"><b>GOOD GOVERNANCE:</b></p> <ul style="list-style-type: none"> <li>• Drafting and advertising governmental policies for the aviation sector, thus fostering the transparency and predictability of administrative acts.</li> <li>• Promoting the efficiency and quality of air transport by adopting performance indicator monitoring mechanisms.</li> <li>• Liberalizing and regulating handling activities, for providing a competitive and quality service.</li> <li>• Implementing the civil aviation Advisory Board as a coordination and consultation forum in civil aviation, involving the Government, the regulator, the economic agents and system users.</li> <li>• Adopting the principle of public hearing and impact analysis in the law and regulation-making process.</li> <li>• Adopting the principle of setting deadlines for the administration to handle the industry's requests.</li> <li>• Establishing tax fixing principles, based on the criteria of transparency, justice and equity.</li> <li>• Suppressing entry visa requirement for passengers from specific origins, with a view to increasing traffic.</li> <li>• Promoting the regulation/inspection of industrial, commercial activities, etc. for ensuring the quality of investments, of goods produced and services provided.</li> <li>• Developing the national quality system for fostering</li> </ul> | <ul style="list-style-type: none"> <li>• Gearing human resource training and qualification towards the development of professional skills.</li> <li>• Concentrating heavily on English language proficiency as a working tool and a vehicle for accessing knowledge and technologies.</li> <li>• Fostering basic professional training in related areas, facilitating specific qualifications in aviation, e.g. fire-fighters, cabin crew, etc.</li> <li>• Fostering the full exploitation of online learning opportunities, maximizing supply and reducing costs.</li> </ul>  |

|   |   |
|---|---|
| <p>safety, economy, efficiency and competitiveness.</p> <ul style="list-style-type: none"> <li>• Setting a tax which may fund the civil aviation safety system.</li> <li>• Promoting a legal and labor environment conducive to more investment, productivity and competitiveness.</li> </ul>   |   |
| <p><b>GOOD GOVERNANCE:</b></p> <ul style="list-style-type: none"> <li>• Drafting and advertising governmental policies for the aviation sector, fostering the transparency and predictability of administrative acts.</li> <li>• Promoting the efficiency and quality of air transport by adopting performance-indicator monitoring mechanisms.</li> <li>• Liberalizing and regulating handling activities, for providing a competitive and quality service.</li> <li>• Implementing the civil aviation Advisory Board as a coordination and consultation forum in civil aviation, involving the Government, the regulator, the economic agents and system users.</li> <li>• Adopting the principle of public hearing and impact analysis in the law and regulation-making process.</li> <li>• Adopting the principle of setting deadlines for the administration to handle the industry's requests.</li> <li>• Suppressing entry visa requirement for passengers from specific origins, with a view to increasing traffic.</li> <li>• Promoting the regulation/inspection of industrial, commercial activities, etc. for ensuring the quality of investments, of goods produced and services provided.</li> <li>• Implementing the national quality system for fostering safety, economy, efficiency and competitiveness.</li> <li>• Setting a tax which may fund the civil aviation safety system.</li> <li>• Promoting a legal and labor environment conducive to more competitiveness.</li> </ul> | <p><b>PRIVATE SECTOR:</b></p> <ul style="list-style-type: none"> <li>• Encouraging the development of the air cargo business.</li> <li>• Identifying funding opportunities for the civil aviation business.</li> <li>• Ensuring the maintenance and strengthening of risk reduction mechanisms for access to credit, namely by ratifying international agreements (e.g., the Cape Town Convention) and which benefit the acknowledgement of the State's capacity to supervise civil aviation safety.</li> <li>• Fostering the reduction of skilled labor costs and improvement of productivity through staff training and qualification.</li> <li>• Setting up tracking mechanisms of innovation and progress in technologies, methodologies and solutions, geared towards the ongoing modernization and progress of civil aviation.</li> <li>• Fully exploiting advantages like knowledge, experience and resources, made available through membership in organizational associations of international civil aviation, IATA, ACI, CANSO and IFALPA.</li> <li>• Promoting partnerships for improving efficiency and competitiveness of sector companies.</li> </ul> |
| <p><b>GLOBAL NATION:</b></p> <ul style="list-style-type: none"> <li>• Setting up a scheme of public service obligations in domestic passenger air transportation.</li> <li>• Promoting and developing close relations with the</li> </ul>   |   |

|   |  |
|---|--|
| <p>neighboring African countries, at the institutional level, through ECOWAS and the Banjul Accord Group, thus fostering an environment conducive to the activity of national operators in the African market of civil aviation.</p> <ul style="list-style-type: none"> <li>• Maximizing the ties between Cape Verde and Europe, Africa and the Americas, expanding the presence of national air operators and exploiting opportunities to access these markets.</li> <li>• Enhancing economic diplomacy for supporting the penetration and extension of the commercial activities of civil aviation operators in the European and American markets.</li> <li>• Encouraging the engagement of nationals, both residents and from the Diaspora, in aerobusiness.</li> <li>• Promoting Cape Verde's image for attracting business.</li> </ul> |  |
|---|--|

# 5 – Implementation and Programs of the GPRSP III

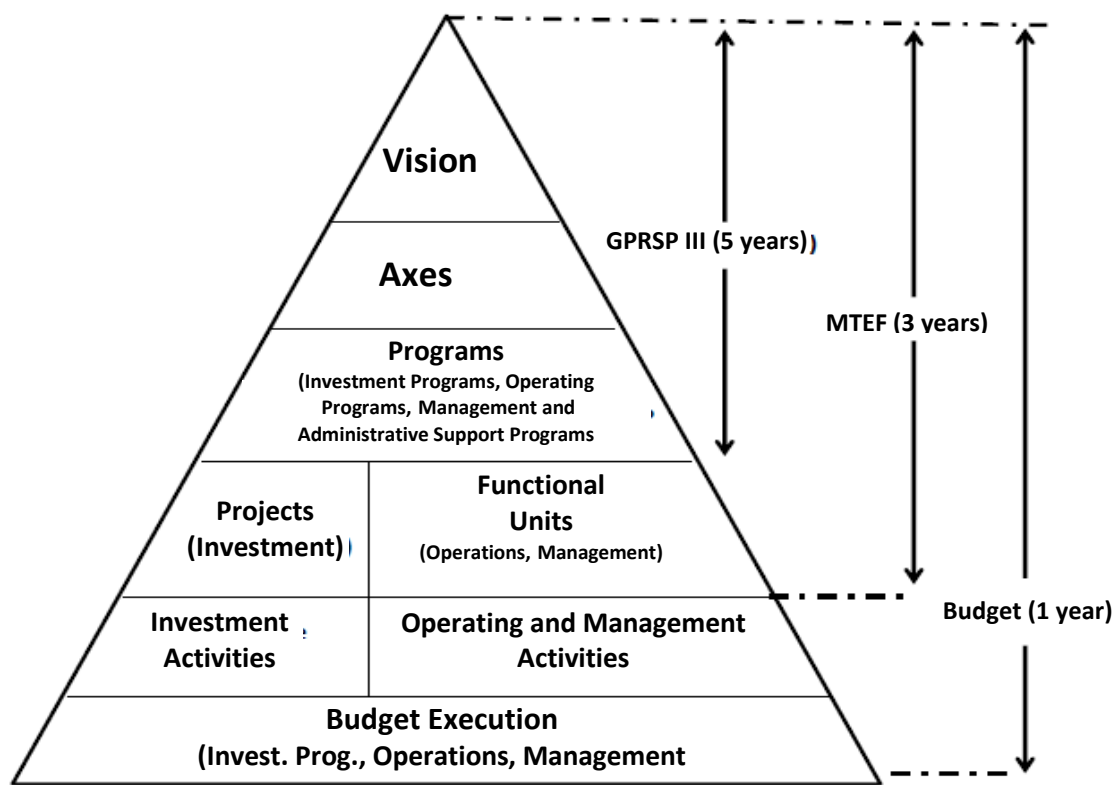
---

## 5.1 – Implementation of the GPRSP III

The GPRSP III is based on experiments that had already been implemented in Cape Verde in the program-based approach to the investment budget. The new approach, however, expands the methodology of the programmatic budget to the entire perimeter of public spending (operations and investment), and therefore the architecture of the GPRSP III is based on an overall programmatic view with the purpose of framing and optimizing the implementation in the various phases of the planning process. The programs identified in the GPRSP III are the same programs being considered in the Medium-Term Expenditure Framework (MTEF) and the General State Budget (GSB), hence the indicators and the goals of each program make it possible to guarantee the multi-year coherence of the planning process. Additionally, the programmatic view will permit a follow-up of the GPRSP III programs through the Follow-up and Assessment System.

The implementation of the GPRSP III is organized into goals at three levels: GPRSP, MTEF and GSB (Figure 5.1). Each of these levels is expressed through its own objective and the corresponding execution is verified through a system of indicators and goals.

Figure 5.1 – New Program Structure



The joining of the investment and operating budgets from the program point of view makes it possible to have an all-encompassing vision of the revenue and expenditure of the State, regardless of their source or application. In the unified version of the budget and as shown in the diagram, three distinct categories of programs can be seen:

1. Investment Programs;
2. Operating or Objective-based Programs;
3. Management and Administrative Support Programs.

Investment programs are those that embrace a series of projects that have as their central objective the immediate increase of the infrastructure or fixed capital of a certain sector. These programs have a beginning and an end and work together for an increase in the quantity or quality of the services that are being routinely provided.

Objective-based programs are those that make it possible to provide services needed by the people on a recurring, continuous basis – health, education, safety, etc. The name “objective-based” arises in the context of the carrying out of the purposes of the functions of the State, which is to provide the public services required by the citizens.

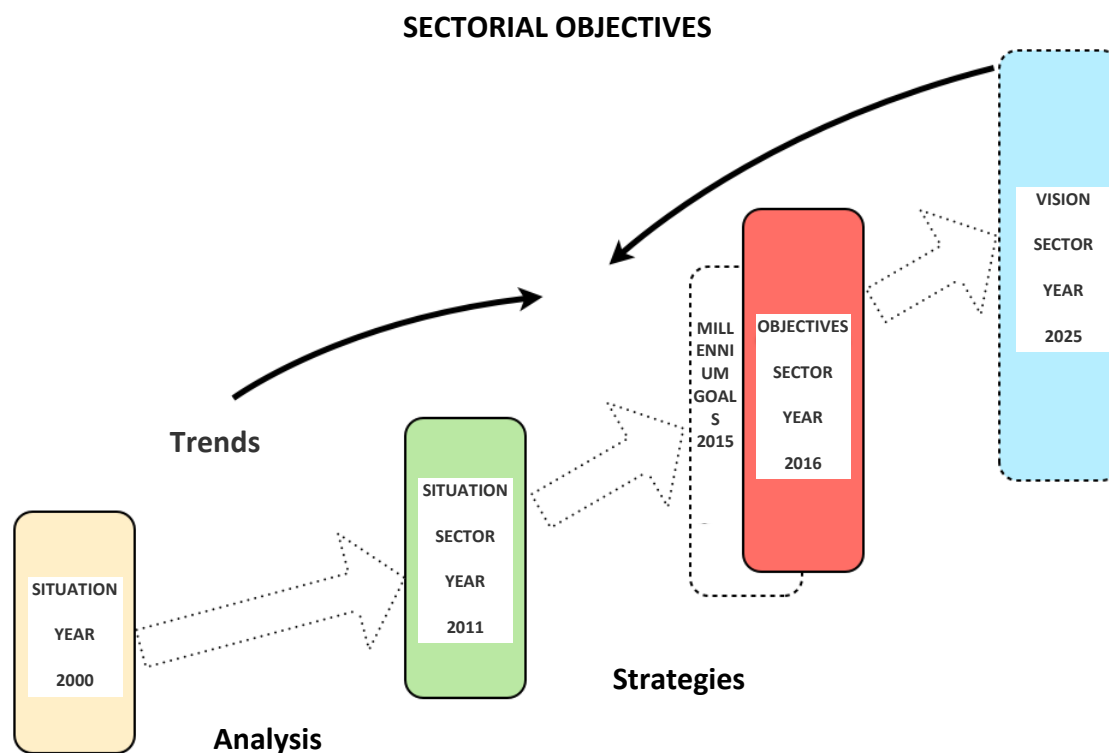
Finally, the management and administrative support programs are those that provide the means so that the investment and objective-based programs can be executed. They are activities of a bureaucratic nature that do not provide services directly to citizens (“back office”).

The Medium-Term Expenditure Framework (MTEF) and the Sectorial Medium-Term Expenditure Frameworks (SMTEFs) are the main instruments through which the Government makes its decisions regarding the distribution and use of financial resources at the project and/or functional unit level, facilitating the establishment of a transparent system for dividing up the resources that is in line with the strategic priorities of the GPRSP III. It is the role of the MTEF to debate and define the expenditure limits (“ceilings”) for each sector and for each type of program. It is also up to the MTEF to articulate the means and the information needed to define the directives that are to be followed in the process of drawing up the annual budget.

Each year, the State Budget (SB) is responsible for assigning to each budgetary unit the amounts of resources needed to carry out their programs, by means of projects and activities, so as to attain the proposed goals. In this planning-budgeting process, the connecting link that forms the articulation between the various planning levels is the program, to be processed in the Integrated System of Budget and Financial Management (SIGOF) which will permit an aggregation of budgets at various levels, based on standardized nomenclature and a clearer identification of the circuit of public resources.

The definition of the indicators follows a top-down logic, accompanying the planning process, which is to say: Vision, Axes, Programs, Projects/Functional Units and Activities. The natural process points to the initial definition of a program followed immediately by the definition of the projects or objective-based activities that make up the program. The definition of the indicators at the program level precedes the definition of the indicators of the projects or functional units. This procedure aims to guarantee the alignment and coherency of the indicators at the various levels.

Figure 5.2 – Sectorial Objectives



The implementation and the follow-up and assessment of the strategy will be carried out in accordance with the new programmatic logic. In other words, the implementation will be processed through sectorial action plans and the programs and projects defined in the MTEFs and SGBs for implementation in the period covered by the GPRSP III. The process will count on the intervention of various stakeholders, specifically the Ministry of Finance and Planning, through the National Planning Directorate (NPD), the National Statistical System, the line ministries and the corresponding subordinate structures, and the decentralized structures - municipalities, organizations of the civil society and the private sector.

The programmatic logic makes possible a management centered on results by linking the allocated resources to the goals of the indicators of expected results for each program. The assessment of the level of execution of the GPRSP III will not only be made on the plane of the financial execution of the budgets, but also in relation to the level of results achieved, and even the quality of those results. The process of follow-up and assessment is to be understood as an on-going exercise, one that is progressively and gradually reinforced. A modular, flexible approach will allow for the production of regular progress reports on the implementation of the GPRSP III. The Government will see to the continuing coordination and participation of the development partners in the process, inviting them to actively participate in its development and to carry out their corresponding interventions and assessments in relation to the annual reviews of the GPRSP III.

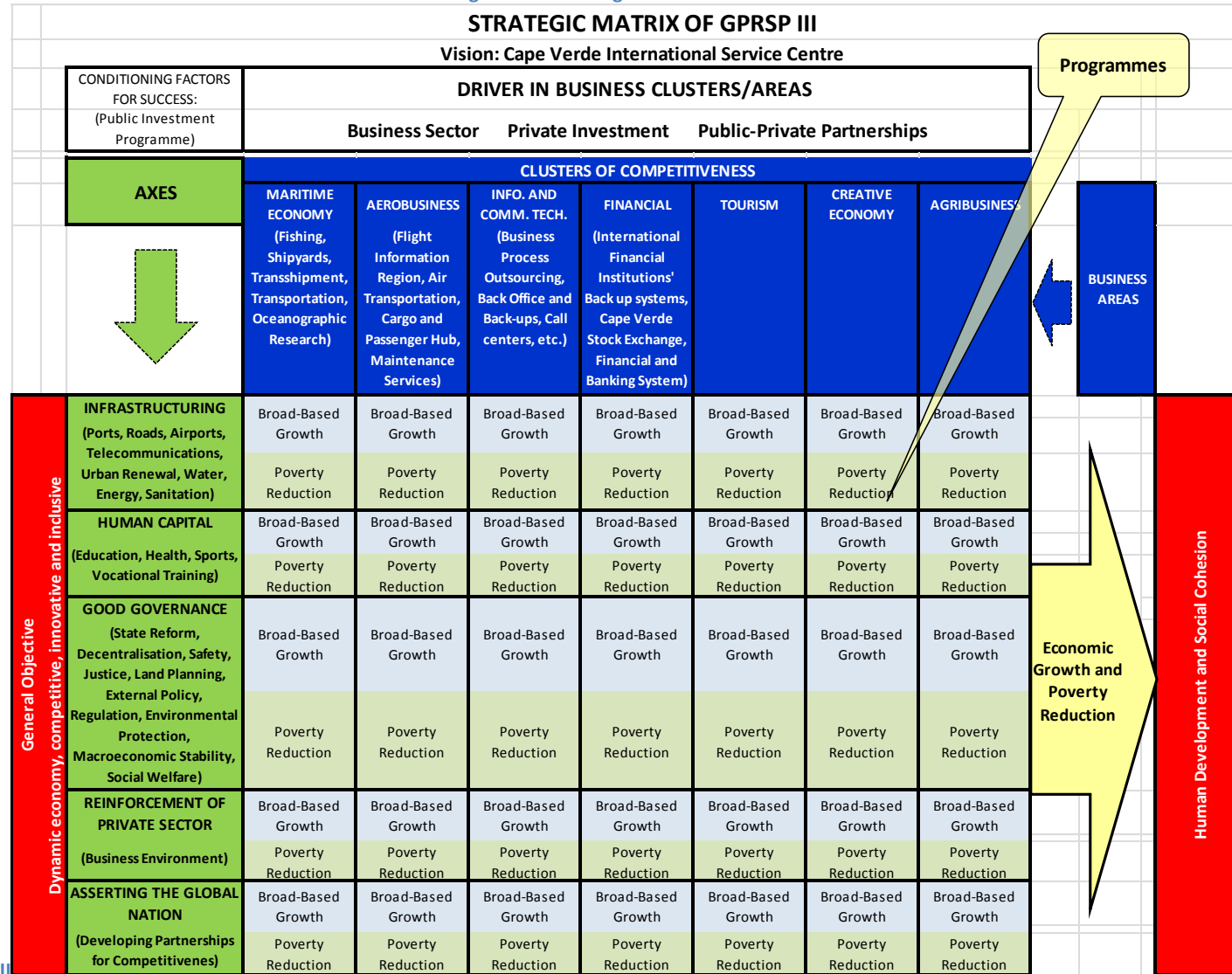
The objective of the GPRSP III requires an appropriate balance between the investment programs that will make economic growth possible and enable the objective-based programs focused on the reduction of poverty. The purpose of all this is to be able to achieve the objective of developing a dynamic economy that is competitive and sustainable, in which everyone shares in the prosperity.

The appropriate balance not only refers to the level of public investments and their composition, but also to the behavior expected of private investments. The accompaniment of the GPRSP III by the private sector and its engagement in the pursuit of the outlined goals is fundamental to the achievement of the objectives defined in the Government Program.

The programs are grouped in the five axes of strategic intervention, which in turn constitute the substance of the public intervention in the domain of its strategy for economic growth and the fight against poverty. The Logical Framework of the GPRSP gives a summary description of the alignment of the Document with the vision of the Government Program (Figure 5.3). The Framework organizes the interventions of the Government according to the corresponding investment and objective-based programs grouped along the 5 Strategic Axes and taking into account the priorities in the promotion of the 7 clusters of competitiveness.

The programs listed will seek to fulfill the purpose of reducing poverty through inclusive economic growth without neglecting the poorer classes of the population not specifically embraced by the growth of the clusters. It is important to remember that the programming of the resources to be allocated in the GPRSP phase only relates to the "Program" level. The detailed allocation of the resources at the level of projects/functional units belongs to the preparation of the MTEF and SGB.

Figure 5.3 – Strategic Matrix of GPRSP



## 5.2 – Program and Goals of the GPRSP III

The set of programs of the GPRSP III and the corresponding logical frameworks are found in Appendix I, organized by axis and function. The following subtopics give a brief description of the priorities by axis, but referring the reader to the logical frameworks in the appendix for a more detailed description of the objectives and goals by objective-based and investment program. This summary of actions by axis also does not dispense with the consultation of the corresponding sectorial strategic documents that lead to a more detailed definition and execution of specific policies, the objectives of which are reflected in the logical tables.

The new strategy undertaken in the GPRSP III is the expression of the significant bet on investments in the primary sector (the construction of 17 dams) and port infrastructures (a modern port on each island). In this framework, the appropriate dosage in terms of objective-based programs has in view the prioritization of the recurring expense in the education function, especially in vocational-technical training to leverage human resources in the primary sector in the short term, as well as on pre-school education to achieve improvement in human capital in the long term. The social action in schools will also be maintained as one of the vectors, with a view to promoting fairness in access to education, regardless of the socio-economic class of the student.

In a scenario of slow global economic growth, the recovery of the tourism sector may be halting and therefore unable to absorb the growing offer of youth entering the job market. The tertiary sector will therefore maintain its importance as a source of wealth in the Cape Verdean economy, although it is the primary sector that will make the most significant contribution in creating new jobs, reducing poverty and diminishing inequality in income distribution.

The optimum balance between investment programs and objective-based programs in the different sectors is, first of all, a response to the characteristics of poverty in Cape Verde. Taking into account that extreme poverty is concentrated in the rural areas and that unemployment is most prevalent in the younger age groups, it is clear that the desirable balance should contain a number of investment programs designed to support economic growth and foster the participation of private investment in the primary sector, as this sector has a greater elasticity for job creation than the secondary and tertiary sectors. On the other hand, in regard to the ideal proportion of objective-based programs, the priority will be in vocational-technical education (e.g., technicians in the fields of agriculture, the hotel industry and computers) and rural development, in order to ensure the growth of productivity of the investments in the primary sector.

The architecture of the GPRSP shows which programs have priority in the establishment of the clusters that orient economic growth, job creation and the reduction of poverty. For the period under the GPRSP III, the Government Program establishes the goal of attaining a robust growth in GDP in a balanced atmosphere of economic fundamentals and controlled inflation. Based on a dynamic economy and strong growth in the primary sector, the Government will work in partnership with the private sector to continue reducing unemployment through the creation of jobs.

Within the scope of the harmonization, alignment and effectiveness of aid to development according to the principles embodied in the Paris Declaration, and taking into account the opportunity that presents itself on the occasion of the application of the programmatic budget to the entire perimeter of public spending, it is important that the partners in development carry out the due appropriation of the indicators presented, especially in the multi-year conventions of budget support that are to be negotiated in the framework of support to the GPRSP III. From the outset, the design of the new joint matrix for budget support should stem from the selection of a subset of listed indicators, in accordance with the logic of sectorial follow-up

that is included in the corresponding multi-year cooperation program of each partner. The annual follow-up and assessment of the indicators of the effect and impact of the strategy will be anchored to the Statistical Agenda and ensured by the National Institute of Statistics (*Instituto Nacional de Estadística – INE*).

Table 5.1 – Indicators and Overall Goals of the GPRSP III (Base and Alternative Scenarios)

| Indicators and Overall Goals of the GPRSP III |  |                |         |         |         |         |         |
|---|--|----------------|---------|---------|---------|---------|---------|
| Area/Goals                                    | Indicator  | Base Year 2011 | 2012    | 2013    | 2014    | 2015    | 2016    |
| <b>1. Population</b>                          | <i>Population count</i>                              |                |         |         |         |         |         |
| Base  |  | 495,070        | 498,424 | 501,513 | 504,295 | 506,746 | 508,858 |
| Alternative                                   |  | 495,070        | 498,424 | 501,513 | 504,295 | 506,837 | 509,133 |
| <b>2. Economic Growth</b>                     | <i>Annual Growth Rate of real GDP (%)</i>            |                |         |         |         |         |         |
| Base  |  | 5.6            | 4.6     | 4.8     | 4.6     | 4.8     | 5.4     |
| Alternative                                   |  | 5.6            | 4.6     | 4.8     | 5.5     | 5.5     | 6.5     |
| <b>3. Economic Growth Per Capita</b>          | <i>Annual Growth Rate of real GDP per capita (%)</i> |                |         |         |         |         |         |
| Base  |  | 4.8            | 3.9     | 4.1     | 4.1     | 4.3     | 5.0     |
| Alternative                                   |  | 4.8            | 3.9     | 4.1     | 4.9     | 4.9     | 6.0     |
| <b>4. Poverty</b>                             | <i>Poverty Incidence Index (%)</i>                   |                |         |         |         |         |         |
| Base  |  | 22.5           | 24.6    | 24.0    | 22.4    | 21.2    | 20.2    |
| Alternative                                   |  | 22.5           | 24.6    | 24.0    | 21.8    | 20.3    | 18.8    |
| <b>5. Extreme Poverty</b>                     | <i>Extreme Poverty Incidence Index (%)</i>           |                |         |         |         |         |         |
| Base  |  | 12.0           | 11.6    | 11.5    | 11.0    | 10.6    | 10.2    |
| Optimist                                      |  | 12.0           | 11.6    | 11.5    | 10.9    | 10.3    | 9.8     |
| <b>6. Unemployment</b>                        | <i>Unemployment Rate (%)</i>                         |                |         |         |         |         |         |
| Base  |  | 12.2           | 12.0    | 11.9    | 11.6    | 11.0    | 10.8    |
| Alternative                                   |  | 12.2           | 12.0    | 11.9    | 10.2    | 8.6     | 7.6     |
| <b>7. Inequality</b>                          | <i>GINI Index</i>                                    |                |         |         |         |         |         |
| Base  |  | 45.7           | 45.2    | 45.3    | 45.4    | 45.7    | 46.1    |
| Alternative                                   |  | 45.7           | 45.2    | 45.3    | 45.3    | 45.5    | 45.7    |
| Source: DNP, GPRSP-III Model                  |  |                |         |         |         |         |         |

### 5.2.1 Programs of AXIS I: Infrastructuring

The programs included in the GPRSP III for the development of infrastructures embrace a set of sectors whose services have a direct impact on the quality of life of families and on the productivity and competitiveness of the country's economic activity. The Axis is made up of 18 programs (6 objective-based and 12 for investments) grouped into seven functions: 1) Agriculture, Cattle Farming, Fishing and Supply; 2) Water and Basic Sanitation; 3) Energy and Mining; 4) Housing, Urbanism and Land Planning; 5) Transportation. All these make a decisive contribution to the energizing of the clusters of competitiveness considered to be priorities, specifically Agro-business, Maritime Economy and Tourism. The programs for infrastructuring the functions of Education, Health and Agriculture were not included in axis I, as they are part of the axes of Human Capital and Reinforcement of the Private Sector. This facilitates the strategic follow-up of their corresponding axes and functions. The indicators and goals of the axis for the implementation period of the GPRSP III are as follows:

Table 5.2 - Indicators and Overall Goals of the Infrastructuring Axis

| Indicators and Goals of AXIS I: Infrastructuring |  |                |         |         |         |           |           |
|--|--|----------------|---------|---------|---------|-----------|-----------|
| Area/Goal  | Indicator  | Base Year 2011 | 2012    | 2013    | 2014    | 2015      | 2016      |
| <b>1. Water</b>                                  |  |                |         |         |         |           |           |
| a. Agricultural                                  |  | 28             | 31      | 34      | 36      | 38.5      | 57        |
| b. Distribution of drinking water                |  |                |         |         |         |           |           |
| b.1. % connected to public network               | % of domiciles connected to the public water distribution network  | 57.0           | 59.9    | 62.9    | 66.0    | 69.3      | 72.8      |
| b.2. % source improved drinking water            | Percentage of the population that uses an improved source of water supply (other than an auto tank and other source) | 83.4           | 84.3    | 85.1    | 86.0    | 86.8      | 87.7      |
| c. Desalinated                                   | Quantity of desalinated water produced (millions of cubic metres)  | 5.4            | 7.3     | 9.0     | 10.9    | 12.7      | 12.7      |
| <b>2. ENERGY</b>                                 |  |                |         |         |         |           |           |
| a. Electricity Network                           | % of residences with connection to the public distribution network of electricity                                    | 84.0           | 87.1    | 90.4    | 93.6    | 96.9      | 100.0     |
| b. Access to Electricity                         | % of population with access to electricity   | 84.0           | 87.0    | 89.9    | 92.9    | 95.9      | 98.8      |
| c. Electricity Production                        | Production of electric energy (MegaWh)   | 325,421        | 335,184 | 345,239 | 355,596 | 366,264   | 377,252   |
| d. Gas Consump. for Cooking                      | Proportion of the population that uses gas as a main source for preparing food                                       | 70.7           | 71.2    | 71.8    | 72.4    | 72.9      | 73.5      |
| e. Alternative Energy Production                 | Production of alternative electric energy (MegaWh)   | 33.5           | 35.0    | 37.5    | 39.0    | 41.5      | 41.5      |
| <b>3. HOUSING, URBANISM and LAND PLANNING</b>    |  |                |         |         |         |           |           |
| a. Homes Delivered                               | number of houses delivered in the scope of the GPRSP III programmes  | 146            | 147     | 1,765   | 3,615   | 3,622     | 277       |
| b. Renovated Homes                               | number of houses renovated in the scope of the GPRSP III programmes  | —              | 60      | 250     | 300     | 300       | 450       |
| <b>4. SANITATION</b>                             |  |                |         |         |         |           |           |
| a. Sewer Network                                 | % of residences connected to the sewer network   | 20.4           | 21.4    | 22.4    | 23.4    | 24.5      | 25.5      |
| b. Septic Tank                                   | % of residences connected to a septic tank   | 47.7           | 48.1    | 48.4    | 48.7    | 49.1      | 49.4      |
| c. Improved Sanitary Facilities                  | Percentage of the population that uses improved sanitary facilities  | 67.2           | 71.2    | 74.8    | 77.8    | 80.5      | 82.9      |
| d. Solid Waste Collection                        | % of family aggregates that use a system of rubbish collection in an adequate manner (rubbish bin, container)        | 73.0           | 73.9    | 74.8    | 75.7    | 76.6      | 77.6      |
| <b>5. ROAD TRANSPORTATION</b>                    |  |                |         |         |         |           |           |
| a. Total Roads                                   | Kms. roads   | 437            | 561     | 700     | 957     | 1057      | 1057      |
| b. Paved Roads                                   | Kms. of paved roads  | 207            | 207     | 224     | 270     | 310       | 345       |
| <b>6. MARITIME TRANSPORTATION</b>                |  |                |         |         |         |           |           |
| a. Passengers                                    | Number of maritime transportation passengers   | 838,490        | 877,899 | 919,160 | 962,361 | 1,007,592 | 1,054,949 |
| b. Cargo   | Cargo moved by maritime transportation   | 828,987        | 869,607 | 912,218 | 956,917 | 1,003,806 | 1,052,995 |
| <b>7. AIR TRANSPORTATION</b>                     |  |                |         |         |         |           |           |
| a. Domestic                                      | Number of passengers on domestic flights   | 434,385        | 456,104 | 478,909 | 502,855 | 527,998   | 554,398   |
| b. International                                 | Number of passengers on international flights  | 458,647        | 486,166 | 515,336 | 546,256 | 579,031   | 613,773   |

From the outset, the question of transportation appears as a strong priority, taking into account the fact the country is an archipelago and the importance of integrating and connecting the economic agents (the producers and suppliers of goods and services) with the centers of consumption. The provision of a duly articulated and integrated intermodal system of transports that offers reliable, safe quality services is a condition that is necessary for all the clusters. The GPRSP III bets on this area by immediately making important investments in:

- The development of international ports that are more competitive and better adapted to the need for the development of interisland transportation and the internationalization of the economy, that is to say, being duly equipped with a sufficient logistical capacity for cargo and passengers (roll-on and roll-off ramps being especially important investments). Mention is also made to investments for increased maritime safety, specifically through the installation of the Ship Traffic Management System and other instruments to aid and support the monitoring of the maritime areas;
- The consolidation and development of modern airports that will meet the more demanding standards of safety, efficiency and comfort, with special attention to the demands that a growing tourist industry will mean to the development of these infrastructures;
- The development of the road infrastructures that will ensure the movement of persons and goods on each island in conditions of safety and comfort, thereby making a decisive contribution to people's access to services and markets. Also fundamental is the upkeep of the existing road infrastructures through the implementation of an efficient, transparent and sustainable system for managing and maintaining the network of main roads and local roads, through the consolidation of the Road Institute.

Furthermore in the transport function across the board, it is important to mention the action plan for the development of the interisland transports, the objective of which involves implementing thorough reforms in the structural and regulatory policies, so as to reduce bureaucracy and the costs of the transportation sector, to encourage quality service and to better protect the users. These reforms also seek to facilitate the timetables between the various means of transport.

In regard to the mobilization of water resources, which includes the construction of dams, dikes, wells and reservoirs and the development of the related adduction networks, the intention is that the associated programs would create conditions for increased agricultural and livestock production. The improvement in the management of these resources and the corresponding land planning for the water basins will enable increased productivity and the desired impact on increased output and the resulting reduction of poverty, especially in the rural settings. For this purpose, the programs are in harmony with the objectives outlined in the Government Program and the sectorial strategies - the National Agricultural Investment Plan (December 2010) and the Strategic Plan for Agricultural Development (2005 - horizon 2015).

Another fundamental challenge in the axis is the improvement of the energy supply. The low level of reliability and the high cost of the service result in serious constraints on the competitiveness and productivity of the economy. In full convergence with the sectorial goals outlined in the Cape Verde Strategy and Action Plan (50% renewable energy by 2020), the energy programs of the GPRSP III provide for a multi-dimensional approach that stakes its bet on the increased production capacity (with special focus on sources of renewable energy), and improvements in storage and distribution. Other priority initiatives for overcoming the problem involve the consolidation of institutional reforms in the sector. This includes the conclusion of the process of restructuring and reengineering of Electra, which has in view, among other objectives, the reduction of losses and increased service quality.

In the housing sector, fundamental in the fight against poverty and in the promotion of social inclusion, the size of the challenges require forceful and decisive measures. The Government, through the implementation of the National System of Social Interest Housing and specifically the Program “A House for All”, proposes to reduce the quantitative housing deficit by 20 per cent, and the qualitative housing deficit by the same percentage, participating in the construction and aid to home ownership for about 8155 residences and contributing to the renewal of more than 15 thousand dwellings. The programs grouped with this function, which count on the heavy involvement of Municipalities, also are designed to act at the level of awareness and the introduction of techniques for constructions that are environmentally sustainable and duly situated in the legal framework of land planning and urbanism.

Investments in the water and sanitation sectors, together with a thorough institutional reform of governance outlined in the Policy Letter<sup>41</sup> for the sector, are also an anchor for improvement in the safe access to sources of drinking water, the improvement in the conditions of hygiene, and the management of solid waste. The programs corresponding to this function embody the goals associated with the planned restructuring, relying heavily on the creation of the National Water and Sanitation Agency and the creation of inter-municipal companies to improve the provision of services, reduce losses in the distribution and leverage the management of water resources for the various purposes. The pursuit of the goals included in the reform in this field is a necessary condition for Cape Verde to be able to achieve the related Development Objective of the Millennium.

---

<sup>41</sup> *New institutional direction for the water and sanitation sectors – Policy Letter - August 2011.*

**Table 5.3 – Summary of the objective-based and investment programs of the infrastructure axis 2012 - 2016**

| AXIS                         | FUNCTION  | CAT   | #  | PROGRAMME  | VALUE<br>2012-2016 |
|------------------------------|---|---|----|--|--------------------|
| <b>I. INFRASTRUCTURING</b>   |   |   |    |  |                    |
| <i>OBJECTIVE-BASED</i>       |   |   |    |  |                    |
|                              | WATER AND SANITATION                            | WATER TRANSPORTATION                        | 1  | IMPROVEMENT OF WATER RESOURCE MANAGEMENT   | 38,903,202         |
|                              |   | URBAN SANITATION                            | 2  | IMPROVEMENT IN BASIC SANITATION QUALITY  | 6,600,000          |
|                              | ENERGY AND MINING                               | ELECTRIC ENERGY                             | 3  | IMPROVEMENT OF ENERGY PRODUCTION, STORAGE AND DISTRIBUTION INFRASTRUCTURES           | 6,022,166          |
|                              | HOUSING, URBANISM AND LAND PLANNING             | URBAN HOUSING                               | 4  | PROMOTION AND REHABILITATION OF SOCIAL INTEREST HOUSING                              | 1,038,010,053      |
|                              | TRANSPORTATION                                  | ROAD TRANSPORTATION                         | 5  | IMPROVEMENT IN ROAD INFRASTRUCTURE QUALITY   | 2,844,319,156      |
| <i>TOTAL OBJECTIVE-BASED</i> |   |   | 6  |  | 57,093,672,826     |
| <i>INVESTMENT</i>            |   |   |    |  |                    |
|                              | AGRICULTURE, CATTLE-RAISING, FISHING AND SUPPLY | RURAL AND FOREST ENGINEERING                | 1  | MOBILISATION OF WATER AND WATER BASIN LAND PLANNING                                  | 6,520,996,200      |
|                              |   | ENVIRONMENTAL PRESERVATION AND CONSERVATION | 2  | MOBILISATION OF WATER AND WATER BASIN LAND PLANNING                                  | 53,563,116         |
|                              | WATER AND SANITATION                            | WATER DISTRIBUTION                          | 3  | INFRASTRUCTURES FOR PRODUCTION, TRANSPORTATION AND DISTRIBUTION OF DESALINATED WATER | 286,228,169        |
|                              |   |   | 4  | MOBILISATION OF WATER AND REINFORCEMENT OF PUBLIC SUPPLY CAPABILITIES                | 5,311,780,371      |
|                              | ENERGY AND MINING                               | URBAN SANITATION                            | 5  | PROMOTION AND DEVELOPMENT OF BASIC SANITATION  | 823,566,000        |
|                              |   | ELECTRIC ENERGY                             | 6  | INFRASTRUCTURES FOR ENERGY PRODUCTION, STORAGE AND DISTRIBUTION                      | 9,941,337,553      |
|                              |   | ALTERNATIVE ENERGIES                        | 7  | PROMOTION OF THE USE OF ALTERNATIVE ENERGY AND ENERGY EFFICIENCY                     | 1,237,527,892      |
|                              | HOUSING, URBANISM AND LAND PLANNING             | URBAN HOUSING                               | 8  | CONSTRUCTION OF PUBLIC HOUSING   | 2,364,596,979      |
|                              | TRANSPORTATION                                  | PORTS                                       | 9  | DEVELOPMENT OF PORT INFRASTRUCTURES  | 13,655,160,123     |
|                              |   | AIR TRANSPORTATION                          | 10 | DEVELOPMENT OF AIRPORT INFRASTRUCTURES   | 73,250,993         |
|                              |   | MARITIME TRANSPORTATION                     | 11 | DEVELOPMENT OF MARITIME TRANSPORTATION SYSTEM AND SECURITY                           | 298,518,596        |
|                              |   | ROAD TRANSPORTATION                         | 12 | DEVELOPMENT OF ROAD INFRASTRUCTURES  | 6,852,517,273      |
| <i>TOTAL INVESTMENT</i>      |   |   |    |  | 47,419,043,265     |

## 5.2.2 Programs of AXIS II: Human Capital

The Human Capital axis is made up of 35 programs, 22 of which are objective-based and 13 of an investment nature. The prioritization of the budget expenditure for the functions of education, health, culture, leisure and sports, justice, citizenship and youth, and work and social protection gives incentives for the qualification of human capital, a condition necessary for economic growth and increased productivity. In order for this growth to take place on a just and equitable basis, the allocation of the financial resources in these sectors will seek to have a special impact on the more vulnerable social classes of the population, youth and women, especially. The indicators and goals of the axis for the implementation period of the GPRSP III are as follows:

Table 5.4 - Indicators and Overall Goals of the Human Capital Axis

| Indicadores e Metas do EIXO II: Capital Humano           |  |                |        |        |        |        |        |
|--|--|----------------|--------|--------|--------|--------|--------|
| Area/Goals   | Indicator  | Base Year 2011 | 2012   | 2013   | 2014   | 2015   | 2016   |
| <b>1. EDUCATION</b>                                      |  |                |        |        |        |        |        |
| a1. Literacy Rate in population of 15 year olds or older | Literacy rate in population of 15 year olds or older by gender - Total   | 83.6           | 84.4   | 85.2   | 86.0   | 86.8   | 87.6   |
| -Male  | MAL  | 88.9           | 89.4   | 89.9   | 90.4   | 90.9   | 91.4   |
| -Female  | FEM  | 78.4           | 79.5   | 80.5   | 81.6   | 82.6   | 83.7   |
| a2. Literacy Rate in 15 to 24 year olds                  | Literacy rate in population of 15 to 24 year olds by gender - Total  | 97.1           | 97.2   | 97.4   | 97.6   | 97.7   | 97.9   |
| -Male  | MAL  | 96.4           | 96.6   | 96.7   | 96.9   | 97.0   | 97.2   |
| -Female  | FEM  | 97.6           | 97.8   | 97.9   | 98.1   | 98.3   | 98.5   |
| b. Basic Education (BE)                                  |  |                |        |        |        |        |        |
| -Net Schooling Rate                                      | Net schooling rate in BE by gender   | 95.4           | 95.4   | 95.5   | 95.6   | 95.6   | 95.7   |
| c. Secondary Education (SE)                              |  |                |        |        |        |        |        |
| -Net Schooling Rate                                      | Net schooling rate in SE by gender   | 56.0           | 56.2   | 56.4   | 56.7   | 56.9   | 57.2   |
| d. Secondary Drop-Out                                    |  |                |        |        |        |        |        |
| - Drop-out rate  | Secondary Education Drop-out Rate  | 7.0            | 6.7    | 6.4    | 6.2    | 5.9    | 5.6    |
| <b>2. HEALTH</b>   |  |                |        |        |        |        |        |
| a. Malnutrition in children under 5 years                | Percentage of malnourished children 5 years and younger  | 9.1            | 8.9    | 8.7    | 8.5    | 8.3    | 8.1    |
| b. Access to basic health                                | % of population with access to basic health (five less than 30 minutes from a health facility)                   | 86.0           | 87.2   | 88.4   | 89.6   | 90.8   | 92.0   |
| c. Infant Mortality                                      | Infant mortality rate (per thousand)   | 14.9           | 17.4   | 16.7   | 16.0   | 15.4   | 14.8   |
| d. Maternal Mortality                                    | Maternal mortality rate (per hundred thousand)   | 25.8           | 24.7   | 23.8   | 22.8   | 21.9   | 21.0   |
| e. HIV/AIDS  | Vertical transmission of HIV (PTV)   | 10.0           | 6.0    | 5.0    | 3.0    | 3.0    | 0.0    |
| f. Life expectancy                                       | Life expectancy in men (years)   | 69.9           | 70.3   | 70.7   | 71.1   | 71.5   | 71.8   |
|  | Life expectancy in women (years)   | 79.2           | 79.4   | 79.5   | 79.7   | 79.9   | 80.0   |
| g. Doctors/Inhabitant                                    | Ratio of doctors per inhabitant  | 5.2            | 5.2    | 5.3    | 5.5    | 5.8    | 6.0    |
| h. Nurses/ Inhabitant                                    | Ratio of nurses per inhabitant   | 10.6           | 10.6   | 12.0   | 14.0   | 16.0   | 18.0   |
| i. Inhabitants/Bed                                       | Ratio of inhabitants per hospital bed  | 675.0          | 688.5  | 702.3  | 716.3  | 730.6  | 745.3  |
| j. Children with complete immunisation                   | Rate of vaccine coverage in children under 1(DTC3)   | 94.0           | 94.0   | 97.0   | 98.0   | 98.0   | 98.0   |
| <b>3. SPORTS</b>   |  |                |        |        |        |        |        |
| a. Trained sports agents                                 | Number of agents   | 125.0          | 125.0  | 169.0  | 213.0  | 256.0  | 300.0  |
| b. Educational competitions                              | Number of organised competitions (military, university, and school)  | 4.0            | 4.0    | 5.0    | 6.0    | 7.0    | 8.0    |
| <b>4. HIGHER EDUCATION</b>                               |  |                |        |        |        |        |        |
| a. Registered Students                                   | Number of registered students  | 13,417         | 15,027 | 16,529 | 17,852 | 18,923 | 19,679 |
| b. Students in the last year of course                   | % of students in the last year in relation to the total number of enrolments                                     | 60.0           | 60.0   | 62.0   | 65.0   | 68.0   | 70.0   |
| <b>5. PROFESSIONAL TRAINING</b>                          |  |                |        |        |        |        |        |
| a. Registered Students                                   | Number of registered students  | 2,380          | 1,360  | 2,000  | 3,600  | 3,600  | 3,600  |
| b. Entrance to workforce                                 | Proportion of enrollees at the Centres of Employment and Vocational Training for more than one year              | 66.0           | 45.0   | 50.0   | 55.0   | 58.0   | 60.0   |
| <b>6. GENDER</b>   |  |                |        |        |        |        |        |
| a. Violence against women                                | Percentage of resolved gender-based violence cases / rate of violence against women                              | 28.3           | 2.0    | 3.0    | 5.0    | 4.0    | 40.0   |
| b. Women/Men in Primary Education                        | Ratio of girls to boys in primary education  | 0.9            | 0.9    | 0.9    | 0.9    | 0.9    | 1.0    |
| c. Women/Men in Secondary Education                      | Ratio of girls to boys in secondary education  | 1.2            | 1.2    | 1.1    | 1.1    | 1.1    | 1.1    |
| d. Women/Men in Higher Education                         | Ratio of girls to boys in higher education   | 1.4            | 1.3    | 1.3    | 1.2    | 1.2    | 1.1    |
| <b>7. CULTURE</b>  |  |                |        |        |        |        |        |
| a. Established museums                                   | Number of established museums  | 5.0            | 5.0    | 4.0    | 4.0    | 4.0    | 4.0    |
| <b>8. WELFARE</b>  |  |                |        |        |        |        |        |
| a. Population in the National Welfare Programme          | Percentage of total population that benefits from social welfare in the framework of the NWP contribution regime | 35.5           | 36.4   | 37.3   | 38.2   | 39.1   | 40.0   |
| b. Companies enrolled in the NWP                         | Percentage of companies enrolled in the NWP  | 37.0           | 38.0   | 39.0   | 40.0   | 41.0   | 42.0   |
| c. Population with Social Pension                        | Number of social pension beneficiaries   | 21,889         | 21,252 | 21,252 | 21,252 | 21,675 | 21,141 |
| d. Active population in the Pension System               | Percentage of economically active population that contributes to the pension system                              | 33.7           | 34.8   | 35.8   | 36.9   | 37.9   | 39.0   |

In the last decade the Government's priority was mainly directed to the development of the infrastructure of education and health, as well as boosting literacy activities in the poorer areas. Cape Verde now has secondary schools in all the Municipalities. Today there are also various centers for technical and vocational training and a public University. The health system also has regional hospitals in operation and health centers in most of the Municipalities.

Despite the positive variation in many of the indicators of development in the plan of Human Capital, the quality and fairness of the educational and health services require additional efforts. In this framework, the

GPRSP III embodies the changing plan of priorities through the adoption of a change that seeks to improve the quality of the services provided rather than the development of the infrastructures. As a result of this change in priorities, the expenditure on objective-based programs take natural precedence and relevance over the expenditure on investment programs.

Education is fundamental for the reduction of poverty. Various empirical studies show that the increase in the probability of being poor is in inverse proportion to the level of schooling. The improvement of the quality of education therefore has a fundamental role in the GPRSP III and a transverse impact on all the clusters of competitiveness.

With a view to attaining the goals outlined, the GPRSP III gives priority to the objective-based programs for the improvement in the quality of basic and secondary education in conjunction with programs for the development of technical and vocational training and the reinforcement of pre-schools. The objective involves the creation of conditions so that mandatory schooling is twelve years and nursery schools and kindergartens are extended to the entire country. The vision is to guarantee an improved quality of education from pre-school to vocational-technical training and higher education, setting up quality control throughout the entire system. At the pre-school level, the plan calls for a restructuring that improves the quality and increases the rate of coverage, along with a program of parent education. The measures associated with the level of basic education involve improving the institutional and pedagogical conditions, as well as carrying out the needed revision of the curriculum. Also to be highlighted is the strong emphasis on new technologies of information and communication with a view to enriching the learning experience of Basic Education through the “Mundu Novu” project – a computer for each teacher and each student. The effort will also be applied to sector governance and regulation by regulating the corresponding fundamental law and revising and enhancing the organizational structure of the line Ministry.

In regard to secondary education, the objective involves prioritizing the acquisition of learning techniques that give preference to a solid basis of languages, technologies and sciences. Other priorities are a strong interconnection with vocational training and the needed reformulation of the curricular structure of each of the cycles of higher education in the light of a closer alignment with the agenda for competitiveness. In regard to higher education, specifically, taking into account the exponential growth of the offer and the participation of students at this level in Cape Verde – the number of students per 100,000 inhabitants rose from 164 in 2001 to 2364 in 2011 – it has become a pressing matter to construct mechanisms for accrediting and assessing the quality of the offer, and for the training and capacitating of teachers, with a view to guaranteeing that the students receive the proper skills, as advertised by the courses.

The Government has adopted a policy of progressive valorization of human resources coming from a young and dynamic population. The need to qualify the labor force is a condition for stimulating the installation of companies and the subsequent energizing of the job market. A strong and decisive stake must be made on the qualification of education, the expansion and the diversification of the offer of new areas of vocational-technical education (agribusiness, maritime economy, the environment, health, renewable energies and tourism) and vocational training, as well as the adjustment/adaptation of more traditional secondary schools to offer areas of vocational-technical education in order to adapt the training profile of the country to the real needs of the job market. Vocational training will be approached in a way that prioritizes the training of technicians in the areas of hotel management and agriculture, agribusiness and maritime economy, in convergence with the areas of competitiveness identified in the economy. Training for entrepreneurship and innovation will also be an important facet, considering the importance that the creation of new businesses has for the on-going revitalization of the competitiveness of the entrepreneurial fabric of the country.

The programs in the area of social action in schools are a fundamental piece of the education policy, seeing that they seek to create conditions so that all the levels of society, regardless of their socio-economic condition, have the conditions to participate in the educational system. For this purpose, the plan is to apply the regime of free mandatory schooling through a system of supports and complements that make it possible to fully comply with mandatory schooling and attend other levels of education. The full coverage of the school canteens and initiatives of school health in the basic education and the corresponding progressive extension of it to the pre-school level, as well as the granting of scholarships to students in schools at the secondary, higher education and vocational-technical levels, all work together to increase the attendance and retention of students in the educational system. Reference is also made to the program to bolster special education, aiming for more institutions of learning in more municipalities to be able to accommodate students with special learning needs.

Despite the prioritization of the objective-based side of improved quality in education, the construction and renovation of schools is retained, especially at the level of secondary education. On this front are also included plans to recover lyceums, teacher training schools and the refurbishment and modernization of the infrastructures at a number of schools. Moreover, the investments will focus on equipping the infrastructures of higher learning with the means for research and on developing and improving the country's primary schools.

In the area of health, surveys show that the population of Cape Verde has recorded a gradual decline in communicable diseases, which nevertheless still persist, and there is a growing trend in the proportion of non-communicable diseases. The main priorities for the sector are centered on: the promotion of maternal and infant health; keeping a close watch on diseases that are potentially endemic; and the fight against non-communicable diseases. These guidelines are to be supported by the structuring of the health system and by the development of human resources. The promotion of fairness in access to health services by the citizens also constitutes a fundamental pillar in the political options of the Government.

The GPRSP III points to the continuing consolidation of the advances made in recent years. From the outset, one of the priorities is to allocate resources to the development and capacity building of the network of primary health care (centers, posts and headquarters of health delegations). The development of the network in the plan of infrastructures and also the capacity building of the human resources allocated to it, is important for consolidating a network of on-going first-line response that complements and alleviates the pressure on the network of hospitals. Another of the fundamental aspects also involves the improvement in the accessibility to medications through measures to develop the pharmaceutical sector, thereby seeking to guarantee access to safe and effective medicines for all the people.

The main challenges that remain have to do with improving the quality of the services provided to citizens and the corresponding care, and for this purpose, the implementation of management models is promoted for complete and full quality, specifically through a better use of the existing infrastructures, the qualification of the professionals, and the creation of conditions for training physicians in the country, without neglecting the financial sustainability of the national health system.

In short, the process of health reform in Cape Verde has in view the execution of the major objectives of the sector, namely:

i) the promotion of a greater fairness in the opportunities and the decentralization of health care services, and the reinforcement of the material and equipment of the health institutions; ii) the guarantee of increasingly better technical quality of the care; iii) improved access to services, a more personalized reception and greater user satisfaction; iv) improvement in the performance of the national service and the

management of health resources, with greater decentralization in the health delegations and health care regions, as well as a greater differentiation in the central level of care and management.

In regard to the promotion of participation in sports, the GPRSP III will focus heavily on programs that will build and renovate sports infrastructures (chiefly those in the schools), train sports agents, and organize competitions at various levels and in various modalities. It will thus seek to facilitate the access of the population to sports, strengthening the corresponding public services as a way of engaging the youth in an active and healthy citizenship.

In the field of culture and art, the GPRSP III will include programs that aim toward the implementation of the Strategic Plan for Culture (prepared in 2011) which seeks to energize in a broad way all the sectors that involve creativity (artistic or intellectual), as well as the products and services connected with the fruition and dissemination of culture (museums, cultural tourism, historical heritage, theatres and auditoriums for shows, etc.). The empowering of the creative economies assumes a prominent role even within the scope of the agenda for competitiveness, in that it can bring substantial gains to strengthening the added values of the anchor activity of the economy - tourism.

In regard to social protection and related to the human capital axis, the program under the Ministry of Youth, Employment and Human Resource Development stands out. The program is executed by the Cape Verdean Institute of the Child and Adolescent (ICCA) – a body that plays a fundamental role in guaranteeing the protection of the rights and the safety of children and adolescents in situations of risk, and their subsequent educational, societal-familial and/or professional integration.

Despite the efforts expended, many children and adolescents continue to face added economic and social difficulties. Poverty and the resulting worsening of living conditions limit the full enjoyment of their rights and place these social groups in situations of permanent risk and vulnerability.

Given the young demographic structure of Cape Verde, it is indispensable to have a “safety net” for this sector of the population. The goal of the GPRSP III therefore includes the expansion of the activities of the ICCA so that it embraces a greater share of this segment of the population. In this context, it becomes fundamental to reinforce the regional structures for the protection and defense of the rights of children and adolescents, specifically the delegations of the ICCA, the Child Emergency Centers, the Centers “Nos Kaza” – Street children, the Centers for Protection and Social Reintegration, the Day Care Centers and all the structures covered by the Statue of the Child and Adolescent, with a view to their full enjoyment of their associated rights.

Table 5.5 – Objective-based and Investment Programs in the Human Capital Axis 2012 - 2016

| AXIS  | FUNCTION                       | CAT  | #  | PROGRAMME   | VALUE<br>2012-2016 |
|---|--------------------------------|--|----|---|--------------------|
| <b>III. HUMAN CAPITAL</b>                   |                                |  |    |   |                    |
| <i>OBJECTIVES-BASED</i>                     |                                |  |    |   |                    |
|   | CULTURE, LEISURE<br>AND SPORTS | COMMUNITY SPORTS                                 | 1  | PROMOTION OF THE PRACTICE OF SPORTS   | 2,000,000          |
|   |                                | CULTURAL DIFFUSION                               | 2  | IMPROVEMENT OF THE LIBRARY, HERITAGE AND ARCHIVAL<br>COLLECTIONS            | 374,172,551        |
| EDUCATION                                   |                                | NATIONAL HISTORICAL AND<br>ARTISTIC HERITAGE     | 3  | NATIONAL PROMOTION OF THE ARTS  | 204,274,624        |
|   |                                |  | 4  | IMPROVEMENT OF THE LIBRARY, HERITAGE AND<br>ARCHIVAL COLLECTIONS            | 38,425,387         |
|   |                                | STUDENT SUPPORT                                  | 5  | SOCIAL AND SCHOOL ACTION  | 5,058,987,695      |
|   |                                | COMMUNITY SPORTS                                 | 6  | PROMOTION OF THE PRACTICE OF SPORTS   | 661,721,108        |
|   |                                | BASIC EDUCATION                                  | 7  | IMPROVEMENT IN QUALITY OF BASIC EDUCATION                                   | 15,356,287,443     |
|   |                                | SPECIAL EDUCATION                                | 8  | REINFORCEMENT OF SPECIAL EDUCATION  | 24,000,000         |
|   |                                | PRESCHOOL EDUCATION                              | 9  | REINFORCEMENT OF PRESCHOOL EDUCATION  | 41,286,708         |
|   |                                | SECONDARY EDUCATION                              | 10 | IMPROVEMENT IN QUALITY OF SECONDARY EDUCATION                               | 13,265,518,693     |
|   |                                | HIGHER EDUCATION                                 | 11 | TRAINING AND EMPOWERMENT  | 4,004,416,178      |
|   |                                |  | 12 | IMPROVEMENT IN QUALITY OF HIGHER EDUCATION                                  | 398,072,021        |
|   |                                | TECHNICAL EDUCATION AND<br>PROFESSIONAL TRAINING | 13 | DEVELOPMENT OF VOCATIONAL-TECHNICAL EDUCATION                               | 1,871,010,275      |
|   |                                |  | 14 | PROMOTION OF EMPLOYMENT AND VOCATIONAL TRAINING                             | 721,092,979        |
|   |                                |  | 15 | YOUTH PARTICIPATION AND REPRESENTATION                                      | 561,910,876        |
| JUSTICE, CITIZENSHIP<br>AND YOUTH<br>HEALTH |                                | YOUTH  |    |   |                    |
|   |                                | MEDICAL-HOSPITAL<br>ASSISTANCE                   | 16 | HEALTH CARE IN THE HOSPITAL NETWORKS  | 8,349,055,561      |
|   |                                | URGENT CARE                                      | 17 | DEVELOPMENT OF THE PHARMACEUTICAL SECTOR                                    | 1,163,486,742      |
|   |                                |  | 18 | HEALTH CARE IN THE URGENT CARE CENTRE NETWORKS                              | 4,023,314,531      |
|   |                                |  | 19 | PROMOTION OF HEALTH AND RESEARCH  | 175,044,945        |
|   |                                |  | 20 | REINFORCEMENT OF FIGHT AGAINST AIDS   | 167,909,559        |
|   |                                | SPECIALISED MEDICAL SUPPORT                      | 21 | INSTITUTIONAL DEVELOPMENT   | 100,500,000        |
| WORK AND SOCIAL<br>WELFARE                  |                                | CHILD AND ADOLESCENT<br>ASSISTANCE               | 22 | IMPROVEMENT OF STANDARD OF LIVING FOR<br>CHILDREN AND ADOLESCENTS           | 531,184,950        |
| <b>TOTAL OBJECTIVES-BASED</b>               |                                |  | 23 |   | 57,093,672,826     |
| <i>INVESTMENT</i>                           |                                |  |    |   |                    |
|   | CULTURE, LEISURE<br>AND SPORTS | NATIONAL HISTORICAL AND<br>ARTISTIC HERITAGE     | 1  | DEVELOPMENT OF CREATIVE INDUSTRIES  | 27,046,916         |
|   |                                |  | 2  | VALUING OF CULTURAL AND TOURISM HERITAGE                                    | 123,720,308        |
| EDUCATION                                   |                                | GENERAL ADMINISTRATION                           | 3  | REINFORCEMENT OF THE QUALITY OF EDUCATION AND<br>SPORTS SYSTEM              | 540,751,974        |
|   |                                | COMMUNITY SPORTS                                 | 4  | CONSTRUCTION AND REHABILITATION OF SPORTS<br>INFRASTRUCTURES                | 486,000,000        |
|   |                                | BASIC EDUCATION                                  | 5  | DEVELOPMENT OF BASIC EDUCATION INFRASTRUCTURES                              | 312,730,453        |
|   |                                | SECONDARY EDUCATION                              | 6  | DEVELOPMENT OF SECONDARY EDUCATION<br>INFRASTRUCTURES                       | 1,589,753,501      |
|   |                                | HIGHER EDUCATION                                 | 7  | CONSOLIDATION OF HIGHER EDUCATION   | 144,871,152        |
|   |                                |  | 8  | HIGHER EDUCATION INFRASTRUCTURES  | 299,272,838        |
| HEALTH                                      |                                | MEDICAL-HOSPITAL<br>ASSISTANCE                   | 9  | HOSPITAL NETWORK INFRASTRUCTURES  | 311,043,001        |
|   |                                | URGENT CARE                                      | 10 | URGENT CARE NETWORK INFRASTRUCTURES   | 246,388,401        |
|   |                                | SPECIALISED MEDICAL SUPPORT                      | 11 | DEVELOPMENT OF HEALTH HUMAN RESOURCES                                       | 133,727,211        |
|   |                                |  | 12 | INTEGRATED HEALTH INFORMATION SYSTEM  | 110,000,000        |
|   |                                | EPIDEMIOLOGICAL OVERSIGHT                        | 13 | PROFESSIONAL TRAINING DIRECTED TOWARDS EMPLOYMENT<br>AND SOCIAL INVOLVEMENT | 1,715,954,384      |
| WORK AND SOCIAL<br>WELFARE                  |                                | EMPLOYMENT PROMOTION                             |    |   |                    |
| <b>TOTAL INVESTMENT</b>                     |                                |  |    |   | 6,041,260,139      |

### 5.2.3 Programs of AXIS III: Good Governance

Good governance is a basic requirement for any change to take place. In the world today, sustainable change for the long term is only possible when good governance practices are in place that facilitate the appropriation of the policies for the reduction of poverty. The good governance axis brings together all the transverse and sectorial programs that point toward the improvement in the quality of governance - about 75 programs (45 being objective-based and 30 of investment) which cover 16 functions of governance. Included here are the programs that seek to implement and promote the priority reforms described in detail in chapter 4. In this axis are also included the programs of management and administrative support to the various sectors (48 in all). The indicators and goals of the axis for the implementation period of the GPRSP III are as follows:

Table 5.6 – Indicators and Goals for the Good Governance Axis

| Indicators and Goals of AXIS III: Good Governance |  |                |        |        |        |        |        |
|---|--|----------------|--------|--------|--------|--------|--------|
| Areas/Goals                                       | Indicator  | Base Year 2011 | 2012   | 2013   | 2014   | 2015   | 2016   |
| <b>1. STATE REFORM</b>                            |  |                |        |        |        |        |        |
| a. <i>Doing Business</i> Report                   | Ranking in "Doing Business" report   | 129            | 119    | 122    | 119    | 116    | 110    |
| b. <i>Competitiveness</i> Report                  | Ranking in "world competitiveness report"  | 117            | 119    | 120    | 121    | 122    | 123    |
| c. Country Risk                                   | Rating   | B              | B      | B      | B      | B      | B      |
| d. Net International Reserves                     | Net international reserves (millions CVE)  | 28,340         | 27,418 | 31,627 | 34,443 | 36,366 | 39,100 |
| e. Fiscal Deficit                                 | Percentage of fiscal deficit in relation to GDP  | -7.3           | -6.6   | -7.4   | -2.9   | 0.0    | 1.8    |
| f. Tax Revenue                                    | Percentage of tax revenue in relation to GDP   | 25.0           | 23.4   | 26.5   | 27.2   | 25.8   | 24.3   |
| g. Inflation                                      | Annual average inflation rate  | 4.5            | 2.4    | 2.5    | 2.6    | 2.5    | 2.5    |
| h. Environmental Expenditures                     | Percentage of environmental expenditures in the State Budget                           | 0.9            | 0.4    | 1.0    | 1.2    | 1.3    | 1.4    |
| i. Educational Expenditures                       | Percentage of educational expenditures in the State Budget                             | 5.1            | 5.0    | 5.4    | 5.9    | 6.5    | 7.2    |
| j. Health Expenditures                            | Percentage of health expenditures in the State Budget                                  | 13             | 11     | 15     | 16     | 17     | 17     |
| <b>2. SAFETY</b>                                  |  |                |        |        |        |        |        |
| a. Violent crime against persons                  | Percentage of violent crime occurrences in relation to total crimes against persons    | 16.3           | —      | —      | —      | —      | —      |
| b. Violent crime in 16 to 24 year olds            | Annual variation rate of violent criminal occurrences perpetrated by youth 16-24 years | 0.0            | -5.0   | -5.0   | -5.0   | -5.0   | -5.0   |
| c. Crimes against Patrimony                       | Annual variation of criminal occurrences against the patrimony                         | 0.0            | -2.0   | -4.0   | -4.0   | -4.0   | -4.2   |
| d. Sexual crimes                                  | Rate of change sexual criminal occurrences   | 0.0            | -3.0   | -3.0   | -3.0   | -3.0   | -3.0   |
| e. Crime against persons                          | Annual variation of criminal occurrences against persons                               | 0.0            | -2.0   | -2.0   | -2.0   | -2.0   | -2.0   |
| f. Police force                                   | Number of police agents per 10000 inhabitants  | —              | —      | —      | —      | —      | —      |
| g. Traffic accidents                              | Number of deaths in traffic accidents  | 48             | 44     | 41     | 37     | 34     | 30     |
| <b>3. JUSTICE</b>                                 |  |                |        |        |        |        |        |
| a. Cases Entered                                  | Number of criminal cases entered   | 28463          | —      | —      | —      | —      | —      |
| b. Cases Carried Forward                          | Number of criminal cases carried forward   | 63.0           | —      | —      | —      | —      | —      |
| c. Cases Concluded                                | Percentage of criminal cases resolved  | 13.5           | 22     | 30     | 38     | 45     | 52     |
| <b>4. ENVIRONMENT</b>                             |  |                |        |        |        |        |        |
| a. Protected beaches                              | Number of protected beaches  | 20             | 20     | 33     | 50     | 65     | 70     |
| b. Sand harvesting                                | % of sand of legal origin  | 75             | 75     | 80     | 85     | 90     | 100    |
| <b>5. WORK AND WELFARE</b>                        |  |                |        |        |        |        |        |
| a. Total youth unemployment                       | Unemployment rate in youth 15-24 years old by gender - Total                           | 27.1           | 26.9   | 26.8   | 26.5   | 25.9   | 25.7   |
| b. Male youth unemployment                        | Male   | 22.1           | 21.9   | 21.9   | 21.6   | 21.1   | 21.0   |
| c. Female youth unemployment                      | Fem  | 33.5           | 32.9   | 32.8   | 32.4   | 31.6   | 31.3   |
| d. Social Trade Union dialogue                    | Unionised Worker rate (%)  | 18.9           | —      | —      | —      | —      | —      |
| <b>6. LAND PLANNING</b>                           |  |                |        |        |        |        |        |
| a. Digital records                                | Number of digital records  | 0              | 0      | 0      | 1      | 1      | 2      |
| <b>7. DECENTRALISATION</b>                        |  |                |        |        |        |        |        |
| a. Municipalities with MIS                        | Number of Municipalities with active Municipality Information Systems (MIS)            | 20             | 22     | 22     | 22     | 22     | 22     |

The GPRSP III agenda for the reform of Public Administration includes first of all, within the scope of the National Planning System (SNP) and specifically in the subcomponent of Follow-up and Assessment, the adoption of a results-based budget in a context of strategic planning. It is intended that this progress, already reflected in the program structure of the GPRSP III, will make a decisive contribution to the orientation of public expenditure in a logic of result-based management. Additionally, all the major reforms within the scope of public finances, beginning with the treasury banking practices and the reinforcement of the management of the debt, to the reinforcement of the national system of public procurement, work together to increase the quality and efficiency of the central and local governance.

On another level, the rationalization of the State structures places its stakes on seeking synergies and gains through the merger/creation of distinct entities of the Central Administration. It is also important to change the values that govern the actions of the various agents of the Public Administration, investing in the culture of excellence in the work and productivity with a focus on the needs of the customers/users, citizens and companies. The Program “Mudar para Competir” (Change to Compete) and the agenda for the reform of the State embody measures in this direction that seek to maintain the good dynamics of reforms leading to the improvement of the business atmosphere and the corresponding improvement in the provision of services to all the counterparts of the public administration. The reform and strengthening of the regulatory system, with the important contribution of the pillar of technical-normative convergence of the Special Partnership of Cape Verde with the European Union, is intended to raise the quality and efficiency of the economic and technical supervision in various economic sectors of Cape Verde. The Public Investment System, another pillar of the SNP, and the reforms outlined with a view to the implementation of improved practices of evaluation and selection of public investment projects, also constitutes a priority reform, taking into account the volume of investment spending included in the GPRSP III.

The National Statistics System, a third subcomponent of the SNP, and in particular the new National Statistics Agenda and the capacity building of the National Institute of Statistics (INE) as the central actor in the official compilation of statistics, also constitutes a fundamental priority with a view to providing all the economic agents with a set of information necessary for the assessment of the socio-economic context, on a regular basis. The INE will also play a fundamental role in the tracking and monitoring of the indicators of the follow-up and assessment of the GPRSP III.

In the matter of land planning, the GPRSP III will continue the regulation and application of the recently enacted norms, lead by the National Directorate of Land Planning, and will proceed with the reforms for improvements in the system of land registry, seeking to reinforce the legal security of real estate transactions. A transparent and articulated system of land management between all the actors involved, with a special emphasis on the role of the Municipalities, is a necessary condition for the indispensable improvement in the business environment.

In regard to decentralization and the reinforcement of municipal involvement, the aim is to seek greater effectiveness in the implementation of public policies throughout the entire country, with quality and without delay. In this particular, the bet is not only on the continuing adjustment of the legal framework to new challenges, but also on the mobilization of human, technological (especially through the dissemination of the Municipal Information System) and financial resources to leverage local development and the enabling of Municipal Administration to find factors that induce regional development to bring out the potential of the resources of each island.

In today’s world, new communications technologies are a fundamental pillar for any service economy and in this respect Cape Verde cannot dissociate itself from the on-going bet on the agenda for electronic governance and an information society, taking into account the advances already made on this front. In this regard, the GPRSP III carries on with the agenda through the consolidation, introduction and dissemination of new information technologies in various domains, with special emphasis being given to education and the improvement of the quality and efficiency of the Central and Local Administration. The NOSI (*Operational Centre for Information Society*) will continue to be the anchor for the fulfillment of the vision embodied in the associated strategic plans - the Strategic Plan for the Information Society (PESI) and the Action Plan for Electronic Governance – and will collaborate in the setting up in Cape Verde of a service centre for ICTs, as described in the agenda for competitiveness.

The number and importance of the programs allocated to the functions of security and justice demonstrate from the outset the strong wager made by the GPRSP III to improve response in these areas. On the level of internal security, programs are envisioned for the prevention and repression of crime, namely the seizure of illegal weapons, the fight against juvenile delinquency and the increased capacity to combat manifestations of organized crime, especially the urban and more violent forms. The National Police and the Judiciary Police will see their respective capabilities for intervention and investigation reinforced in line with the proposed goals. The equipping of the prison system through the construction and remodeling of the existing infrastructure, the training of more prison agents, as well as the promotion of social integration of the prisoners will also be priorities of the justice function. Specifically through recourse to technological means, the aim will be, to improve the speed and quality of the judicial response, seeking a greater effectiveness in combating crime.

On the level of national defense, the reform and equipping of the Armed Forces will foster the guarantee of security in fundamental domains such as the patrol and monitoring of the Exclusive Economic Zone and the mitigation of risks associated with illicit flows and trafficking. The increased number of hours of aerial and maritime patrol with the use of new means for the Coast Guard takes on a special importance in this sphere.

In terms of environmental governance, important challenges loom on the horizon. The articulation and implementation of the second edition of the National Action Plan for the Environment between the Central Administration and Municipalities will demand an increased level of coordination, taking into account the importance of sustaining the environmental balance in the face of the desired economic development. The development of the clusters of competitiveness cannot be dissociated from measures to safeguard environmental resources for the benefit of future generations. The GPRSP III will therefore bet heavily on the implementation of programs to consolidate and renew the environment through the preparation of the corresponding management instruments (management plans for forested areas, regulations on protected areas, etc.). The reinforcement of the environmental follow-up will also be essential in the regular monitoring of the quality of various parameters of the sector, and thus be able to inform the decision-making process related to associated policies and measures.

The axis also includes strengthening the endogenous capacities of research and development in critical areas of the agenda for competitiveness. Highlighted in this sphere is the research related to fisheries in order to gain a better understanding and achieve a more rational and sustainable use of the marine resources, as well as improvements in the meteorological and geophysical services, in order to improve the models, weather forecasting and the mitigation of risks associated with natural disasters.

The promotion of gender-based fairness and equality will continue to find in the Cape Verdean Institute for Gender Equality and Fairness the nerve center for the implementation of policies and transverse activities. The intention is that the Institute continues to wager on an ambitious agenda with a view to achieving quality changes in behavior and attitudes in regard to the role of women in the socio-economic field. The question is also relevant from the perspective of competitiveness, seeing that the challenges for the increase in productivity and economic growth can only be overcome through the realization of the full potential of women contributing to the enabling and development of the human capital of the country.

Table 5.7 – Objective-based Programs of the Good Governance Axis 2012 - 2016

| AXIS                   | FUNCTION   | CAT   | #  | PROGRAMME   | VALUE<br>2012-2016                                      |                |
|------------------------|--|---|--|---|---|----------------|
| II. GOOD GOVERNANCE    |  |   |  |   |   |                |
| OBJECTIVES-BASED       |  |   |  |   |   |                |
|                        | ADMINISTRATION   | STATE ADMINISTRATION<br>GENERAL ADMINISTRATION                                    | 1  | REINFORCEMENT OF PARTICIPATION IN POLITICAL LIFE  | 280,431,130   |                |
|                        |  |   | 2  | IMPROVEMENT IN QUALITY OF HUMAN RESOURCES   | 1,252,119   |                |
|                        |  |   | 3  | IMPROVEMENT IN THE PUBLIC PROCUREMENT SYSTEM  | 165,557,647   |                |
|                        |  |   | 4  | REINFORCEMENT OF PARTICIPATION IN POLITICAL LIFE  | 80,229,504  |                |
|                        |  | 5   | REINFORCEMENT OF TECHNICAL SKILLS OF Min of Finan. & Plan.                       | 1,521,805,080   |   |                |
|                        |  | LOCAL ADMINISTRATION  | 6  | MANAGEMENT OF ELECTORAL PROCESS   | 167,955,750   |                |
|                        |  |   | 7  | IMPROVEMENT IN DECENTRALISATION AND REINFORCEMENT OF  | 180,492,343   |                |
|                        |  |   | 8  | IMPROVEMENT OF MASS MEDIA   | 99,903,934  |                |
|                        |  |   | 9  | IMPROVEMENT OF NATIONAL STATISTICS SYSTEM   | 1,101,519,267   |                |
|                        |  | 10  | PROMOTION OF EXCELLENCE AND TRANSPARENCY IN THE<br>MANAGEMENT OF PUBLIC FINANCES | 525,400,368   |   |                |
|                        | AGRICULTURE, CATTLE-<br>RAISING, FISHING AND<br>SUPPLY             | SPECIAL COMMUNITY<br>ASSISTANCE   | 11   | PROMOTION OF THE RIGHT TO FOOD AND ACCESS TO<br>SOCIAL SERVICES                                     | 48,000,000  |                |
|                        |  |   | 12   | IMPROVEMENT OF METEOROLOGY AND GEOPHYSICAL SERVICES   | 832,843,223   |                |
|                        |  | METEOROLOGY AND GEOPHYSICAL<br>RESEARCH APPLIED TO<br>STATE SERVICES              | 13   | DEVELOPMENT OF AGRICULTURAL RESEARCH  | 294,373,293   |                |
|                        |  |   | 14   | IMPROVEMENT OF THE NATIONAL STATISTICS SYSTEM   | 40,000,000  |                |
|                        |  | SCIENCE AND TECHNOLOGY  | 15   | IMPROVEMENT OF METEOROLOGY AND GEOPHYSICAL SERVICES   | 12,500,000  |                |
|                        |  |   | 16   | DEVELOPMENT OF RESEARCH APPLIED TO FISHING  | 363,942,355   |                |
|                        |  | CULTURE, LEISURE<br>AND SPORTS  | NATIONAL HISTORICAL<br>AND ARTISTIC HERITAGE                                     | 17  | RESEARCH AND MANAGEMENT OF CULTURAL PATRIMONY           | 332,763,455    |
|                        |  |   |  | 18  | IMPROVEMENT OF NATIONAL DEFENCE                         | 3,736,276,597  |
|                        |  | NATIONAL DEFENCE  | NATIONAL DEFENCE   | 19  | IMPROVEMENT OF AIR, MARITIME AND URBAN PATROL           | 273,388,652    |
|                        |  |   |  | 20  | DEVELOPMENT OF PUBLIC FINANCES MANAGEMENT<br>ACTIVITIES | 30,643,041,378 |
|                        | SPECIAL COSTS  | OTHER SPECIAL COSTS   | 21   | MUNICIPAL SUSTAINABILITY AND EQUILIBRIUM  | 15,603,303,958  |                |
|                        |  |   | 22   | ENVIRONMENTAL CONSOLIDATION AND RENEWAL   | 3,255,515,788   |                |
|                        | ENVIRONMENTAL MGMT   | ENVIRONMENTAL PRESERVATION<br>AND CONSERVATION                                    | 23   | IMPROVEMENT OF LAND PLANNING AND MANAGEMENT   | 284,900,000   |                |
|                        |  |   | 24   | PROMOTION OF CIVIL AND CRIMINAL JUSTICE   | 973,067,317   |                |
|                        | HOUSING, URBANISM<br>AND LAND PLANNING<br>JUSTICE, CITIZENSHIP AND | URBAN INFRASTRUCTURE AND<br>URBAN PLANNING  | 25   | PROMOTION OF THE DEMOCRATIC LEGALITY OF PUBLIC<br>INTEREST AND CRIMINAL ACTION                      | 960,937,541   |                |
|                        |  |   | 26   | PROMOTION OF SUPREME JUSTICE  | 271,250,755   |                |
|                        |  | CITIZENSHIP<br>CUSTODY AND SOCIAL<br>REINTEGRATION                                | 27   | IMPROVEMENT OF JUDICIAL SYSTEM  | 939,681,749   |                |
|                        |  |   | 28   | IMPROVEMENT OF PRISON SYSTEM AND SOCIAL REINTEGRATION<br>FOR ADULTS AND MINORS IN CONFLICT WITH LAW | 1,240,956,581   |                |
|                        |  | DEFENCE OF COLLECTIVE INTEREST  | 29   | SOCIAL REINTEGRATION OF SUBSTANCE DEPENDENTS  | 168,138,945   |                |
|                        |  |   | 30   | IMPROVEMENT OF NOTARY REGISTRY SERVICES AND   | 1,191,175,277   |                |
|                        |  | GENDER  | 31   | PROMOTION OF THE DEFENCE OF COLLECTIVE INTEREST   | 66,830,000  |                |
|                        |  |   | 32   | PROTECTION OF CITIZEN RIGHTS  | 156,478,000   |                |
|                        |  | SCIENTIFIC AND CRIMINAL<br>INVESTIGATION  | 33   | PROMOTION OF GENDER EQUALITY AND FAIRNESS   | 62,514,591  |                |
|                        |  |   | 34   | SCIENTIFIC AND CRIMINAL INVESTIGATION   | 1,208,689,980   |                |
|                        | LEGISLATIVE  | REGULATION AND MONITORING   | 35   | PROMOTION OF EXCELLENCE AND TRANSPARENCY IN THE<br>MANAGEMENT OF PUBLIC FINANCES                    | 58,124,541  |                |
|                        |  |   | 36   | FURTHERING OF CAPE VERDE'S REGIONAL INTEGRATION   | 6,286,152   |                |
|                        | FOREIGN RELATIONS<br>SAFETY AND ORDER                              | DIPLOMATIC RELATIONS<br>GENERAL ADMINISTRATION<br>POLICING<br>ROAD TRANSPORTATION | 37   | REINFORCEMENT OF PARTICIPATION IN POLITICAL LIFE  | 830,367,475   |                |
|                        |  |   | 38   | IMPROVEMENT OF INTERNAL SECURITY  | 10,288,319,830  |                |
|                        |  |   | 39   | IMPROVEMENT OF ROAD TRANSPORTATION SAFETY   | 45,500,000  |                |
|                        |  |   | 40   | REINFORCEMENT OF ROADWAY TRANSPORTATION SAFETY  | 44,000,000  |                |
|                        | WORK AND SOCIAL<br>WELFARE   | SPECIAL AND COMMUNITY<br>ASSISTANCE<br>WORKER PROTECTION AND<br>ASSISTANCE        | 41   | GUARANTEE OF ACCESS TO SOCIAL WELFARE TO ALL<br>SOCIAL GROUPS AND PROFESSIONALS                     | 1,767,537,389   |                |
|                        |  |   | 42   | IMPROVEMENT OF WORK CONDITIONS AND RELATIONS BETWEEN<br>SOCIAL PARTNERS                             | 135,442,788   |                |
|                        | TRANSPORTATION<br>TOURISM, COMMERCE,<br>INDUSTRY AND SERVICES      | MARITIME TRANSPORTATION<br>REGULATION AND MONITORING                              | 43   | IMPROVEMENT OF TRANSPORTATION AND SAFETY SYSTEMS  | 605,032,482   |                |
|                        |  |   | 44   | IMPROVEMENT OF THE STATE'S MONITORING AND<br>REGULATING FUNCTION                                    | 415,648,674   |                |
|                        |  |   | 45   | IMPROVEMENT OF CONSUMER PROTECTION AND DEFENCE  | 30,640,000  |                |
| TOTAL OBJECTIVES-BASED |  |   |  |   | 81,312,015,908  |                |

Table 5.8 – Investment Programs of the Good Governance Axis 2012 - 2016

| AXIS                | FUNCTION  | CAT  | #                                   | PROGRAMME  | VALUE<br>2012-2016                                     |                |
|---------------------|---|--|-------------------------------------|--|--|----------------|
| II. GOOD GOVERNANCE |   |  |                                     |  |  |                |
| INVESTMENT          |   |  |                                     |  |  |                |
|                     | ADMINISTRATION  | GENERAL ADMINISTRATION                         | 1                                   | INTEGRATED HR SYSTEM   | 15,000,000   |                |
|                     |   | PLANNING AND STATISTICS                        | 2                                   | DEVELOPMENT OF STATISTICAL SYSTEM  | 356,233,156  |                |
|                     |   | STATE REFORM                                   | 3                                   | MODERNISATION OF PUBLIC ADMINISTRATION                                     | 845,526,080  |                |
|                     |   | INFORMATION TECHNOLOGY                         | 4                                   | ELECTRONIC GOVERNANCE  | 780,650,488  |                |
|                     | AGRICULTURE, CATTLE-<br>RAISING,FISHING AND<br>SUPPLY | METEOROLOGY AND GEOPHYSICAL                    | 5                                   | REDUCTION OF NATURAL CATASTROPHE RISKS                                     | 86,000,000   |                |
|                     | NATIONAL DEFENSE                                      | NATIONAL DEFENCE                               | 6                                   | RENOVATION OF NATIONAL DEFENCE INFRASTRUCTURES                             | 268,797,495  |                |
|                     | ENVIRONMENTAL MGMT                                    | ENVIRONMENTAL PRESERVATION<br>AND CONSERVATION | 7                                   | REINFORCEMENT OF ENVIRONMENTAL QUALITY                                     | 42,500,000   |                |
|                     | HOUSING, URBANISM<br>AND LAND PLANNING                | URBAN INFRASTRUCTURE AND<br>URBAN PLANNING     | 8                                   | CONSTRUCTION AND RENOVATION OF STATE INFRASTRUCTURES                       | 1,295,063,897  |                |
|                     |   |  | 9                                   | REINFORCEMENT OF LAND PLANNING AND URBAN PLANNING                          | 77,148,461   |                |
|                     |   |  | 10                                  | NATIONAL SYSTEM OF LAND REGISTRY   | 1,376,890,633  |                |
|                     | JUSTICE, CITIZENSHIP<br>AND YOUTH                     | JUDICIAL ACTION                                | 11                                  | MODERNISATION OF JUDICIAL OFFICES  | 295,000,000  |                |
|                     |   |  | 12                                  | DEVELOPMENTS OF SAFE PRISON SYSTEM AND PRISON<br>SUSTAINABILITY            | 73,045,000   |                |
|                     |   | CUSTODY AND SOCIAL<br>REINTEGRATION            | 13                                  | PREVENTION AND FIGHT AGAINST DRUGS   | 60,000,000   |                |
|                     |   |  | 14                                  | PROMOTION OF REGISTRY, NOTARY AND IDENTIFICATION<br>SERVICES               | 108,000,424  |                |
|                     |   | GENDER   | 15                                  | REINFORCEMENT OF GENDER EQUALITY AND FAIRNESS                              | 21,735,000   |                |
|                     |   | URBAN SERVICES                                 | 16                                  | CONSTRUCTION AND REQUALIFICATION OF<br>PRISONS AND JUDICIAL INFRASTRUTURES | 916,200,000  |                |
|                     |   | FOREIGN RELATIONS                              | INFORMATION TECHNOLOGY              | 17   | ELECTRONIC GOVERNANCE                                  | 30,000,000     |
|                     |   | HEALTH   | STANDARDISATION AND QUALITY         | 18   | CERTIFICATION OF THE QUALITY OF HEALTH SERVICES        | 320,000,000    |
|                     |   | PUBLIC SAFETY AND<br>ORDER                     | CIVIL DEFENCE                       | 19   | REINFORCEMENT OF CIVIL PROTECTION                      | 12,255,698     |
|                     |   |  |                                     | 20   | CONSTRUCTION AND RENOVATION OF STATE INFRASTRUCTURES   | 89,059,700     |
|                     | URBAN INFRASTRUCTURE AND<br>URBAN PLANNING            |  | 21                                  | CONSTRUCTION AND IMPROVEMENT OF POUCE INFRASTRUCTURES                      | 292,050,000  |                |
|                     |   |  | 22                                  | MODERNISATION OF INTERNAL ADMINISTRATION SERVICES                          | 36,592,014   |                |
|                     | FIRE PROTECTION                                       |  | 23                                  | REINFORCEMENT OF INTERNAL SECURITY   | 170,860,766  |                |
|                     |   |  | 24                                  | REINFORCEMENT OF FIRE PROTECTION   | 20,006,400   |                |
|                     | URBAN SERVICES  |  | 25                                  | CONSTRUCTION AND RENOVATION OF PRISONS<br>AND JUDICIAL INFRAESTRUTURES     | 6,000,000  |                |
|                     |   |  | 26                                  | REINFORCEMENT OF ROAD TRANSPORTATION SAFETY                                | 9,000,000  |                |
|                     | WORK AND SOCIAL<br>WELFARE                            |  | SPECIAL AND COMMUNITY<br>ASSISTANCE | 27   | ACCESS TO BASIC SOCIAL SERVICES AND INCOME BY THE POOR | 569,389,648    |
|                     |   |  | 28                                  | PROGRAMME "MORE QUALITY MORE COMMUNITY" AND<br>MICRO REALISATIONS          | 3,734,595,260  |                |
|                     | TOURISM, COMMERCE,<br>INDUSTRY AND SERVICES           | REGULATION AND MONITORING                      | 29                                  | STATE'S MONITORING AND REGULATION FUNCTION                                 | 1,890,000  |                |
|                     |   |  | 30                                  | RATIONALISATION OF STRUCTURES  | 28,201,500   |                |
|                     | TOTAL INVESTMENT                                      |  |                                     |  |  | 11,937,691,620 |

Table 5.9 – Management and Administrative Support Programs of the Good Governance Axis 2012 - 2016

| AXIS   | FUNCTION  | CAT   | #  | PROGRAMME  | VALUE<br>2012-2016    |
|--|---|---|----|--|-----------------------|
| <b>II. GOOD GOVERNANCE</b>                         |   |   |    |  |                       |
| <b>MANAGEMENT AND ADMINISTRATIVE SUPPORT</b>       |   |   |    |  |                       |
|  | ADMINISTRATION                                  | STATE ADMINISTRATION                                | 1  | PRESIDENT OF THE REPUBLIC'S PROGRAMME  | 1,273,816,084         |
|  |   | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION | 2  | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION MAHOT (Min. of Environment, Housing and Land Planning) | 69,692,676            |
|  |   |   | 3  | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION MFP (Min. of Finances and Planning)                    | 899,848,372           |
|  |   |   | 4  | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION MJEDRH (Min. of Youth, Employment and HR Development)  | 206,907,833           |
|  |   |   | 5  | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION - GOV LEADERSHIP                                       | 218,842,703           |
|  |   |   | 6  | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION - Min. of Communities                                  | 37,636,391            |
|  |   |   | 7  | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION - MDN - Min. of National Defence                       | 28,830,864            |
|  |   | GENERAL ADMINISTRATION                              | 8  | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION MIEM - Min. of Maritime Infrastructures and Economy    | 137,134,840           |
|  |   |   | 9  | MANAGEMENT AND GENERAL ADMINISTRATION - MAHOT  | 340,301,373           |
|  |   |   | 10 | MANAGEMENT AND GENERAL ADMINISTRATION - MAPM (Assistant to the Prime Minister)                             | 63,037,300            |
|  |   |   | 11 | MANAGEMENT AND GENERAL ADMINISTRATION - Min. Communities   | 143,820,107           |
|  |   |   | 12 | MANAGEMENT AND GENERAL ADMINISTRATION - MDN  | 202,163,890           |
|  |   |   | 13 | MANAGEMENT AND GENERAL ADMINISTRATION MDR (Min. for Rural Development)                                     | 17,233,712            |
|  |   |   | 14 | MANAGEMENT AND GENERAL ADMINISTRATION MFP  | 8,710,036,761         |
|  |   |   | 15 | MANAGEMENT AND GENERAL ADMINISTRATION MIEM   | 318,363,036           |
|  |   |   | 16 | MANAGEMENT AND GENERAL ADMINISTRATION MJEDRH   | 730,323,470           |
|  |   |   | 17 | MANAGEMENT AND GENERAL ADMINISTRATION MTIE (Min. for Tourism, Industry and Energy)                         | 439,126,720           |
|  |   |   | 18 | MANAGEMENT AND GENERAL ADMINISTRATION - PCM (Presidency of Council of Ministers)                           | 461,136,149           |
|  |   |   | 19 | MANAGEMENT AND GENERAL ADMINISTRATION - GMRE (Office of Minister of Foreign Affairs)                       | 870,808,390           |
|  |   |   | 20 | MANAGEMENT AND GENERAL ADMINISTRATION - GPM (Office of the Prime Minister)                                 | 1,193,199,341         |
|  |   |   | 21 | MANAGEMENT AND GENERAL ADMINISTRATION - SEAP (Sec. of State for Public Administration)                     | 189,346,330           |
|  | AGRICULTURE, CATTLE-RAISING, FISHING AND SUPPLY | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION | 22 | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION MDR  | 273,252,333           |
|  |   | GENERAL ADMINISTRATION                              | 23 | MANAGEMENT AND GENERAL ADMINISTRATION MDR  | 444,830,839           |
|  |   |   | 24 | MANAGEMENT AND GENERAL ADMINISTRATION MIEM   | 43,168,730            |
|  | SCIENCE AND TECHNOLOGY                          | GENERAL ADMINISTRATION                              | 25 | MANAGEMENT AND GENERAL ADMINISTRATION MIEM   | 112,038,016           |
|  | CULTURE, LEISURE AND SPORTS                     | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION | 26 | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION MCULTURA   | 30,272,834            |
|  |   | GENERAL ADMINISTRATION                              | 27 | MANAGEMENT AND GENERAL ADMINISTRATION - Min. CULTURE   | 234,939,985           |
|  | EDUCATION                                       | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION | 28 | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION - MED - Ministry of Education                          | 1,731,677,310         |
|  |   |   | 29 | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION - MESCI (Min. of Higher Educ., Science and Innovation) | 36,122,137            |
|  |   | GENERAL ADMINISTRATION                              | 30 | MANAGEMENT AND GENERAL ADMINISTRATION - MED  | 871,880,924           |
|  |   |   | 31 | MANAGEMENT AND GENERAL ADMINISTRATION - MESCI  | 196,079,863           |
|  | SPECIAL COSTS                                   | GENERAL ADMINISTRATION                              | 32 | MANAGEMENT AND GENERAL ADMINISTRATION MFP  | 10,000,000            |
|  |   | DEBT SERVICE  | 33 | PUBLIC DEBT MANAGEMENT   | 19,420,517,305        |
|  | HOUSING, URBANISM AND LAND PLANNING             | GENERAL ADMINISTRATION                              | 34 | MANAGEMENT AND GENERAL ADMINISTRATION MAHOT  | 105,461,969           |
|  | JUSTICE, CITIZENSHIP AND YOUTH                  | JUDICIAL ACTION                                     | 35 | ADMINISTRATION AND MANAGEMENT OF THE JUDICIAL COURTS AND OFFICES   | 314,281,646           |
|  |   |   | 36 | PROMOTION OF DEMOCRATIC LEGALITY OF THE PUBLIC INTEREST AND CRIMINAL ACTION                                | 210,333,789           |
|  |   | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION | 37 | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION - MJ (Ministry of Justice)                             | 302,920,338           |
|  |   | GENERAL ADMINISTRATION                              | 38 | MANAGEMENT AND GENERAL ADMINISTRATION - MJ   | 447,303,282           |
|  | LEGISLATIVE                                     | LEGISLATIVE ACTION                                  | 39 | PARLIAMENT ACTION PROGRAMME  | 3,773,940,126         |
|  | FOREIGN RELATIONS                               | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION | 40 | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION - MIREX (Ministry of Foreign Affairs)                  | 711,492,032           |
|  |   | GENERAL ADMINISTRATION                              | 41 | MANAGEMENT AND GENERAL ADMINISTRATION - MIREX  | 498,380,368           |
|  | HEALTH  | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION | 42 | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION - MS (Ministry of Health)                              | 2,979,299,030         |
|  |   | GENERAL ADMINISTRATION                              | 43 | MANAGEMENT AND GENERAL ADMINISTRATION - MS   | 173,971,308           |
|  | SAFETY AND PUBLIC ORDER                         | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION | 44 | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION - MAI (Ministry of Internal Administration)            | 89,436,013            |
|  |   | GENERAL ADMINISTRATION                              | 45 | MANAGEMENT AND GENERAL ADMINISTRATION - MAI  | 787,718,178           |
|  | TRANSPORTATION                                  | GENERAL ADMINISTRATION                              | 46 | MANAGEMENT AND GENERAL ADMINISTRATION MIEM   | 73,000,003            |
|  | TOURISM, COMMERCE, INDUSTRY AND SERVICES        | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION | 47 | FINANCIAL, BUDGETARY AND PATRIMONIAL ADMINISTRATION MTIE   | 163,680,842           |
|  |   | GENERAL ADMINISTRATION                              | 48 | MANAGEMENT AND GENERAL ADMINISTRATION MTIE   | 20,730,231            |
| <b>TOTAL MANAGEMENT AND ADMINISTRATIVE SUPPORT</b> |   |   |    |  | <b>31,493,603,339</b> |

## 5.2.4 Programs of AXIS IV: Reinforcement of the Private Sector

Economic growth is not only the product of the accumulation of capital (physical and human), but also of gains in productivity. It becomes essential that skills be developed for the management of value chains, having in view the provision of products and services with the Cape Verde brand that are able to assert themselves for their quality/price. Taking into account the small size of Cape Verde, and the constraints this fact represents in terms of being endowed with resources for production and export, the efforts of the Government aim to concentrate on areas that have been identified as having comparative and competitive advantages – the clusters of competitiveness that correspond to the sectors of economic activity susceptible of having a greater impact on growth and on the fight against poverty, among which the main ones are Agribusiness, Maritime Economy and Tourism. Besides these areas with greater forecasted impact on economic growth, the GPRSP III also gives priority to other areas that contribute to the increased competitiveness of the country on the international market, specifically Aerobusiness, ICT, Finances and Creative Economy. For this purpose, 20 programs have been identified on the axis of reinforcement of the private sector - 16 objective-based programs and 4 for investments. The indicators and goals of the axis for the implementation period of the GPRSP III are as follows:

Table 5.10 – Indicators and Goals of the Reinforcement of the Private Sector Axis

| Indicators and Goals of AXIS IV: Reinforcement of Private Sector |  |                |         |       |         |         |         |
|--|--|----------------|---------|-------|---------|---------|---------|
| Area/Goals   | Indicator  | Base Year 2011 | 2012    | 2013  | 2014    | 2015    | 2016    |
| <b>1. AGROBUSINESS</b>   |  |                |         |       |         |         |         |
| a. Agricultural GDP  | Agricultural GDP   | 11,408         | 12,056  | 13,1  | 14,770  | 15,734  | 16,959  |
| b. Drip irrigation   | Hectares covered   | 600            | 800     | 1,0   | 1,250   | 1,400   | 3,000   |
| c. Dry crops   | Hectares covered (maize and bean)                          | 55,263         | 61,170  | 60,5  | 59,953  | 59,353  | 58,760  |
| d. Irrigated crops   | Hectares covered   | 2,400          | 2,600   | 2,8   | 3,050   | 3,200   | 5,000   |
| e. Agricultural Exports  | Volume of agricultural exports (millions of CVE)           | 77,7           | 78,5    | 79    | 80,0    | 80,8    | 81,7    |
| f. Promotion of Sector   | Organised agricultural-cattle raising lines                | 2              | 2       | 3     | 5       | 8       | 10      |
| <b>2. MARITIME ECONOMY</b>                                       |  |                |         |       |         |         |         |
| a. Fishing GDP   | Fishing GDP  | 1,737          | 1,835   | 2,0   | 2,248   | 2,395   | 2,582   |
| b. Fishing Exports   | Volume of fishing exports (M CVE)                          | 153            | 160     | 1     | 178     | 185     | 195     |
| c. Promotion of Sector   | % of fishermen trained in new fishing techniques           | 10             | 10      | 20    | 20      | 20      | 20      |
| <b>3. TOURISM</b>  |  |                |         |       |         |         |         |
| a. Hotel and Restaurant GDP                                      | Hotel and restaurant GDP                                   | 6,371          | 6,918   | 7,5   | 8,228   | 9,019   | 9,922   |
| b. Tourists  | Number of guests in hotel establishments                   | 475,294        | 519,397 | 567,5 | 620,258 | 677,812 | 740,706 |
| c. Lodging   | Number of beds   | 14,076         | 15,638  | 17,3  | 19,268  | 21,388  | 23,740  |
| d. Promotion of Sector   | Number of businesses created in the tourism sector         | 5              | 7       | 9     | 12      | 14      | 16      |
| <b>4. ICT</b>  |  |                |         |       |         |         |         |
| a. Mobile Phones   | % of population with a mobile phone                        | 396,056        | 403,723 | 411,2 | 418,565 | 425,667 | 428,458 |
| b. Landlines   | % of population with access to a landline                  | 72,198         | 72,270  | 72,3  | 72,415  | 72,487  | 72,560  |
| c. Internet  | % of population with access to the internet in residence   | 49,094         | 67,453  | 86,0  | 104,725 | 123,562 | 142,480 |
| d. Promotion of Sector   | Number of businesses in the sector                         | 87             | 89      | 91    | 93      | 96      | 99      |
| <b>5. AEROBUSINESS</b>   |  |                |         |       |         |         |         |
| a. Air Transportation GDP  | Air Transportation GDP (Nat. Comp.)                        | 4,749          | 5,148   | 5,6   | 6,281   | 7,058   | 7,856   |
| b. Flights   | Number of domestic flights                                 | 16,701         | 17,369  | 18,0  | 18,786  | 19,538  | 20,319  |
| <b>6. FINANCES</b>   |  |                |         |       |         |         |         |
| a. Banks and Trusts  | Banks and Trusts GDP (Nat. Comp.)                          | 7,479          | 8,121   | 8,8   | 9,659   | 10,587  | 11,646  |
| b. Private Sector Credit   | Annual growth rate of credit to private sector             | 9              | 8       | 8     | 8       | 8       | 8       |
| <b>7. ECONOMY OF CULTURE</b>                                     |  |                |         |       |         |         |         |
| a. Leisure, TV, Music GDP  | Annual growth rate. Leisure, TV, Music GDP                 | –              | –       | –     | –       | –       | –       |
| b. Support to Culture  | Loans awarded by the autonomous fund of support to culture | –              | –       | –     | –       | –       | –       |

The intention is to adopt a pragmatic approach that emphasizes business opportunities, value chains and concrete measures that are capable of being implemented, to facilitate trade, drive production and quality

and foster new business opportunities. It is important that the development of trade in Cape Verde increase the international competitiveness of the country, diversify and expand the production base, and position the country as an international platform for high-quality services. The country is in a new phase of development that is taking place in a complex external environment, generating a new set of priorities and forcing public policies to change their focus. This context imposes institutional reforms and reforms in the offer, designed to unify the national market and reinforce the international competitiveness of the country. The reforms identified are intended to be capable of empowering the opportunities that are offered, exploiting them to improve production, increase competitiveness, create export-oriented companies and businesses, and develop niche products destined for export in the sectors identified as priorities.

In the framework of the GPRSP III, the role of the private sector is therefore crucial in the creation and setting up of companies and the promotion of partnerships with outside investors. In turn, the State has the role of facilitator and regulator through the implementation of an institutional framework that ensures the suitability of the administrative structures, which promotes the reform of labor laws, and that bets heavily on the development of technical and vocational training in the defined areas. Training for entrepreneurship and the implementation of active job policies, especially for the younger persons, also work together to align the human capital with the development purposes of the private sector.

To embody this ambitious agenda, the GPRSP III will wager on the qualification and strengthening of the management of value chains associated with the priority clusters. The organization of the agricultural and cattle-raising sectors and the development of competitive and sustainable fishing assume a place of special importance in this axis, with a view to the strengthening of the private sector in these key areas, where a significant portion of the multi-annual resources converges during the period the GPRSP III is in effect. In relation to fishing, the intention is to work with national operators using training actions in business management and also with measures for improving access to credit. The implementation of a solid system for certification and safety according to the best international criteria is also essential for leveraging the export base. In agribusinesses, and in order to be able to turn a profit from the great investment effort made for mobilizing the water resources, it is essential to sustainably manage the new irrigated perimeters to develop lines of agricultural products with a high added value.

The development of a more diversified and sustainable model for tourism is also one of the major objectives, as described in the Strategic Plan for the Development of Tourism (2010-2013). The policies for the most important economic sector of the country assume a preeminent role on various fronts, from the increase in the capacity to regulate and supervise operators, to the improved capability for creating statistical information on the sector. The diversification of the tourist product, specifically new niches distinct from the sun-and-beach product, is also fundamental in increasing the resilience of the sector and achieving its full potential.

The Agency for Entrepreneurial Development and Innovation and *Cabo Verde Investimentos* will be key elements in supporting private economic agents in the search for know-how in competitive business models and partnerships and direct foreign investment for the key sectors. It is intended that the public and private sectors work together in harmony with a view to creating and enhancing the Cape Verde brand for the purposes of promotion on the domestic market and for export.

Figure 5.11 – Investment and Objective-based Programs Reinforcement of Private Sector Axis 2012 - 2016

| AXIS                                       | FUNCTION                                    | CAT                                   | #  | PROGRAMME   | VALUE<br>2012-2016   |
|--|---|---------------------------------------|----|---|----------------------|
| <b>IV. REINFORCEMENT OF PRIVATE SECTOR</b> |   |                                       |    |   |                      |
| <b>OBJECTIVES-BASED</b>                    |   |                                       |    |   |                      |
|  | ADMINISTRATION                              | STATE REFORM                          | 1  | IMPROVEMENT OF BUSINESS ENVIRONMENT   | 320,142,439          |
|  | AGRICULTURE, CATTLE-<br>FISHING AND SUPPLY  | RURAL DEVELOPMENT AND<br>EXTENSION    | 2  | IMPROVEMENT OF AGRO-BUSINESS AND AGRICULTURAL -<br>CATTLE RAISING LINES                                     | 2,533,244,834        |
|  |   |                                       | 3  | IMPROVEMENT AND VALUING OF NATURAL RESOURCES AND<br>AGRO-FORESTRY-PASTORAL DEVELOPMENT                      | 357,685,388          |
|  |   | FISHING INDUSTRY                      | 4  | MANAGEMENT OF FISHING RESOURCES FOR<br>SUSTAINABLE FISHING  | 830,004,078          |
|  |   |                                       | 5  | INTEGRATED MANAGEMENT OF ARTISANAL AND INDUSTRIAL<br>FISHING  | 371,325,226          |
|  |   |                                       | 6  | INTEGRATED MANAGEMENT OF QUALITY AND AGGREGATION OF<br>VALUES OF FISHING PRODUCTS                           | 178,835,762          |
|  | SCIENCE AND TECHNOLOGY                      | RESEARCH APPLIED TO<br>STATE SERVICES | 7  | APPLIED AGRICULTURAL RESEARCH AND TRANSFER OF<br>KNOWLEDGE AND TECHNOLOGIES                                 | 229,000,000          |
|  | CULTURE, LEISURE<br>AND SPORTS              | CULTURAL DIFFUSION                    | 8  | DEVELOPMENT OF MICROECONOMY THROUGH CULTURE   | 75,724,500           |
|  | JUSTICE, CITIZENSHIP<br>AND YOUTH           | CITIZENSHIP                           | 9  | CITIZEN AND BUSINESS ADMINISTRATION   | 466,063,189          |
|  |   |                                       | 10 | MODERNISE TO COMPETE-PCM  | 133,816,263          |
|  | WORK AND SOCIAL<br>WELFARE                  | PROMOTION OF EMPLOYMENT               | 11 | FAVORABLE ECONOMIC ENVIRONMENT FOR CREATION OF<br>EMPLOYMENT  | 331,915,000          |
|  | TOURISM, COMMERCE,<br>INDUSTRY AND SERVICES | PROMOTION OF TOURISM                  | 12 | IMPROVEMENT OF QUALITY OF TOURISM PRODUCTS AND<br>SERVICES  | 109,321,626          |
|  |   | PROMOTION OF INDUSTRY                 | 13 | INTEGRATION OF THE INDUSTRY IN DEVELOPMENT POLICY   | 10,409,460           |
|  |   |                                       | 14 | PROMOTION OF INVESTMENT IN CAPE VERDE   | 803,617,418          |
|  |   | STATE REFORM                          | 15 | IMPROVEMENT OF BUSINESS ENVIRONMENT   | 14,526,089           |
|  |   | FINANCIAL SYSTEM                      | 16 | PROMOTION OF THE ENABLING OF Micro, Small, and Medium<br>Enterprises AND CONSTRUCTION OF STRATEGIC CLUSTERS | 508,566,544          |
| <b>TOTAL OBJECTIVES-BASED</b>              |   |                                       |    |   | <b>7,694,198,016</b> |
| <b>INVESTMENT</b>                          |   |                                       |    |   |                      |
|  | TOURISM, COMMERCE,<br>INDUSTRY AND SERVICES | COMMERCIALISATION                     | 1  | INTEGRATION IN THE GLOBAL ECONOMY   | 99,027,984           |
|  |   | STANDARDISATION AND QUALITY           | 2  | IMPLEMENTATION AND PROMOTION OF THE NATIONAL<br>SYSTEM OF QUALITY   | 45,500,000           |
|  |   | PROMOTION OF TOURISM                  | 3  | QUALITY TOURISM RESOURCES IN CAPE VERDE   | 76,556,397           |
|  |   | PROMOTION OF INDUSTRY                 | 4  | IMPLEMENTATION AND PROMOTION OF THE NATIONAL<br>SYSTEM OF QUALITY   | 2,332,312            |
| <b>TOTAL INVESTMENT</b>                    |   |                                       |    |   | <b>223,416,693</b>   |

## 5.2.5 Programs of AXIS V: Global Nation

The progress of Cape Verde cannot be dissociated from the external context and in this sphere it is essential that Cape Verde continue to develop in a pragmatic manner its political and economic ties on the bi-lateral and multi-lateral plane. The previous sections already focused on the importance of trade with the European Union and in this sense the bet on the Special Partnership and the technical and normative convergence with this bloc should remain a pillar of the foreign policy of the country.

Additionally, Cape Verde has the particularity of having more Cape Verdeans or descendants of Cape Verdeans living outside the country than in it. The emigrants of the Diaspora have been and continue to be an important lever for the development of the islands through the transfer of funds, investments and also as a source of qualified human resources that bring to the country an added asset in terms of leadership in the public and private sectors.

In this framework, the GPRSP III envisions actions to be undertaken to bring to pass the agenda of the Government for a Global Nation without borders. The Cape Verdean Diaspora will be considered an important vector in the domestic and foreign policies of governance. The programs of the GPRSP III in this sphere – all 6 being objective-based – will seek to maintain and reinforce the connection with the communities living abroad. Among other activities, they will specifically use awareness actions, make studies on the characteristics of emigration and the descendants, create a data base on emigrants, and install important public services in the host countries (agencies of the Casa do Cidadão, "one-stop-shop"). The indicators and goals of the axis for the implementation period of the GPRSP III are as follows:

Table 5.12 – Indicators and Goals for the Asserting the Global Nation Axis

| Indicators and Goals of AXIS V: Asserting the Global Nation |   |                |        |        |        |        |        |
|---|---|----------------|--------|--------|--------|--------|--------|
| Sector/Goals  | Indicator   | Base Year 2011 | 2012   | 2013   | 2014   | 2015   | 2016   |
| <b>1. IMMIGRATION</b>                                       |   |                |        |        |        |        |        |
| a. Number of immigrants                                     | <i>Number of legal immigrants</i>                                       | 1,806          | 2,167  | 2,817  | 3,662  | 4,761  | 6,189  |
| b. Immigrants processed                                     | <i>Percentage of cases pending residency authorisation</i>              | 24.0           | 20     | 16     | 13     | 9      | 5.0    |
| <b>2. MONEY TRANSFERS</b>                                   |   |                |        |        |        |        |        |
| a. Transfers from emigrants                                 | <i>Transfers by emigrants (CVE millions)</i>                            | 13,523         | 13,820 | 14,235 | 14,844 | 15,586 | 16,366 |
| <b>3. INVESTMENTS BY DIASPORA IN CV</b>                     |   |                |        |        |        |        |        |
| a. Deposits in Banks  | <i>Deposits by emigrants in banks within the country (CVE millions)</i> | 36,906         | 39,120 | 41,467 | 43,955 | 46,592 | 49,388 |

The goal of the Global Nation does not end with the management of the external migratory flows. It is also important to manage and leverage in the best way the incoming flows, with Cape Verde as the destination. For this purpose, the implementation of the National Strategy of Immigration and the corresponding Action Plan, as well as the creation of coordinating bodies (National Council of Immigration) are significant factors in this axis. Taking into account the migratory flows that have come to Cape Verde, mainly on the islands with a larger critical mass of tourism, it is important to put into action a policy that fully regulates the entry, stay, internal mobility, departure, work and welfare of foreigners.

Figure 5.13 – Objective-based Programs Asserting the Global Nation Axis 2012 - 2016

| AXIS                                 | FUNCTION  | CAT                  | # | PROGRAMME   | VALUE 2012-2016 |
|--------------------------------------|---|----------------------|---|---|-----------------|
| <b>V. ASSERTION AS GLOBAL NATION</b> |   |                      |   |   |                 |
| <i>OBJECTIVES-BASED</i>              |   |                      |   |   |                 |
|                                      | ADMINISTRATION                                    | CITIZENSHIP          | 1 | IMPROVEMENT OF EMIGRANTS' QUALITY OF LIFE                         | 211,597,387     |
|                                      |   | DIPLOMATIC RELATIONS | 2 | IMPROVEMENT IN QUALITY OF CONSULAR SERVICES AND TREATIES          | 73,721,360      |
|                                      | AGRICULTURE, CATTLE-, RAISING, FISHING AND SUPPLY | CITIZENSHIP          | 3 | IMPROVEMENT OF EMIGRANTS' QUALITY OF LIFE                         | 25,000,000      |
|                                      | JUSTICE, CITIZENSHIP AND YOUTH                    | CITIZENSHIP          | 4 | IMPROVEMENT OF IMMIGRATION POLICY                                 | 81,774,541      |
|                                      | FOREIGN RELATIONS                                 | DIPLOMATIC RELATIONS | 5 | IMPROVEMENT OF EMIGRANTS' QUALITY OF LIFE                         | 160,899,778     |
|                                      |   |                      | 6 | IMPROVEMENT OF THE DIPLOMATIC AND CONSULAR REPRESENTATION NETWORK | 3,042,592,766   |
| <b>TOTAL OBJECTIVES-BASED</b>        |   |                      |   | <b>3,595,585,832</b>  |                 |

### 5.3 The GPRSP III Macroeconomic Framework

The performance of the Cape Verdean economy during the GPRSP III period will be strongly conditioned by the uncertainties stemming from the global economic and financial crisis. The macroeconomic management will be conditioned by this context, placing in question the completion of the goals stipulated for the period. The need for sources of financing and the prioritization of the investment programs are crucial factors in attaining the corresponding goals.

In light of the uncertainties in relation to the global economy, the GPRSP III considers two scenarios. The first – the Base Scenario – refers to a view with a slow recovery of the global economy and with limited availability of financial resources, a progressive recovery of the tourism sector, limited increase of the foreign direct investment, and increased public debt. The second – Alternative Scenario – refers to a scenario with an improvement in the global economy, greater availability of financial resources, growth of the revenue from emigrants, acceleration of the foreign direct investment, more significant recovery of the tourism sector, and a resuming of public aid to development. In this second scenario, the level of public investment is adjusted to new plateaus in line with the higher revenues and more room for borrowing.

The economic growth is the result of a set of factors that include, among others, the entrance of tourists, public and private investments, the level of external savings, driven by the remittances from emigrants and the level of foreign direct investment, the level of productivity of the factors in the primary, secondary and tertiary sectors, the impact of international prices and the foreign exchange rate.

The various premises defined in the international and national scope for the two scenarios considered were fuelled by the Macroeconomic Coherence Model of the GPRSP III, together with the data consolidated from the investment and objective-based programs in both scenarios. Below, we will present the main findings obtained from the simulations of each scenario in the GPRSP III model.

#### Population

The results of the 2010 General Population Census show a marked deceleration of the population growth rate compared with past decades. The projections point to a continuation of this trend in the base scenario and to a stabilization in the case of the alternative scenario (see Figure 5.3.1). The average number of children per mother fell from 6.3 in the beginning of the eighties to 2.3 in 2010 (see Figure 5.3.2). The projections, in the case of the Base Scenario, point to a continuation of the trend observed in the past years as a consequence of factors such as a higher level of education for women.

In the Alternative scenario, the model assumes that the number of children per mother will be identical to the levels observed in the base scenario and that the investments in health and education will improve the net survival rate in all age brackets. Figure 5.3.3 presents the projections of total population in the two scenarios until 2016.

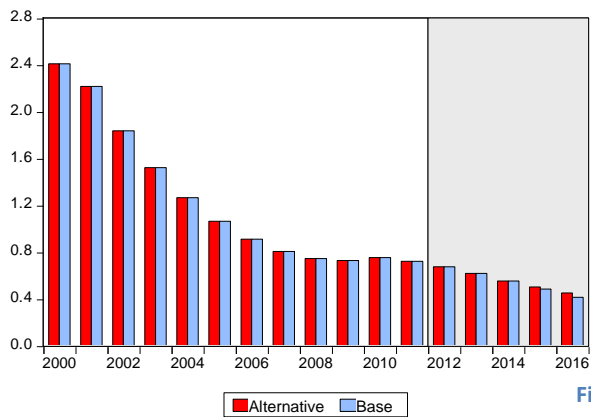


Figure 5.3.1 – Annual Population Growth Rate (%)

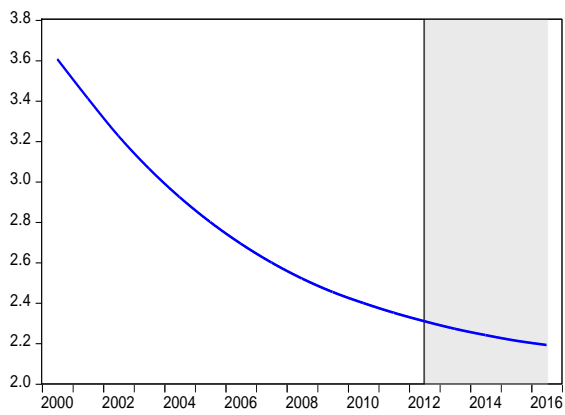


Figure 5.3.2 – Average Number of Children per Woman

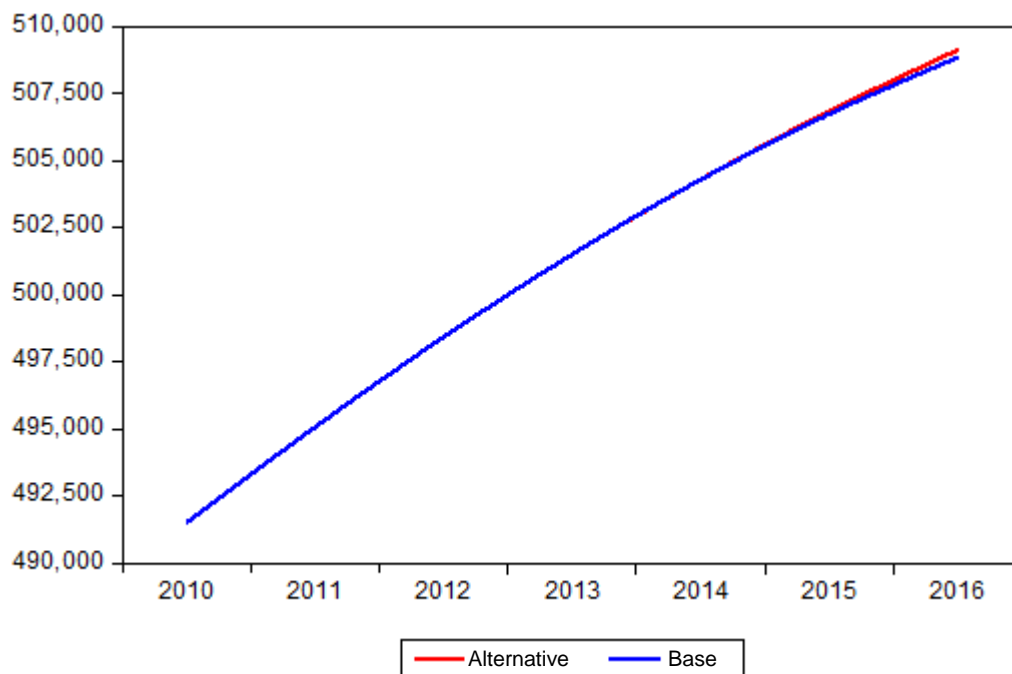
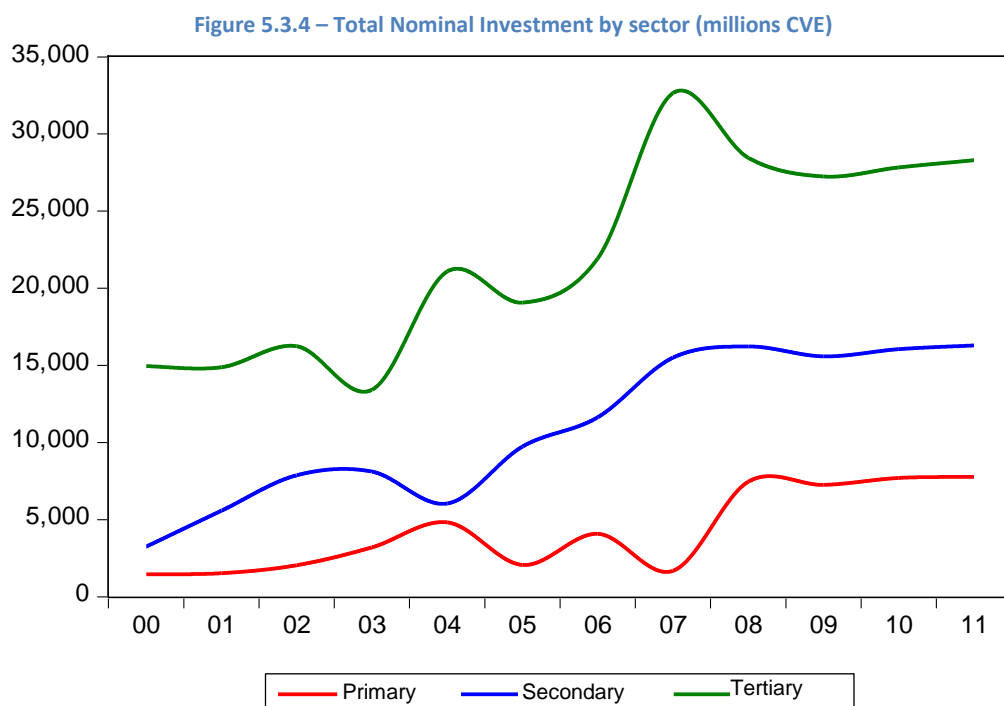


Figure 5.3.3 – Total Population

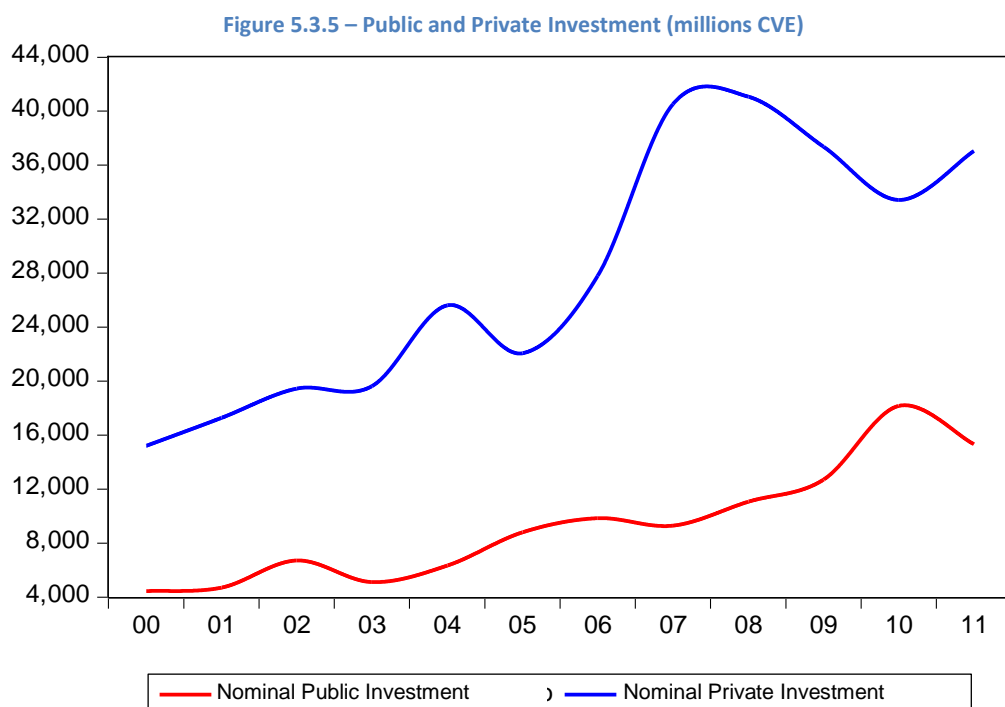
## Investments

The levels of public and private investment constitute decisive contributions for economic growth. The main working hypothesis of the GPRSP III is that private investment will follow the drop in public investment. In this framework, until 2008 public and private investments were primarily directed towards the tertiary sector, more specifically with a focus on tourism and government services (see Figure 5.3.4).

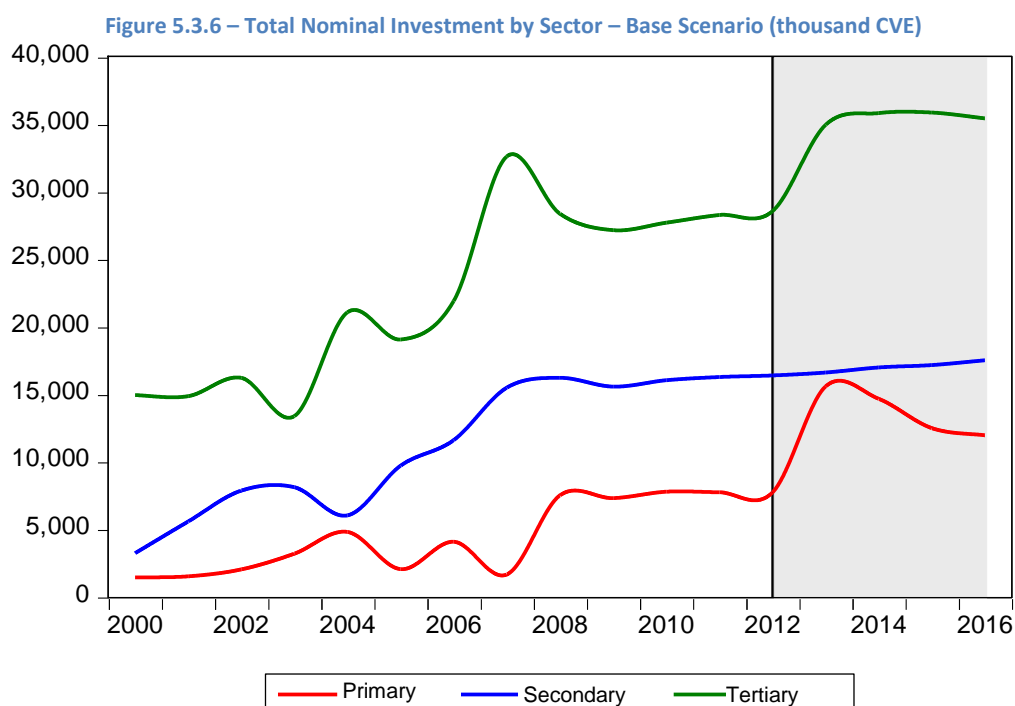


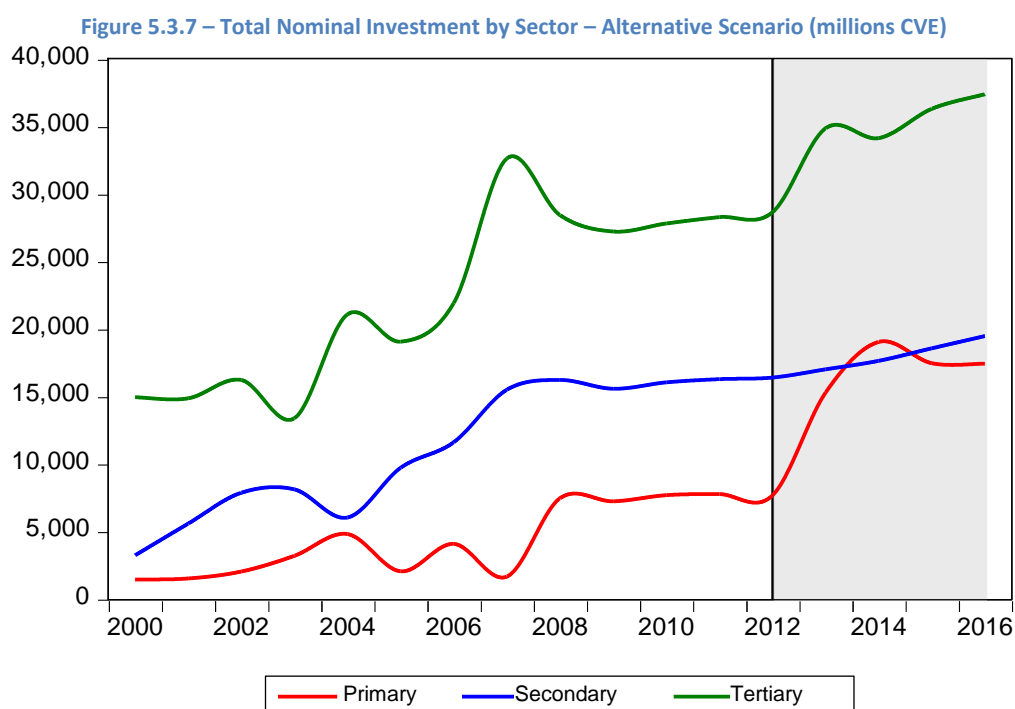
Investments in airports, roads and hotels in addition to investment in schools and health centers, all of them part of the tertiary sector made the rapid economic growth of the past decade possible, to the detriment of the primary sector, whose participation in total GDP decreased. As a consequence of the global crisis and Cape Verde's graduation from the list of Least Developed Countries in 2008, the Government accelerated the mobilization of resources for the implementation of structuring projects. Private investments registered a significant drop and public investments increased to compensate for the decrease in private investment (see Figure 5.3.5).

The increase in public investment was also characterized by a shift in focus to areas with a greater impact on the reduction of unemployment and poverty. Econometric studies conclusively show that, in the case of Cape Verde, 1000 CVE of additional investment in the primary sector (namely agriculture and fishing) have a slightly lower impact on economic growth compared to a similar investment in the tertiary sector. However, when it comes to the impact on the creation of jobs and the reduction of poverty, investments in the primary sector have a greater effect than that of a similar investment in the tertiary sector.



In the case of the GPRSP III, the Base Scenario assumes that public investments are directed primarily to the agriculture and fishing sectors (mostly dams and ports), however the total level of investment is limited by the financial restrictions arising from the global crisis assumed in this scenario. For private investment, a similar trend to that of public investment is presupposed. In the case of the Alternative Scenario, the volume of both public and private investment is larger (see Figures 5.3.6 and 5.3.7).



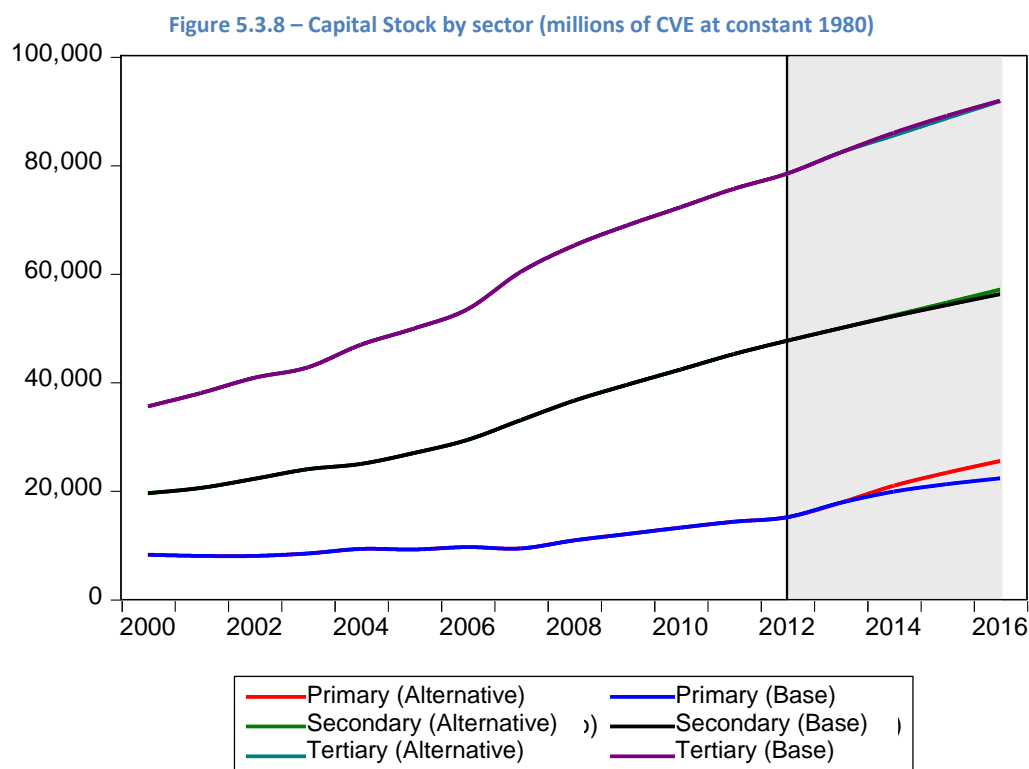


The contribution of private sector investment to the economic growth will be decisive. The public sector investment will be directed, preferentially, to the areas with greater impact on the reduction of poverty, such as the agriculture, fishing and education infrastructures. The mobilization of water in the drainage basins and the enabling of agricultural and fishing technicians should increase productivity in these sectors and motivate the agribusiness and maritime economy culture, with a view to causing a significant increase in private investment in these areas (and the promotion of techniques that increase productivity – drip irrigation, greenhouses, hydroponics and new lines of products).

### Capital Stock and Job Creation

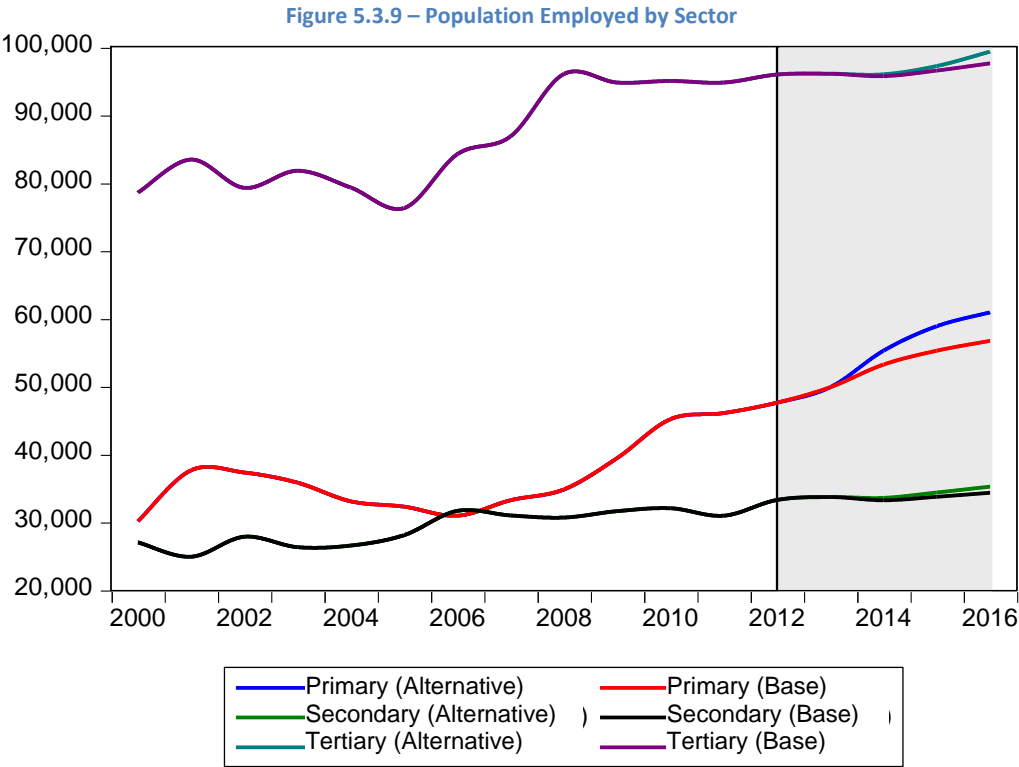
The economic growth projections in the GPRSP III model are based on the Cobb-Douglas production functions for the three economic sectors considered in the model: the Primary, Secondary and Tertiary. The production factors considered in the Cobb-Douglas functions are the capital stock of the sector and the population employed in each one. The direction of public and private investments will define the evolution of the capital stock in each sector.

In the past decade investments concentrated heavily in the tertiary sector to the detriment of the primary sector. As a consequence of the 2008 crisis, an inversion of the trends observed in the sectorial capital stock was seen. The GPRSP III presupposes giving priority to investments in the primary sector, therefore hoping that the trends observed in the capital stock of the past years will be extrapolated into the period of 2012 – 2016. In the case of the alternative scenario, and in response to the higher levels of investment, an acceleration of the rhythm of growth in sectorial capital stock is expected (see Figure 5.3.8).

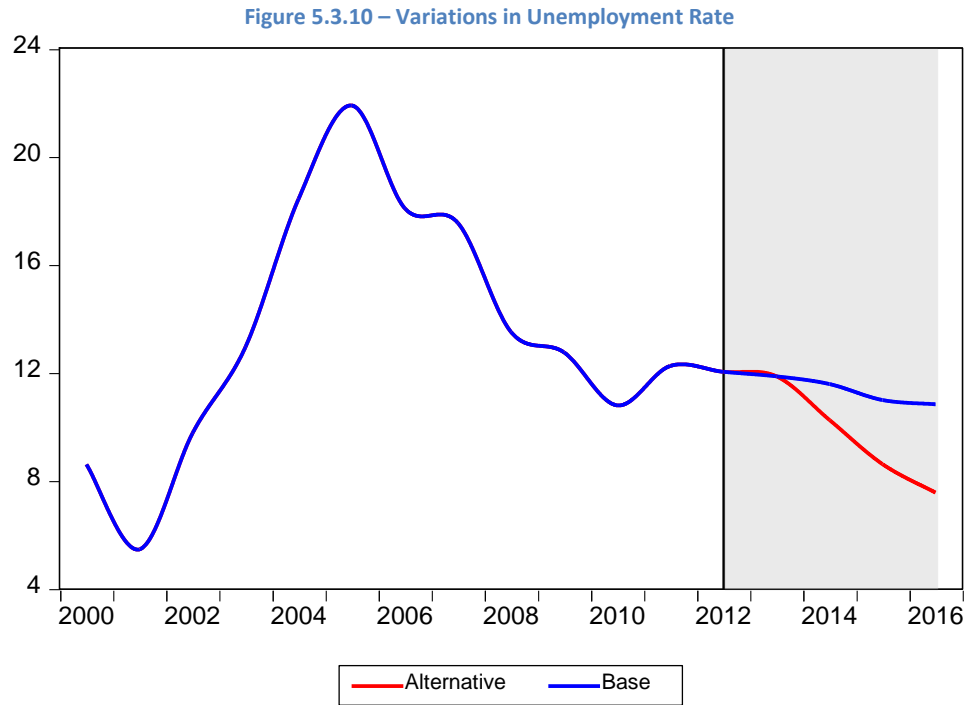


In terms of the other factor of production, the employed population by sector, the model estimates that the levels of employment will be based on the level of sectorial capital stock and the level of capital use, which, in turn, will depend on the level of demand in each sector, specifically, the level of consumption by families, of the export of goods and services, of the import of goods and services, public and private investments, the level of current Government consumption and the intermediate consumption in each sector.

Until 2006, the proportion of the employed population in the primary sector showed a downward trend. With the construction of the Poilão dam and new fishing activities, there has been a rise recently in the number of employed in the primary sector (see Figure 5.3.9).



Taking into consideration the expected growth of the total active population in the economy, the model projects a decrease in the rate of unemployment during the GPRSP III period. Figure 5.3.10 shows the projected changes in the unemployment rate in both scenarios.



### Economic Growth

The average annual real GDP growth rate during the 2012 – 2016 period should be around 4.8% in the base scenario and 5.4% in the alternative scenario. However, the growth in the primary, secondary and tertiary sectors will be different due to different levels of sectorial investment. In the case of the primary sector, the model projects more dynamic growth than that in the other sectors. The base scenario sees an

average annual growth of 6.6% for the period in question. In the case of the alternative scenario, the average rate will climb to 8.3%.

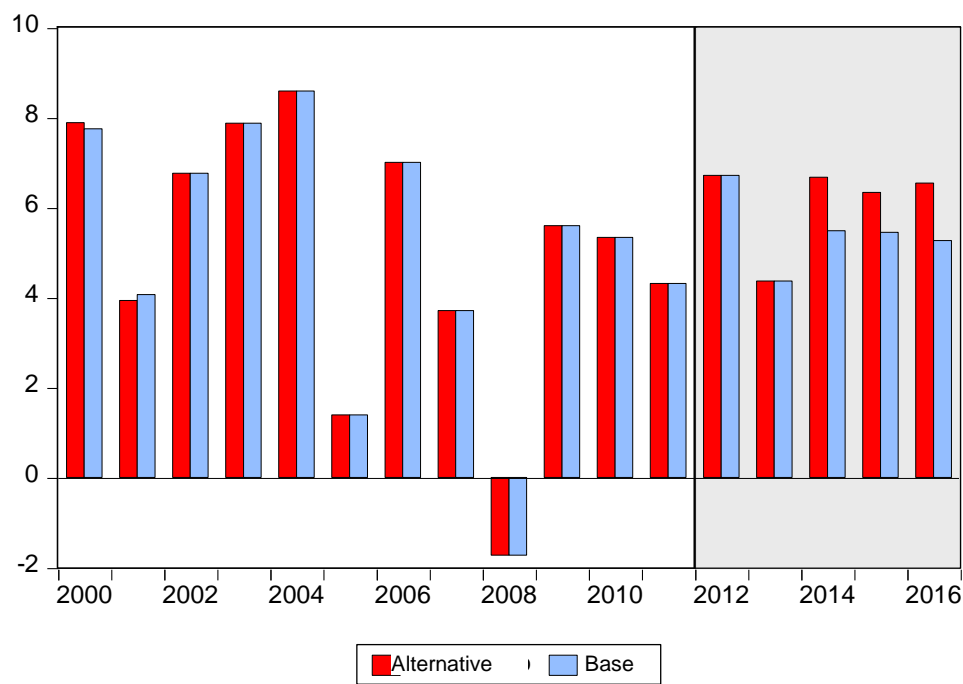
For the secondary sector, the projection in the case of the base scenario points to an average annual growth of 4.1%. In the case of the alternative scenario, the rate becomes 4.7%. The growth in the secondary sector will be based on the dynamic nature of construction activities and the processing of agricultural and fishing products.

For the tertiary sector, projections indicate an average growth rate of 5.4% in the base scenario and 5.8% in the alternative scenario. The expected growth of the tertiary sector reflects the dynamics of increased tourist trade, which will be strongly associated with the performance of European economies.

### Household Consumption

From the demand side, economic growth should occur due to a miscellaneous set of factors. Private consumption will be an important factor in economic growth, together with the export and import of goods and services. An increase in the per capita income will be the main factor in the dynamics of private consumption. During the period the GPRSP III is in force, growth similar to the variation of GDP is expected, with average growth rates of 5.5% and 6.1% in the base and alternative scenarios, respectively.

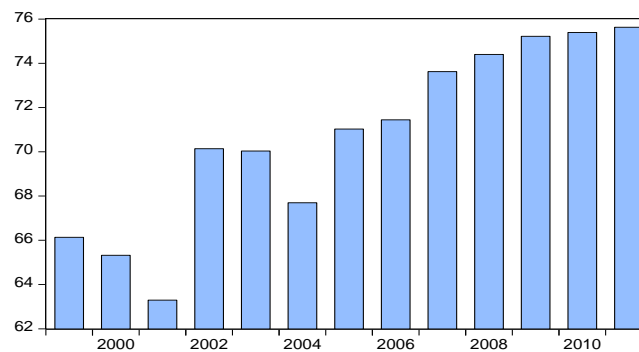
Figure 5.3.11 – Real Growth in Family Consumption 2012 – 2016 (%)



### Intermediate Consumption

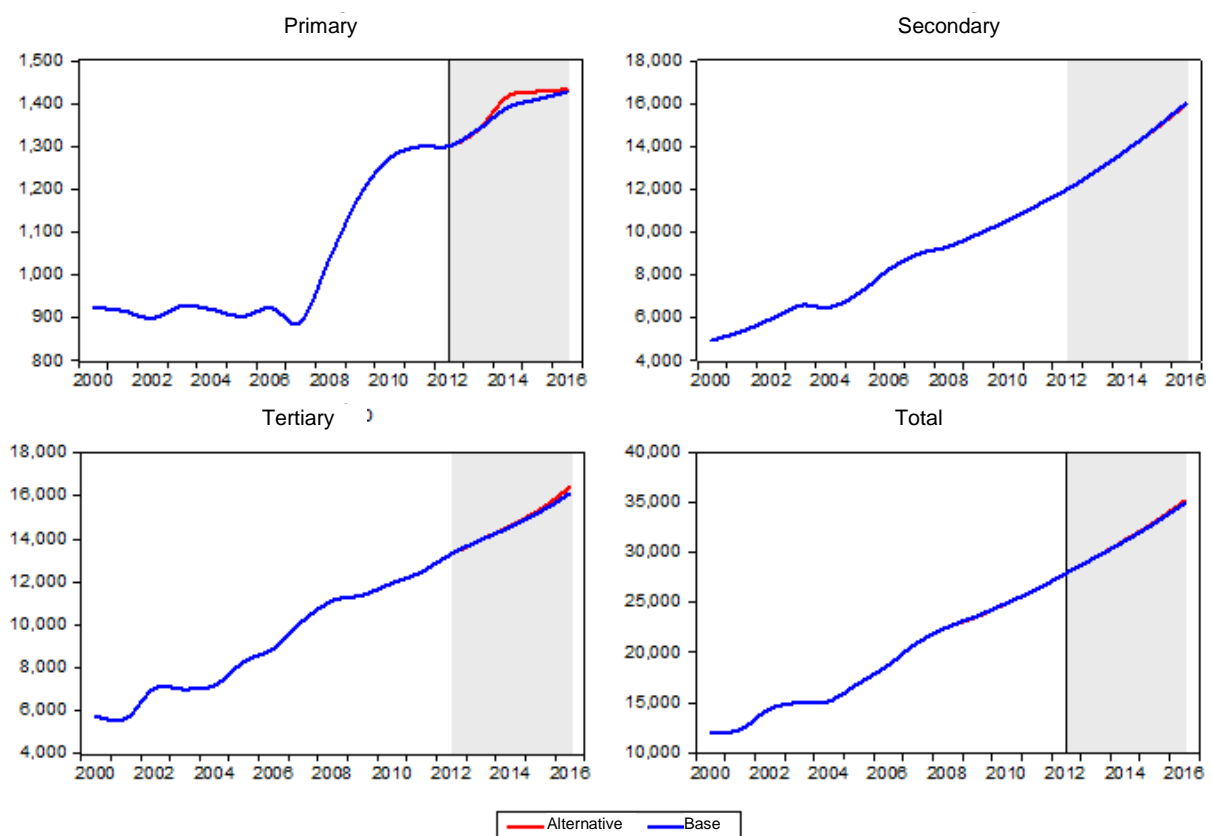
Along with the private consumption and investment, intermediate consumption is one of the most important components of aggregate demand. In the past decade, intermediate consumption represented, on average, around 70% of the real GDP (see Figure 5.3.12). Consumer goods are those that contributed to a larger slice of the intermediate consumption between 2005 and 2008.

Figure 5.3.12 – Percentage of Real Intermediate Consumption in GDP



Over the last decade, the secondary and tertiary sectors contributed to more than 80% of the total intermediate consumption. The expected intermediate consumption growth rate in the period the GPRSP III is in force will be in the range of 5 to 6%.

Figure 5.3.13 – Intermediate Consumption by sector and total between 2000 and 2016



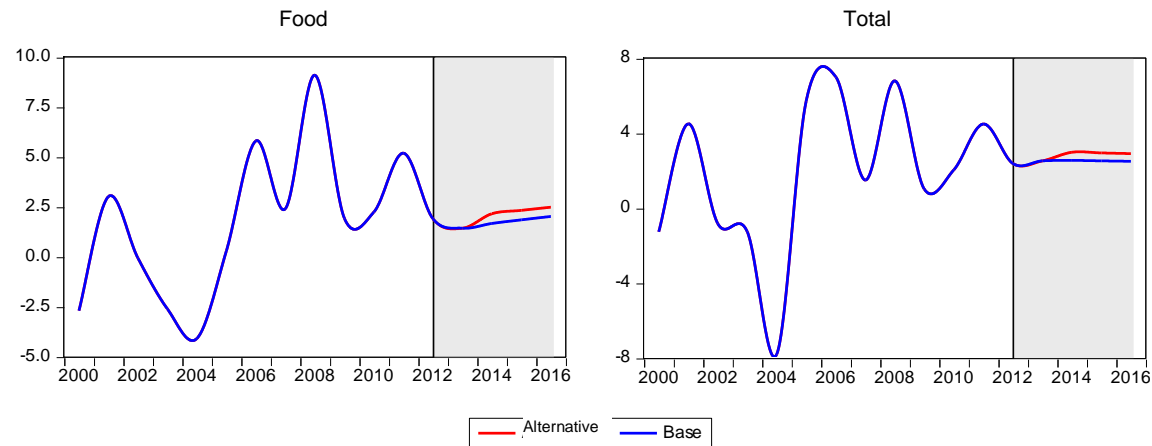
#### Prices and deflators

The importance of price stability to Cape Verdean economy in an international context of price increases for agricultural and oil products has become more evident. Cape Verde, due to its external dependency, is a country that is vulnerable to exogenous shocks. Inflation in Cape Verde is almost entirely imported due to the weight that imported products, especially food and petroleum products, have on the economy.

The model illustrates the strong connection between the changes in oil prices and agricultural products on the international market and the changes in national prices. The prices of food stuffs and non-alcoholic drink on the national market have been very volatile, but it is hoped that during the period of the GPRSP III, as a result of investments made in the construction of dams, national prices for agriculture products

will depend less on international prices and that the corresponding variation will reflect values closer to 2% (see Figure 5.3.14).

Figure 5.3.14 – Inflation of Consumer Price Index in food stuffs and non-alcoholic drink and total

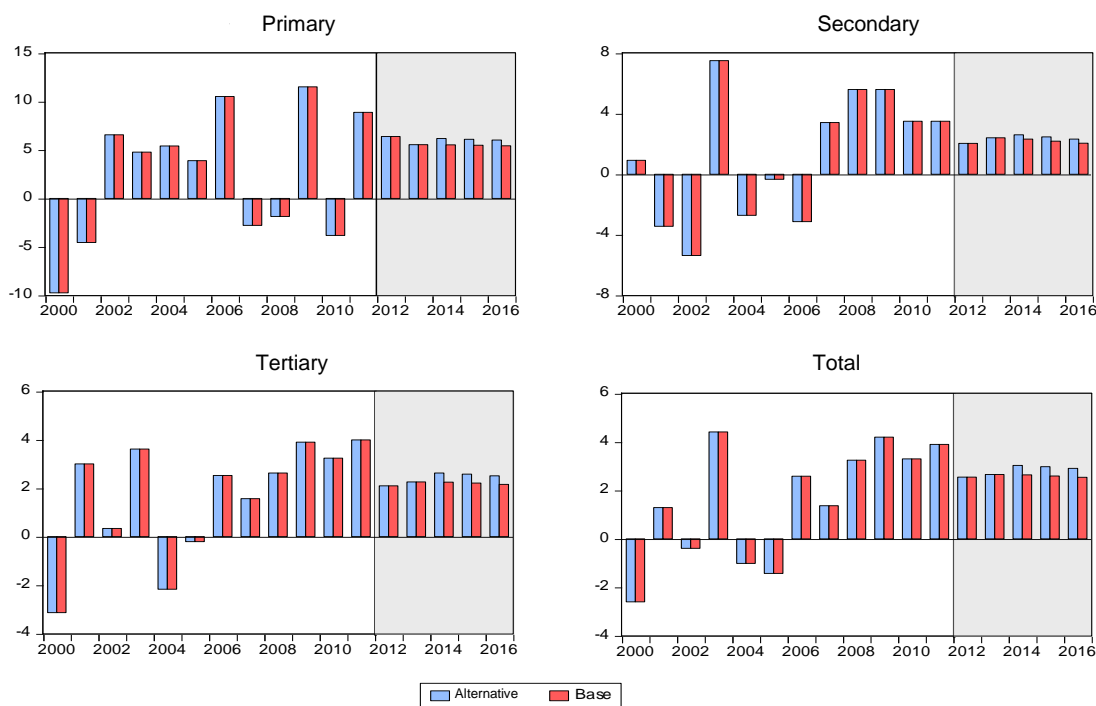


Inflation, measured by the consumer price index in the various categories of goods and services, registered an average rate of 2% in the last decade. The variation is influenced primarily by the variations in price of food stuffs and non-alcoholic drink, with both these categories contributing to more than half of the variations in the total index.

During that period, the total GDP deflator grew at an average rate of approximately 1.5%, with the tertiary sector contributing most to that variation. The projections for the period the GPRSP III is in force point to a stabilization of inflation very close to 3%, compatible with the objective of stability in monetary policy (with the defense of the nominal peg with the Euro) and an improvement in the competitiveness of the Cape Verdean economy.

In terms of the deflators of the sector GDPs and total, in the period from 2008-2011, they were around 3%, and in the period the GPRSP III is in force they are not expected to surpass 4%. The deflator of the tertiary sector, at 70%, makes the major contribution to the total GDP deflator.

Figure 5.3.15 – GDP Deflator by Sector and Total

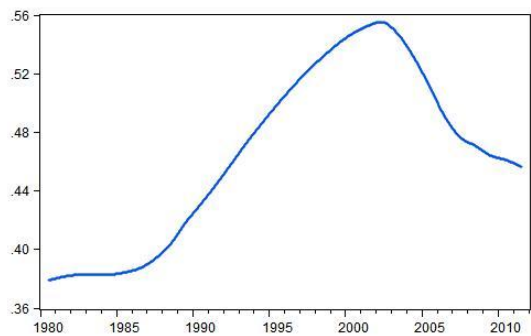


Income, Poverty and Inequality

Up to 2002, the growth in Cape Verde was accompanied by an increase in the inequality of income distribution, as was expressed in the track of the Gini index (figure 5.3.16). The results of the 2007 Unified Survey of Basic Well-being Indicators (QUIBB) showed that since 2002 the economic reforms allowed a significant reduction in inequality by 2008. However, the global economic crisis, the lower level of remittances from Cape Verdeans abroad and the deceleration of the economic growth contributed to the reduction in inequality showing signs of deceleration after 2008.

The causes of poverty in Cape Verde are connected to the characteristics of the agriculture sector. The dominant role of rural poverty raises a set of questions regarding the primary sector (agriculture and fishing, essentially) and the corresponding ability to offer workers in this sector a level of income that would allow them to escape poverty.

Figure 5.3.16 –Gini Index



In spite of the significant improvement in productivity seen in the horticultural sector, the productivity gains in the primary sector as a whole are still very low. The reduction in emigration abroad is reinforcing the poverty creation process in rural areas. However, the strong economic growth in the decade of 2000-2010 has brought about a significant reduction in the number of poor and extremely poor people in the country.

Migration, which traditionally left the country, started to turn towards urban areas, in search of better living conditions and work opportunities. This internal migration brings new problems to urban centers in terms of sanitation, housing, education and health, and also changes the poverty profile. On the other hand, the value of remittances from emigrants sent to their families account for an important part of the total income of the poorest classes of the population.

For the GPRSP III period, it is expected that poverty will continue to drop, meeting the limits of the Millennium Development Goals. A similar trend is also expected with the number of people in extreme poverty.

Figure 5.3.17 – Poverty and Extreme Poverty (number of people) base scenario

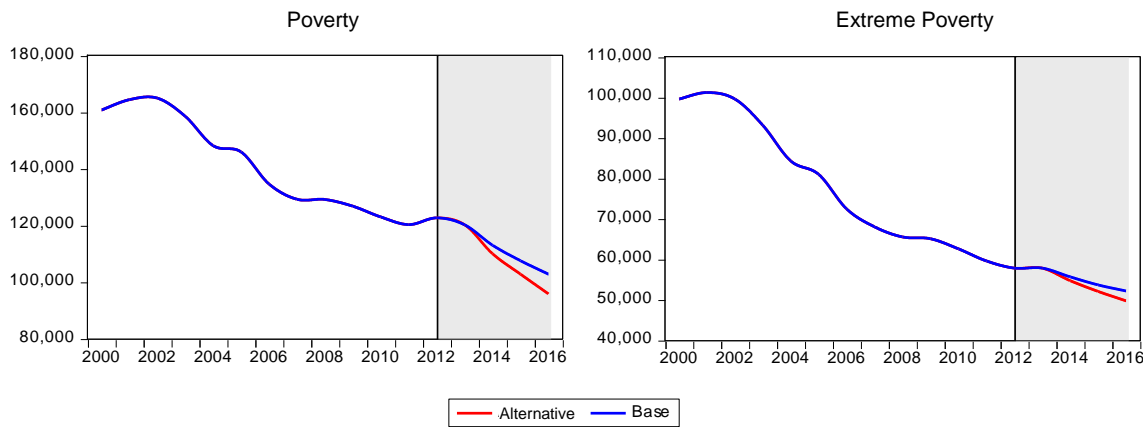
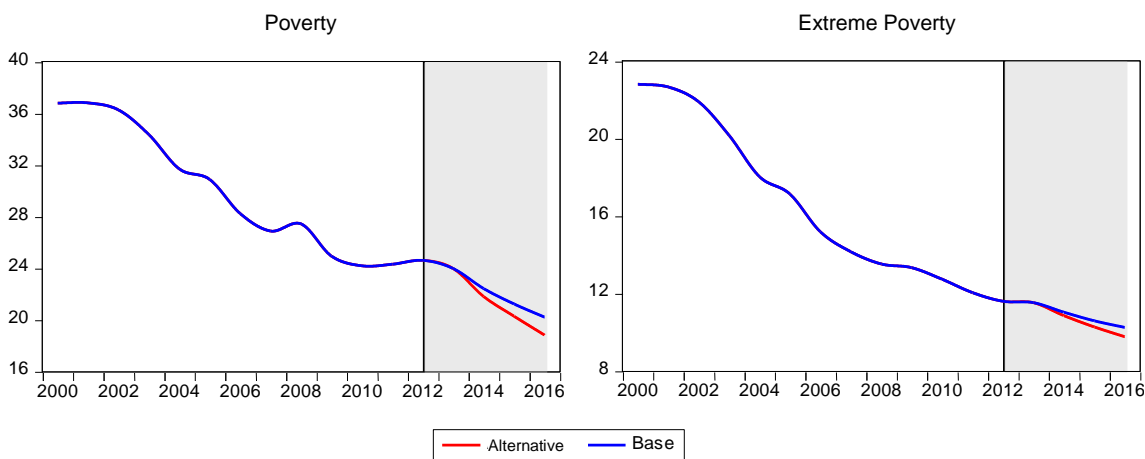
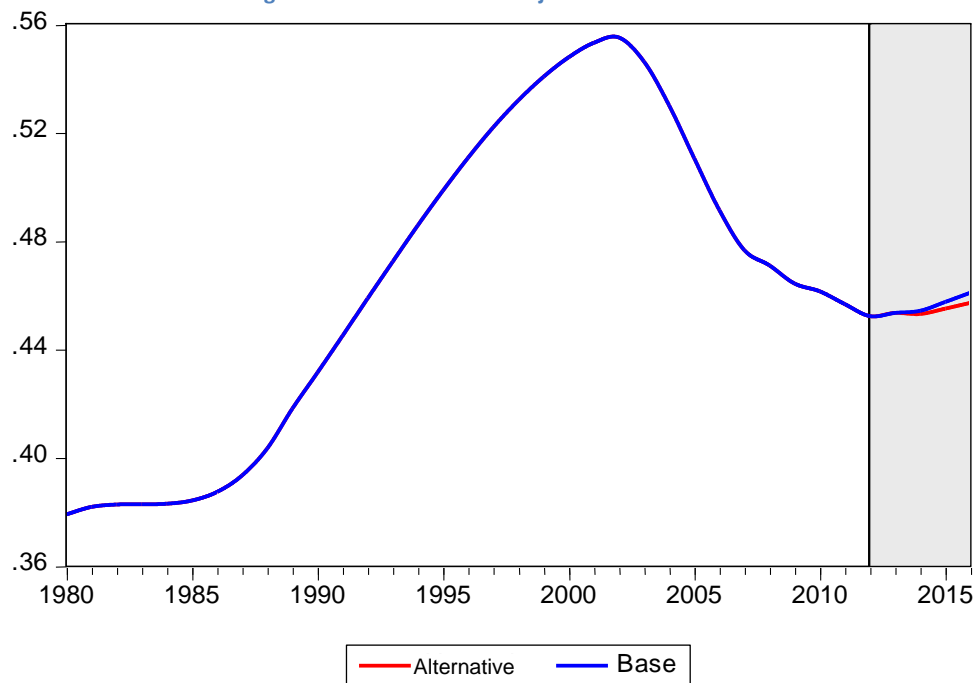


Figure 5.3.18 – Poverty and Extreme Poverty (% total population)



In terms of inequality, the projections point to a deceleration in the reduction of inequality registered in the period from 2000-2008, reflected in the track of the Gini Index for 2012-2016 (see Figure 5.3.19). The growth of the primary sector will create a larger number of jobs contributing to a reduction in the number of poor and extremely poor, but the drop in remittances from Cape Verdean emigrants abroad and the decelerated growth in the tertiary sector will not allow for a significant drop in inequality during the GPRSP III period.

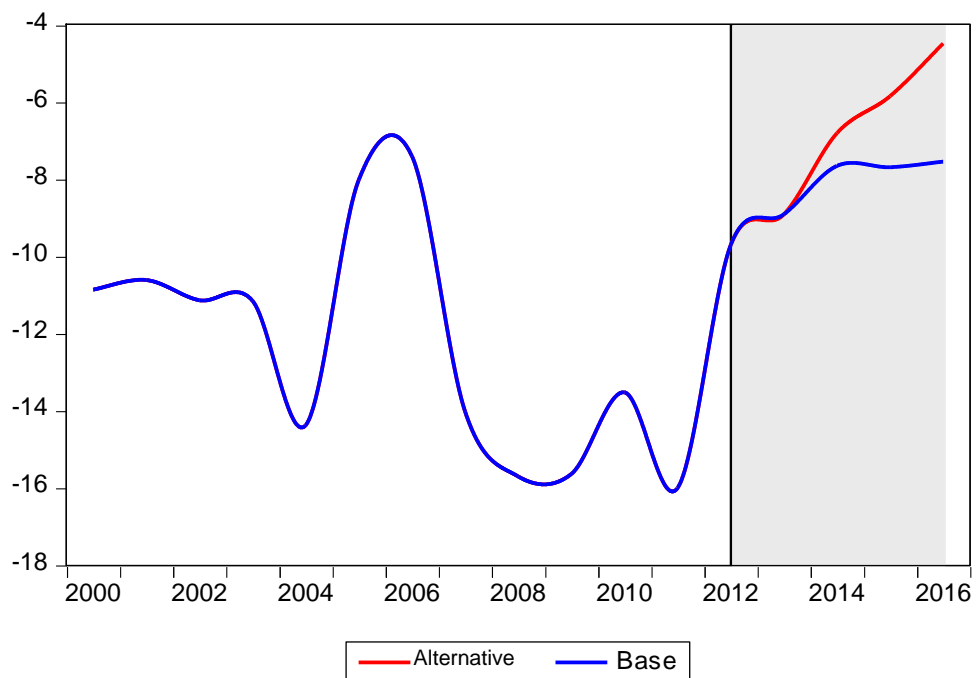
Figure 5.3.19 – Gini Index Projections 2012 - 2016



Balance of Payments

In regard to the external sector, the assumptions were made taking into account the need to reduce the deficit of the current account and maintain an adequate level of foreign reserves. The predicted progression of production from the primary sector and for the tourism revenue should contribute significantly towards an increase in the export of goods and services, and consequently, together with a relative increase in imports, to improving the deficit balance of the current account.

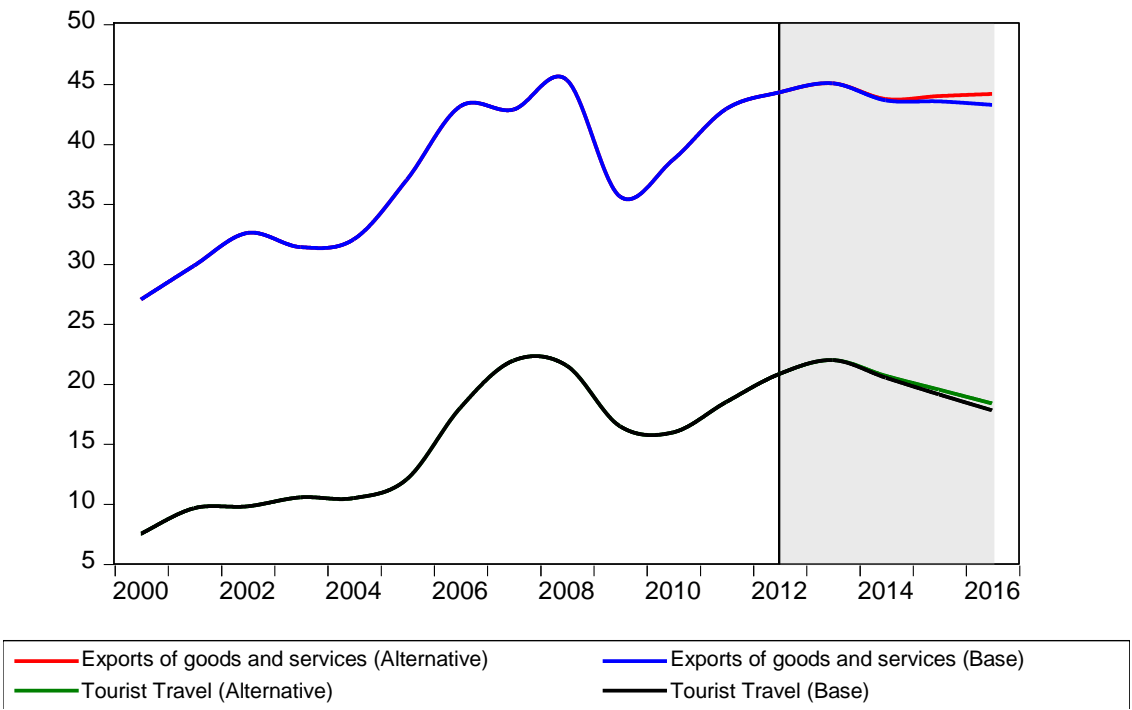
Figure 5.3.20 – Evolution of the deficit in the current account (percentage of nominal GDP)



The export of goods and services should grow on average about 9.5% and 10.8% in the base and alternative scenarios, respectively. These patterns are a result, in particular, of the performance in export

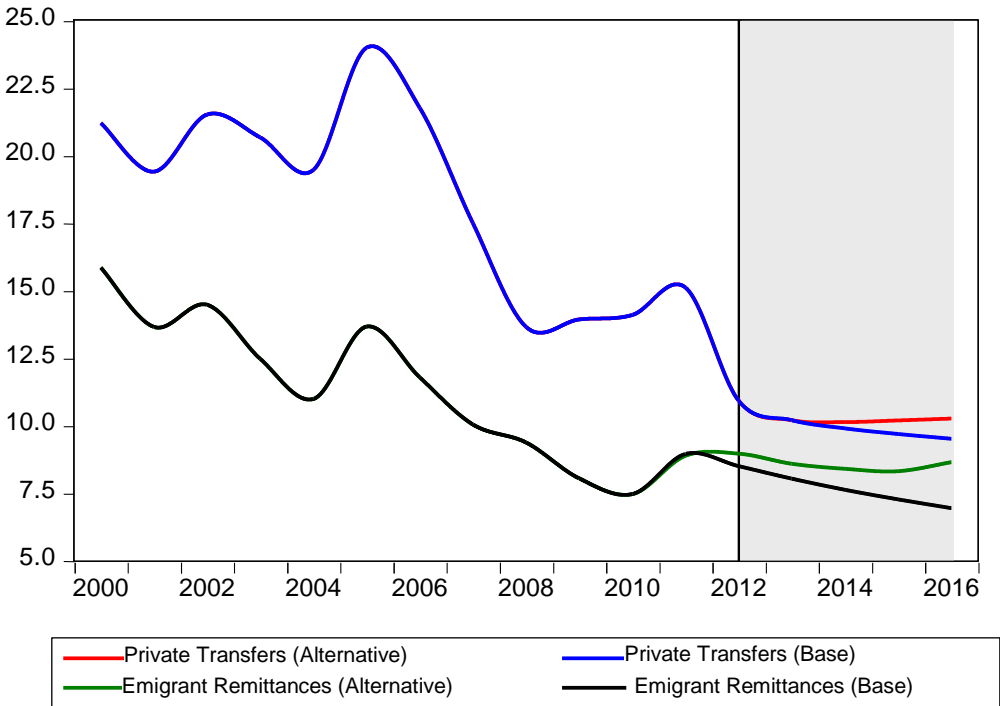
of services connected to tourism. In the first scenario, tourism revenue grows on average 8.8% and in the second, 10.2%. The increase of these revenues is a result of the rise in the number of tourists. In terms of imported goods and services, these should reach an average of around 57% of GDP, in both scenarios.

Figure 5.3.21 – Progression of exports and tourism revenue (% of nominal GDP)



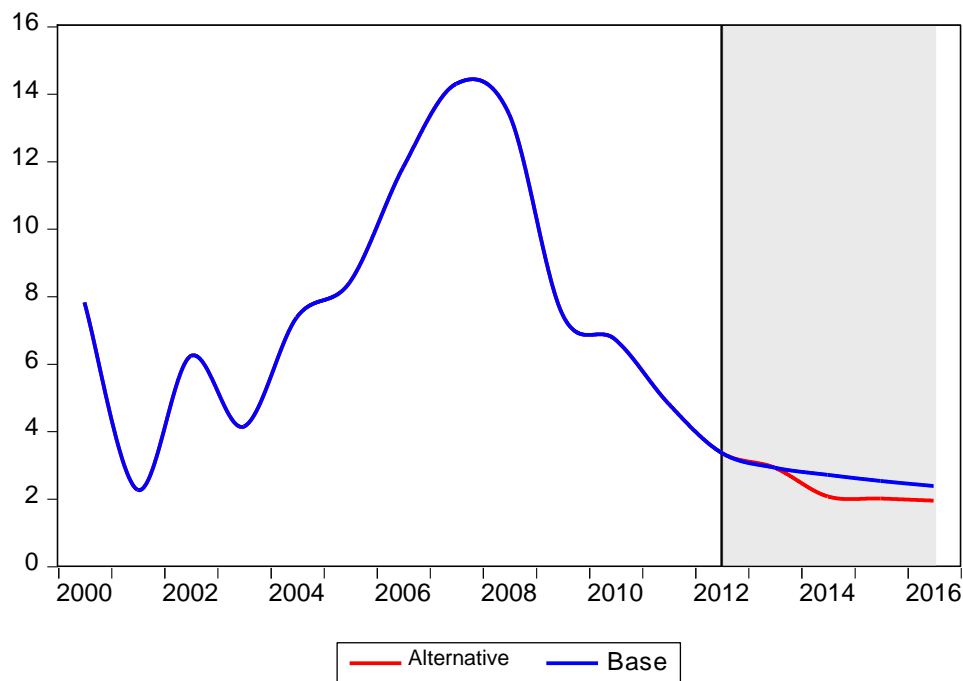
In respect to current transfers, a more optimistic growth is foreseen in the alternative scenario, resulting from the increase of private transfers, with remittances from emigrants playing a determinant role in the reduction of the poverty level.

Figure 5.3.22 – Progression of emigrant remittances (% of nominal GDP)



Foreign direct investment (FDI) should show moderate growth, with its progression crucial to a better performance of the financial balance. Therefore, FDI should represent on average around 2% of GDP, in both scenarios.

Figure 5.3.23 – Evolution of Foreign Direct Investment (% of GDP)



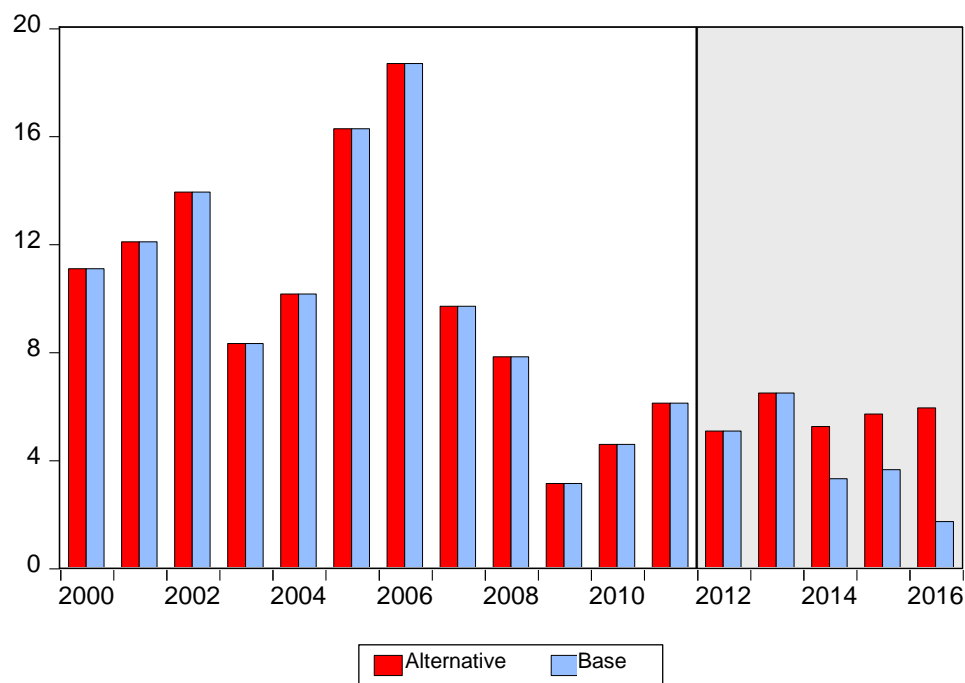
In short, a positive development of the current account balance is expected, explained by the variations in imports and exports over the course of the period, an expression of the performance of the economy and its relationship with the exterior. The projected net international reserves could also return to the level of 4 months of imported goods and services.

Monetary situation

The assumptions in regard to the development of the main monetary and financial indicators are consistent with the preservation of price stability and the credibility of the foreign exchange regime, reflected in the reinforcement of the level of reserves in relation to the importing of goods and services, and with the availability of internal resources for financing the economic activity.

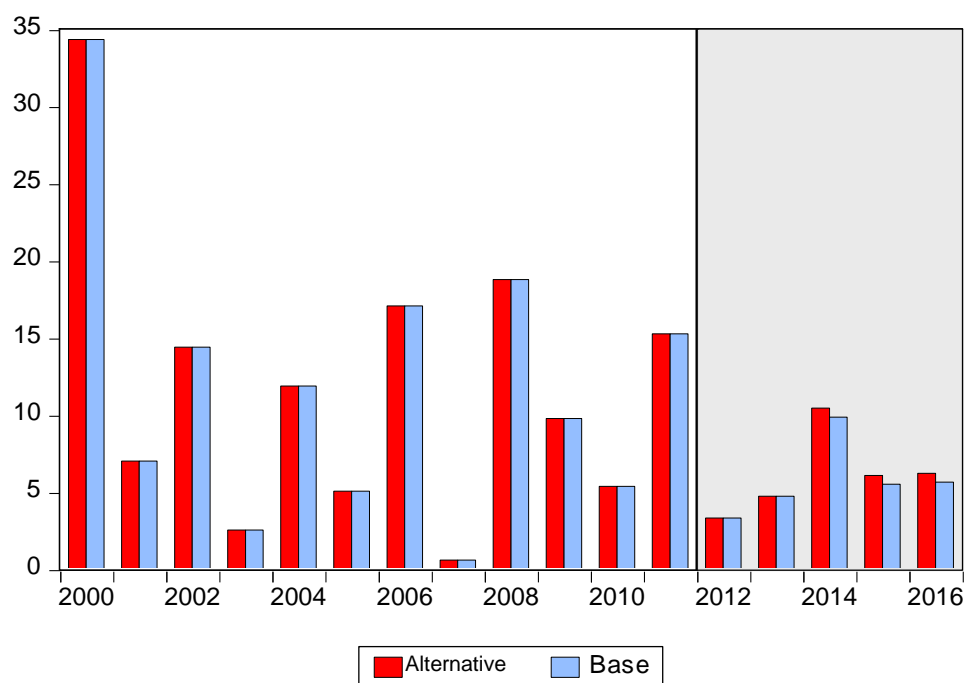
Monetary mass (M2) should show a global variation in line with that of GDP, with an expected average growth of around 4% in the base scenario and 5.7% in the alternative.

Figure 5.3.24 – Variation in Monetary Mass (%)



The dynamics of the net domestic credit (NDC) should contribute to positive developments in the monetary mass, forecasted at an average annual growth of 5.8% and 6.2% in the base and alternative scenarios, respectively.

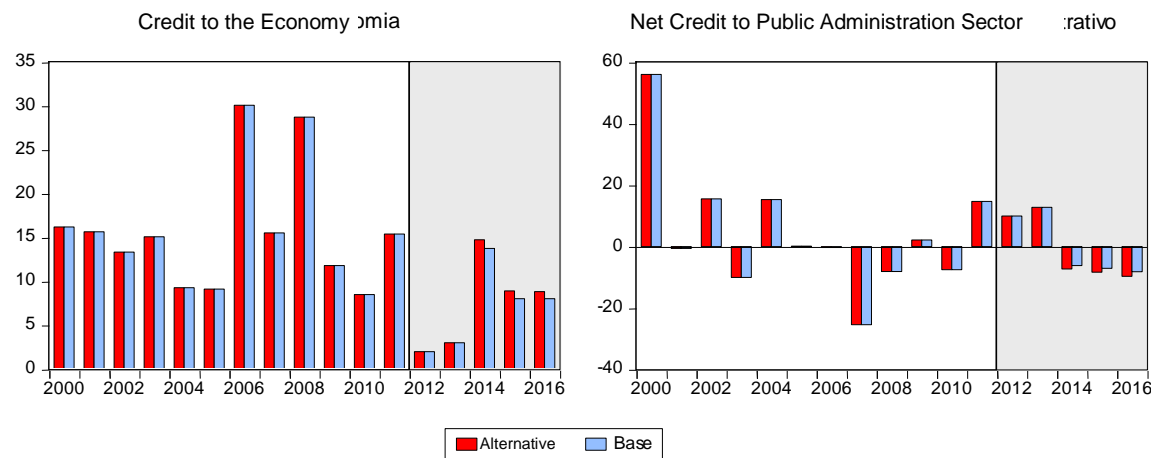
Figure 5.3.25 – Annual Variation in Domestic Credit



A better performance of the economic activity should impact the reduction of the level of aversion to risk in the banking system, enabling the channeling of resources to the private sector, allowing the credit to the economy to grow on average 6.9% and 7.5%, in the base and alternative scenarios, respectively.

The net credit to the public administration sector should show a downward trend, with lending to the private sector accounting for the larger share of domestic credit.

Figure 5.3.26 – Annual Variations in Credit to the Economy and Credit to the PAS



## 6. Costs and Financing of Growth and Poverty Reduction Strategy

---

### Public Finances

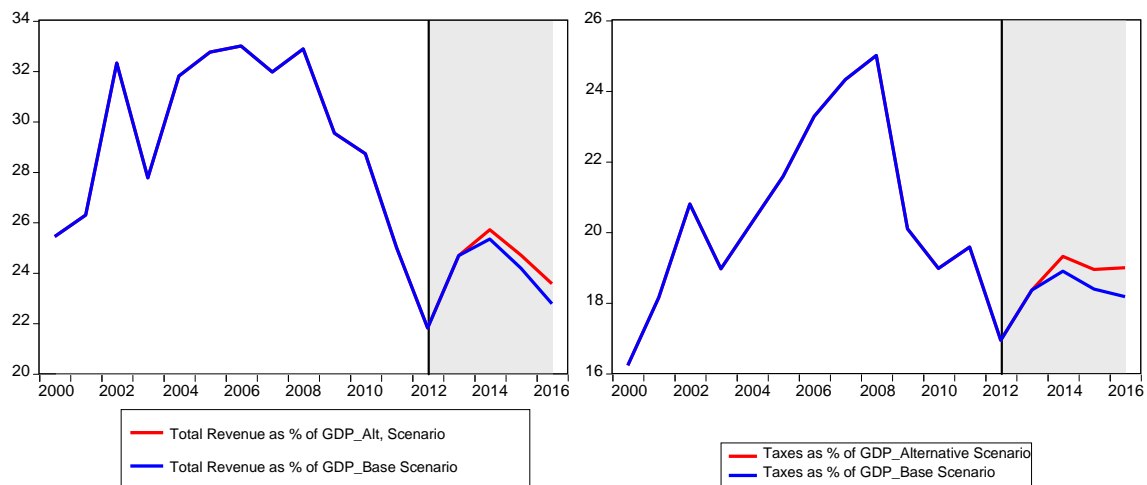
The behavior of public finances should be guided by continuing prudent management, in accordance with the global policy of macroeconomic stability, sustainable growth and poverty reduction.

To meet the milestones proposed in the GPRSP III, the mobilization of external resources will be decisive, beyond those that are guaranteed until 2016 (base scenario), with the purpose of guaranteeing the level of investment necessary to achieve the proposed objectives. As a matter of fact, despite the effort to contain the current expenses with the aim of freeing up resources for public investment, the mobilization of external resources continues to prove itself indispensable to the execution of the public investment program, especially in light of the limits of domestic borrowing that the sustainability of monetary policy demands.

Projections point to the fact that a higher level of public and private investment (alternative scenario), strategically allocated to the primary, secondary and tertiary sectors, results in a positive impact on the nominal and real growth of GDP. This more robust growth in economic activity, associated with an improved efficiency of the tax administration, gives room for a higher level of revenue collection, leading to a tax revenue of 19% of GDP in 2016, without including the majority of fees, since these are considered to be non-tax revenues.

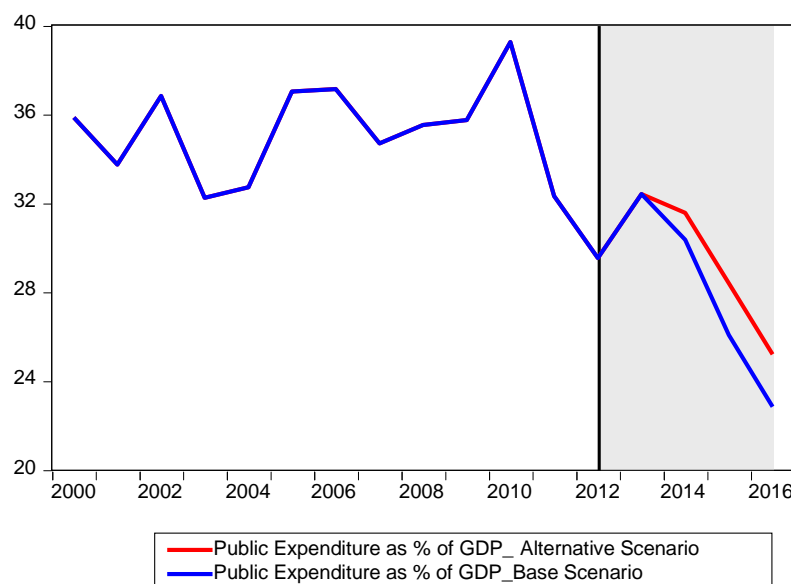
Total revenue, during the period between 2012 and 2016, should reach an average of 24.1% of GDP in the alternative scenario, as opposed to 23.7% of GDP in the base scenario. In relation to tax revenue, the average value for the period should be around 18.5% of GDP in the alternative scenario and 18.1% of GDP in the base scenario, which suggests that the investments to be made will give a boost to economic growth, with positive impact at the level of taxation, despite the denominator being higher in the alternative scenario. It is estimated that the grants could be an average of 2.7% of GDP, in the two scenarios, with a falling trend during that period.

Figure 6.0.1 Progression of Total Revenue and Taxes



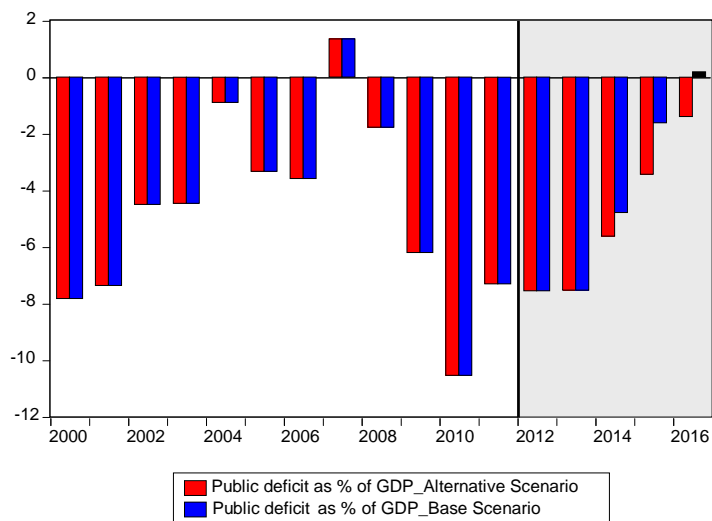
For the implementation of the growth and poverty reduction strategy, public spending (including investment) must reach an average of 29.6% of GDP, in the alternative scenario. The base scenario points to public spending of around 28.2% for the period. Investment by State-owned enterprises, through the State Budget, will amount to an average of 4.8% of GDP in both scenarios.

Figure 6.0.2 – Progression of Public Expenditure



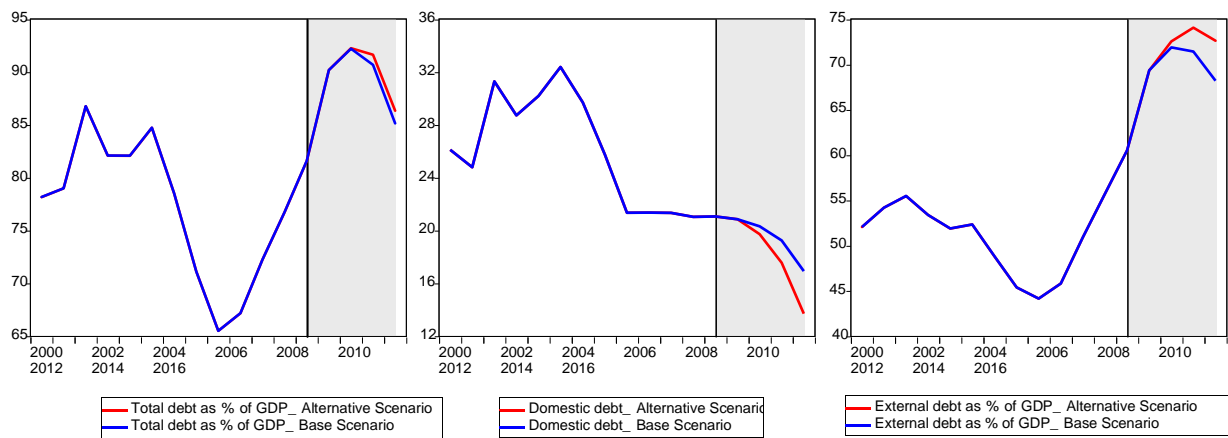
The overall budget balance, including grants, during the period should reach an average of around - 5.1% of GDP, while the current primary balance during this period should be around 1.9% of GDP, according to the strategy. The base scenario would involve an overall budget balance of -4.3% of GDP, in average terms, and an average current primary balance of 1.7% of GDP.

Figure 6.0.3 – Progression of the Total Balance



Total public debt should reach 88.4% of GDP, 18.6% being related to domestic debt and 69.8% to external debt, maintaining the essentially concessional character of the external financing portfolio. In the base scenario, total debt rises to 88% of GDP, with 19.7% as domestic and 68.3% as external, slightly lower than in the alternative scenario. However, lower pressure on domestic borrowing is foreseen in the latter, giving a margin for the sustainability of the monetary policy and more space for engaging the private sector in the economic growth strategy, in addition to the gains in terms of the impacts at the level of real economic growth and the reduction of poverty resulting from the larger volume of investments, in priority sectors.

Figure 6.0.4 – Progression of Public Debt



### 6.1. GPRSP III Fiscal Framework

Indirect taxes should represent the majority of tax revenue collected in the period (70%), with VAT as clearly the biggest source of revenue. In terms of direct taxes, the Individual Income Tax (IUR-PS) should perform better than the Corporate Income Tax (IUR-PC).

The reform measures of the tax administration should allow reaching effective rates of the highest taxes, reflecting increased tax efficiency. However, taking into consideration the less favorable external and domestic economic context, it is not expected that by 2016 the actual rates will match the maximum levels registered in the past.

Figure 6.1.1 – Actual VAT Rate

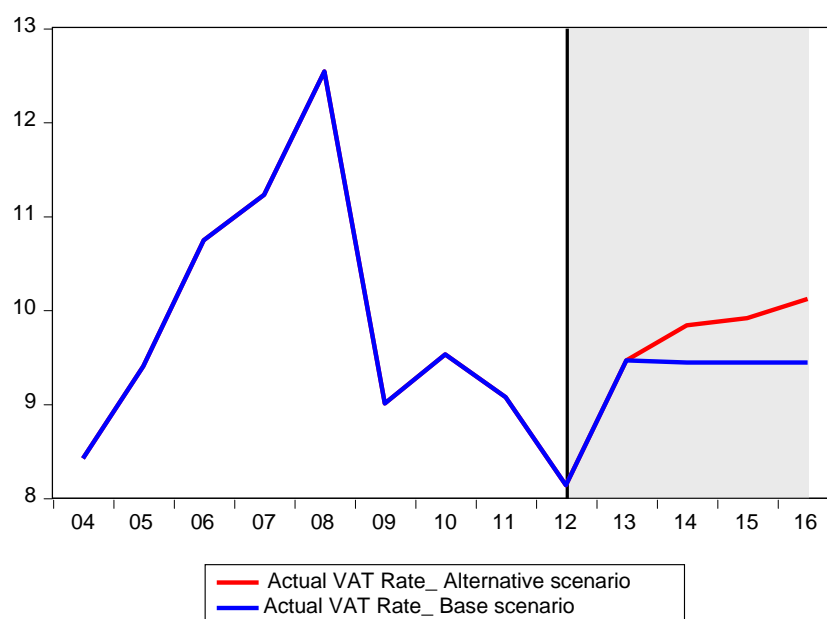


Table 6.1.1 – Tax revenue structure in the alternative scenario

|  | 2009       | 2010       | 2011       | 2012       | 2013       | 2014       | 2015       | 2016       |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>Taxes (Total Tax Revenue – TTR)</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> |
| Direct Taxes                           | 32         | 30         | 29         | 32         | 30         | 30         | 29         | 29         |
| Single Income Tax (IUR)                | 32         | 30         | 29         | 32         | 30         | 30         | 29         | 29         |
| IUR-PS (Individual)                    | 17         | 18         | 16         | 19         | 17         | 17         | 17         | 16         |
| IUR-PC (Corporate)                     | 14         | 12         | 13         | 14         | 13         | 13         | 13         | 12         |
| Other Taxes on Income                  | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| Indirect Taxes                         | 68         | 70         | 71         | 68         | 70         | 70         | 71         | 71         |
| Taxes on Goods and Services            | 43         | 46         | 47         | 44         | 48         | 47         | 48         | 49         |
| On Goods and Services                  | 38         | 40         | 39         | 37         | 40         | 38         | 38         | 38         |
| Value-Added Tax                        | 38         | 40         | 39         | 37         | 40         | 38         | 38         | 38         |
| VAT DGA (Dir-General of Customs)       | 23         | 24         | 26         | 24         | 22         | 20         | 19         | 18         |
| VAT DGCI (Dir-Gen. of Taxation)        | 15         | 17         | 14         | 13         | 17         | 18         | 19         | 20         |
| On Consumption                         | 4          | 5          | 6          | 5          | 6          | 7          | 9          | 9          |
| Special Consumption Tax (ICE)          | 4          | 5          | 6          | 5          | 6          | 7          | 9          | 9          |
| Other Taxes                            | 1          | 1          | 2          | 2          | 2          | 2          | 2          | 2          |
| Ecological Tax                         | 1          | 1          | 2          | 2          | 2          | 2          | 2          | 2          |
| Others                                 | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| Taxes on International Transactions    | 21         | 21         | 21         | 21         | 19         | 18         | 18         | 18         |
| Import Duties                          | 20         | 21         | 20         | 20         | 18         | 17         | 17         | 18         |
| ECOWAS Community Tax                   | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          |
| Other Taxes                            | 4          | 3          | 3          | 3          | 3          | 4          | 4          | 4          |
| Stamp Tax                              | 4          | 3          | 3          | 3          | 3          | 4          | 4          | 4          |
| Special Tax on Gaming                  | 0          | 0          | 0          | 0          | 0.5        | 0.5        | 0.6        | 0.6        |
| Others                                 | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |

**Table 6.1.2 – Level of taxation (tax as % of GDP) – alternative scenario**

|                              | 2009        | 2010        | 2011        | 2012        | 2013        | 2014        | 2015        | 2016        |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Single income tax            | 6.4         | 5.8         | 5.8         | 5.5         | 5.5         | 5.8         | 5.6         | 5.4         |
| Tax on goods and services    | 8.8         | 8.8         | 9.2         | 7.5         | 8.7         | 9.2         | 9.1         | 9.3         |
| Taxes on international trade | 4.3         | 4.1         | 4.1         | 3.5         | 3.5         | 3.5         | 3.4         | 3.5         |
| Other indirect taxes         | 0.8         | 0.5         | 0.6         | 0.5         | 0.6         | 0.8         | 0.8         | 0.8         |
| <b>Total Taxes</b>           | <b>20.2</b> | <b>19.3</b> | <b>19.6</b> | <b>16.9</b> | <b>18.4</b> | <b>19.3</b> | <b>18.9</b> | <b>19.0</b> |

The non-fulfillment of any of the assumptions in the alternative scenario consequently entails less positive economic growth, shown in the base scenario and leading to lower tax levels.

**Table 6.1.3 – Tax revenue structure – base scenario**

|  | 2009       | 2010       | 2011       | 2012       | 2013       | 2014       | 2015       | 2016       |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>Taxes (Total Tax Revenue – TTR)</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> |
| Direct Taxes                           | 32         | 30         | 29         | 32         | 30         | 31         | 30         | 30         |
| Single Income Tax (IUR)                | 32         | 30         | 29         | 32         | 30         | 31         | 30         | 30         |
| IUR-PS (Individual)                    | 17         | 18         | 16         | 19         | 17         | 18         | 17         | 17         |
| IUR-PC (Corporate)                     | 14         | 12         | 13         | 14         | 13         | 13         | 13         | 13         |
| Other Taxes on Income                  | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| Indirect Taxes                         | 68         | 70         | 71         | 68         | 70         | 69         | 70         | 70         |
| Taxes on Goods and Services            | 43         | 46         | 47         | 44         | 48         | 47         | 47         | 47         |
| On Goods and Services                  | 38         | 40         | 39         | 37         | 40         | 38         | 37         | 36         |
| Value-Added Tax                        | 38         | 40         | 39         | 37         | 40         | 38         | 37         | 36         |
| VAT DGA (Dir-Gen. of Customs)          | 23         | 24         | 26         | 24         | 22         | 20         | 19         | 18         |
| VAT DGCI (Dir-Gen. of Taxation)        | 15         | 17         | 14         | 13         | 17         | 18         | 18         | 19         |
| On Consumption                         | 4          | 5          | 6          | 5          | 6          | 7          | 9          | 9          |
| Special Consumption Tax                | 4          | 5          | 6          | 5          | 6          | 7          | 9          | 9          |
| Other Taxes                            | 1          | 1          | 2          | 2          | 2          | 2          | 2          | 2          |
| Ecological Tax                         | 1          | 1          | 2          | 2          | 2          | 2          | 2          | 2          |
| Others                                 | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| Taxes on International Transactions    | 21         | 21         | 21         | 21         | 19         | 18         | 18         | 19         |
| Import Duties                          | 20         | 21         | 20         | 20         | 18         | 17         | 18         | 18         |
| ECOWAS Community Tax                   | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          |
| Other Taxes                            | 4          | 3          | 3          | 3          | 3          | 4          | 4          | 4          |
| Stamp Tax                              | 4          | 3          | 3          | 3          | 3          | 4          | 4          | 4          |
| Special Tax on Gaming                  | 0          | 0          | 0          | 0          | 0.5        | 0.5        | 0.6        | 0.6        |
| Others                                 | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |

Table 6.1.4 – Level of tax (tax as % of GDP) – base scenario

|                              | 2009        | 2010        | 2011        | 2012        | 2013        | 2014        | 2015        | 2016        |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Single income tax            | 6.4         | 5.8         | 5.8         | 5.5         | 5.5         | 5.8         | 5.5         | 5.4         |
| Tax on goods and services    | 8.8         | 8.8         | 9.2         | 7.5         | 8.7         | 8.8         | 8.7         | 8.6         |
| Taxes on international trade | 4.3         | 4.1         | 4.1         | 3.5         | 3.5         | 3.5         | 3.4         | 3.4         |
| Other indirect taxes         | 0.8         | 0.5         | 0.6         | 0.5         | 0.6         | 0.8         | 0.8         | 0.8         |
| <b>Total Taxes</b>           | <b>20.2</b> | <b>19.3</b> | <b>19.6</b> | <b>16.9</b> | <b>18.4</b> | <b>18.9</b> | <b>18.4</b> | <b>18.2</b> |

## 6.2 GPRSP III Expenditure Framework

During the implementation period of the GPRSP III, total expenditure will reach an average of 29.6% of GDP, divided into 21.5% for the headings of current expenses and 8.1% for non-financial assets. It is worth noting that in 2013 expenditure reaches its peak, and 2014 it initiates its path downwards. The investments of the State-owned enterprises are related to onlending from the Government to public companies and should rise to about 4.8% of GDP between 2012 and 2016.

Table 6.2.1 – Public Expenditure – alternative scenario

| Heading  | 2009          | 2010          | 2011          | 2012          | 2013          | 2014          | 2015          | 2016          |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Staff Expenditure                              | 14,207        | 14,810        | 15,616        | 16,755        | 17,768        | 18,988        | 19,856        | 20,271        |
| Procurement of Goods and Services              | 5,294         | 5,171         | 4,697         | 5,587         | 6,828         | 7,564         | 7,344         | 7,195         |
| Total Current Interest                         | 1,861         | 2,173         | 2,256         | 2,470         | 3,681         | 3,941         | 4,277         | 4,524         |
| Domestic Debt Interest                         | 1,271         | 1,460         | 1,404         | 1,410         | 1,850         | 1,806         | 1,772         | 1,676         |
| External Debt Interest                         | 547           | 699           | 852           | 1,000         | 1,753         | 2,109         | 2,474         | 2,815         |
| Other Debt Costs                               | 43            | 14            | 0             | 60            | 78            | 25            | 30            | 34            |
| Subsidies                                      | 874           | 752           | 1,020         | 439           | 450           | 622           | 637           | 654           |
| Current Transfers                              | 3,781         | 4,939         | 4,710         | 4,022         | 4,637         | 5,155         | 5,393         | 5,500         |
| Social Benefits                                | 2,890         | 2,893         | 3,551         | 3,620         | 3,852         | 4,658         | 5,039         | 5,150         |
| Other Current Expenditure                      | 3,252         | 2,362         | 2,052         | 2,468         | 2,524         | 3,338         | 3,700         | 3,474         |
| <b>Total Current Expenditure</b>               | <b>32,159</b> | <b>33,099</b> | <b>33,901</b> | <b>35,361</b> | <b>39,740</b> | <b>44,266</b> | <b>46,247</b> | <b>46,768</b> |
| <b>Purchase of Non-Financial Assets</b>        | <b>13,268</b> | <b>21,214</b> | <b>14,923</b> | <b>12,632</b> | <b>17,663</b> | <b>18,052</b> | <b>16,045</b> | <b>14,860</b> |
| <b>Total Expenditure</b>                       | <b>45,427</b> | <b>54,313</b> | <b>48,824</b> | <b>47,993</b> | <b>57,403</b> | <b>62,317</b> | <b>62,292</b> | <b>61,628</b> |
| <b>Investment by public enterprises (SOEs)</b> | <b>836</b>    | <b>1,430</b>  | <b>5,331</b>  | <b>5,449</b>  | <b>11,279</b> | <b>11,002</b> | <b>11,680</b> | <b>7,400</b>  |
| <b>Total including SOE investment</b>          | <b>46,262</b> | <b>55,743</b> | <b>54,156</b> | <b>53,442</b> | <b>68,682</b> | <b>73,319</b> | <b>73,973</b> | <b>69,028</b> |

The failure to mobilize additional resources to make the implementation of the strategy feasible would, in the current expense scenario, result in negative impacts at the level of economic growth. In the base scenario, total expenses reach an average of 28.2% of GDP, the heading of current expenses amounting to 21.3% of GDP, and the purchase of non-financial assets 7%. The non-financial assets play an important role in the gross fixed capital formation, therefore this scenario would be less likely to contribute to real growth in the economy.

Table 6.2.2 – Public Expenditure (base scenario)

| Category                              | 2009          | 2010          | 2011          | 2012          | 2013          | 2014          | 2015          | 2016          |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Staff Expenditure                     | 14,207        | 14,810        | 15,616        | 16,755        | 17,768        | 18,988        | 19,856        | 20,271        |
| Procurement of Goods and Services     | 5,294         | 5,171         | 4,697         | 5,587         | 6,828         | 7,032         | 6,279         | 5,917         |
| Total Current Interest                | 1,861         | 2,173         | 2,256         | 2,470         | 3,681         | 3,890         | 4,110         | 4,222         |
| Domestic Debt Interest                | 1,271         | 1,460         | 1,404         | 1,410         | 1,850         | 1,806         | 1,772         | 1,676         |
| External Debt Interest                | 547           | 699           | 852           | 1,000         | 1,753         | 2,059         | 2,310         | 2,518         |
| Other Debt Costs                      | 43            | 14            | 0             | 60            | 78            | 24            | 28            | 29            |
| Subsidies                             | 874           | 752           | 1,020         | 439           | 450           | 619           | 632           | 648           |
| Current Transfers                     | 3,781         | 4,939         | 4,710         | 4,022         | 4,637         | 5,076         | 5,235         | 5,311         |
| Social Benefits                       | 2,890         | 2,893         | 3,551         | 3,620         | 3,852         | 4,600         | 4,924         | 5,012         |
| Other Current Expenditure             | 3,252         | 2,362         | 2,052         | 2,468         | 2,524         | 3,285         | 3,595         | 3,348         |
| <b>Total Current Expenditure</b>      | <b>32,159</b> | <b>33,099</b> | <b>33,901</b> | <b>35,361</b> | <b>39,740</b> | <b>43,491</b> | <b>44,631</b> | <b>44,728</b> |
| Purchase of Non-Financial Assets      | 13,268        | 21,214        | 14,923        | 12,632        | 17,663        | 15,657        | 11,244        | 9,105         |
| <b>Total Expenditure</b>              | <b>45,427</b> | <b>54,313</b> | <b>48,824</b> | <b>47,993</b> | <b>57,403</b> | <b>59,148</b> | <b>55,874</b> | <b>53,833</b> |
| Investment by Public Companies (SOEs) | 836           | 1,430         | 5,331         | 5,449         | 11,279        | 11,002        | 11,680        | 7,400         |
| <b>Total including SOE investment</b> | <b>46,262</b> | <b>55,743</b> | <b>54,156</b> | <b>53,442</b> | <b>68,682</b> | <b>70,150</b> | <b>67,555</b> | <b>61,233</b> |

### 6.3 Growth and Poverty Reduction Strategy Budget

The implementation of the GPRSP III will be the reference framework for the allocation of resources during the 2012-2016 period, and will require a considerable effort in mobilizing external resources. The costs of implementing the strategy are summarized in the following table and total 291,634 million escudos in that period, 79,252 million escudos of which are non-financial assets and 212,383 million escudos are current expenses, resulting from the specific measures and activities associated with the implementation of the GPRSP III. Investment by State-owned enterprises set in motion by the Government totals 46,810 million escudos for that period.

Table 6.3.1 – Table of State Financial Operations of the GPRSP III (Alternative Scenario)

|                                       | in millions of escudos |         |         |         |            |         |         | Growth rate %      |      |      |      |      |      |      |        | % of GDP |       |       |       |       |       |  |  |
|---------------------------------------|------------------------|---------|---------|---------|------------|---------|---------|--------------------|------|------|------|------|------|------|--------|----------|-------|-------|-------|-------|-------|--|--|
|                                       | Execution              |         | Est     | Reprog. | Projection |         | 2016    | Projections by MFP |      |      |      |      |      |      |        |          |       |       |       |       |       |  |  |
|                                       | 2010                   | 2011    | 2012    | 2013    | 2014       | 2015    |         | 2010               | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2010   | 2011     | 2012  | 2013  | 2014  | 2015  | 2016  |  |  |
| Total Revenue                         | 39,725                 | 37,746  | 35,431  | 43,707  | 50,739     | 54,170  | 57,617  | 6%                 | -5%  | -6%  | 23%  | 16%  | 7%   | 6%   | 29.2%  | 25.1%    | 21.8% | 24.7% | 25.7% | 24.7% | 23.6% |  |  |
| Current Revenue                       | 30,239                 | 33,547  | 31,553  | 38,738  | 43,849     | 47,870  | 53,451  | 1%                 | 11%  | -6%  | 23%  | 13%  | 9%   | 12%  | 22.2%  | 22.3%    | 19.4% | 21.9% | 22.2% | 21.8% | 21.9% |  |  |
| Tax Revenue - Taxes                   | 26,241                 | 29,563  | 27,513  | 32,513  | 38,121     | 41,547  | 46,443  | 3%                 | 13%  | -7%  | 18%  | 17%  | 9%   | 12%  | 19.3%  | 19.6%    | 16.9% | 18.4% | 19.3% | 18.9% | 19.0% |  |  |
| Other Revenue                         | 3,998                  | 3,984   | 4,040   | 6,224   | 5,728      | 6,323   | 7,008   | -10%               | 0%   | 1%   | 54%  | -8%  | 10%  | 11%  | 2.9%   | 2.6%     | 2.5%  | 3.5%  | 2.9%  | 2.9%  | 2.9%  |  |  |
| Capital Revenue                       | 9,486                  | 4,199   | 3,879   | 4,970   | 6,890      | 6,299   | 4,166   | 26%                | -56% | -8%  | 28%  | 39%  | -9%  | -34% | 7.0%   | 2.8%     | 2.4%  | 2.8%  | 3.5%  | 2.9%  | 1.7%  |  |  |
| Grants                                | 9,486                  | 4,199   | 3,879   | 4,966   | 6,890      | 6,299   | 4,166   | 26%                | -56% | -8%  | 28%  | 39%  | -9%  | -34% | 7.0%   | 2.8%     | 2.4%  | 2.8%  | 3.5%  | 2.9%  | 1.7%  |  |  |
| Total Expenses                        | 33,099                 | 33,901  | 35,361  | 39,740  | 44,266     | 46,247  | 46,768  | 3%                 | 2%   | 4%   | 12%  | 11%  | 4%   | 1%   | 24.3%  | 22.5%    | 21.8% | 22.4% | 22.4% | 21.1% | 19.1% |  |  |
| Current Expenses                      | 33,099                 | 33,901  | 35,361  | 39,740  | 44,266     | 46,247  | 46,768  | 3%                 | 2%   | 4%   | 12%  | 11%  | 4%   | 1%   | 24.3%  | 22.5%    | 21.8% | 22.4% | 22.4% | 21.1% | 19.1% |  |  |
| Staff Expenditure                     | 14,810                 | 15,616  | 16,755  | 17,768  | 18,988     | 19,856  | 20,271  | 4%                 | 5%   | 7%   | 6%   | 7%   | 5%   | 2%   | 10.9%  | 10.4%    | 10.3% | 10.0% | 9.6%  | 9.1%  | 8.3%  |  |  |
| Procurement of Goods & Serv.          | 5,171                  | 4,697   | 5,587   | 6,828   | 7,564      | 7,344   | 7,195   | -2%                | -9%  | 19%  | 22%  | 11%  | -3%  | -2%  | 3.8%   | 3.1%     | 3.4%  | 3.9%  | 3.8%  | 3.3%  | 2.9%  |  |  |
| Debt Interest                         | 2,173                  | 2,256   | 2,470   | 3,681   | 3,941      | 4,277   | 4,524   | 17%                | 4%   | 9%   | 49%  | 7%   | 9%   | 6%   | 1.6%   | 1.5%     | 1.5%  | 2.1%  | 2.0%  | 1.9%  | 1.8%  |  |  |
| Subsidies                             | 752                    | 1,020   | 439     | 450     | 622        | 637     | 654     | -14%               | 36%  | -57% | 3%   | 38%  | 2%   | 3%   | 0.6%   | 0.7%     | 0.3%  | 0.3%  | 0.3%  | 0.3%  | 0.3%  |  |  |
| Current Transfers                     | 4,939                  | 4,710   | 4,022   | 4,637   | 5,155      | 5,393   | 5,500   | 31%                | -5%  | -15% | 15%  | 11%  | 5%   | 2%   | 3.6%   | 3.1%     | 2.5%  | 2.6%  | 2.6%  | 2.5%  | 2.2%  |  |  |
| Social Benefits                       | 2,893                  | 3,351   | 3,620   | 3,852   | 4,658      | 5,039   | 5,150   | 0%                 | 23%  | 2%   | 6%   | 21%  | 8%   | 2%   | 2.1%   | 2.4%     | 2.2%  | 2.2%  | 2.4%  | 2.3%  | 2.1%  |  |  |
| Other Current Expenses                | 2,362                  | 2,052   | 2,468   | 2,524   | 3,338      | 3,700   | 3,474   | -27%               | -13% | 20%  | 2%   | 32%  | 11%  | -6%  | 1.7%   | 1.4%     | 1.5%  | 1.4%  | 1.7%  | 1.7%  | 1.4%  |  |  |
| Gross Operating Result                | 6,626                  | 3,845   | 71      | 3,967   | 6,473      | 7,922   | 10,848  | -                  | -    | -    | -    | -    | -    | -    | 4.9%   | 2.6%     | 0.0%  | 2.2%  | 3.3%  | 3.6%  | 4.4%  |  |  |
| Non-Financial Assets                  | 21,209                 | 14,881  | 12,348  | 17,313  | 17,583     | 15,458  | 14,260  | 60%                | -30% | -17% | 40%  | 2%   | -12% | -8%  | 15.6%  | 9.9%     | 7.6%  | 9.8%  | 8.9%  | 7.0%  | 5.8%  |  |  |
| Purchase of Non-financial Assets      | 21,214                 | 14,923  | 12,632  | 17,663  | 18,052     | 16,045  | 14,860  | 60%                | -30% | -15% | 40%  | 2%   | -11% | -7%  | 15.6%  | 9.9%     | 7.8%  | 10.0% | 9.1%  | 7.3%  | 6.1%  |  |  |
| Sale of Non-financial Assets          | 4                      | 42      | 284     | 350     | 469        | 587     | 600     | -77%               | 886% | 577% | 23%  | 34%  | 25%  | 2%   | 0.0%   | 0.0%     | 0.2%  | 0.2%  | 0.2%  | 0.3%  | 0.2%  |  |  |
| Overall Balance                       | 14,584                 | -11,036 | -12,277 | -13,346 | -11,109    | -7,536  | -3,412  | -                  | -    | -    | -    | -    | -    | -    | -10.7% | -7.3%    | -7.6% | -7.5% | -5.6% | -3.4% | -1.4% |  |  |
| Current Balance                       | -2,860                 | -354    | -3,808  | -1,003  | -417       | 1,623   | 6,682   |                    |      |      |      |      |      |      | -2.1%  | -0.2%    | -2.3% | -0.6% | -0.2% | 0.7%  | 2.7%  |  |  |
| Primary Overall Balance               | -12,411                | -8,780  | -9,807  | -9,665  | -7,168     | -3,259  | 1,113   |                    |      |      |      |      |      |      | -9.1%  | -5.8%    | -6.0% | -5.5% | -3.6% | -1.5% | 0.5%  |  |  |
| Current Primary Balance               | -687                   | 1,902   | -1,338  | 2,678   | 3,524      | 5,900   | 11,207  |                    |      |      |      |      |      |      | -0.5%  | 1.3%     | -0.8% | 1.5%  | 1.8%  | 2.7%  | 4.6%  |  |  |
| Financing                             | 14,066                 | 10,913  | 12,277  | 13,346  | 11,109     | 7,536   | 3,412   | -                  | -    | -    | -    | -    | -    | -    | 10.3%  | 7.3%     | 7.6%  | 7.5%  | 5.6%  | 3.4%  | 1.4%  |  |  |
| Financial Assets                      | -1,445                 | -5,378  | -6,426  | -13,841 | -11,788    | -11,951 | -7,521  |                    |      |      |      |      |      |      | -1.1%  | -3.6%    | -4.0% | -7.8% | -6.0% | -5.4% | -3.1% |  |  |
| Loans Granted                         | -1,430                 | -5,331  | -5,426  | -11,279 | -11,002    | -11,680 | -7,400  |                    |      |      |      |      |      |      | -1.1%  | -3.5%    | -3.3% | -6.4% | -5.6% | -5.3% | -3.0% |  |  |
| Equity and other Holdings             | -15                    | -46     | -1,000  | -1,500  | 0          | 0       | 0       |                    |      |      |      |      |      |      | 0.0%   | 0.0%     | -0.6% | -0.8% | 0.0%  | 0.0%  | 0.0%  |  |  |
| Other Assets                          | 0                      | 0       | 0       | -1,062  | -786       | -271    | -121    |                    |      |      |      |      |      |      |        |          |       |       |       |       |       |  |  |
| Financial Liabilities                 | 15,512                 | 16,291  | 18,703  | 27,187  | 22,897     | 19,487  | 10,932  |                    |      |      |      |      |      |      | 11.4%  | 10.8%    | 11.5% | 15.3% | 11.6% | 8.9%  | 4.5%  |  |  |
| Net Domestic                          | 988                    | 2,119   | 5,008   | 2,699   | 1,283      | -1,124  | -5,660  |                    |      |      |      |      |      |      | 0.7%   | 1.4%     | 3.1%  | 1.5%  | 0.6%  | -0.5% | -2.3% |  |  |
| Net Foreign                           | 14,524                 | 14,172  | 13,695  | 24,488  | 21,614     | 20,611  | 16,592  |                    |      |      |      |      |      |      | 10.7%  | 9.4%     | 8.4%  | 13.8% | 10.9% | 9.4%  | 6.8%  |  |  |
| Errors and Omissions                  | -517                   | -123    | 0       | 0       | 0          | 0       | 0       |                    |      |      |      |      |      |      | -0.4%  | -0.1%    | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  |  |  |
| Overall Balance (as % of GDP)         | -10.7                  | -7.3    | -7.6    | -7.5    | -5.6       | -3.4    | -1.4    |                    |      |      |      |      |      |      |        |          |       |       |       |       |       |  |  |
| Net Domestic Credit                   | 0.7                    | 1.4     | 3.1     | 1.5     | 0.6        | -0.5    | -2      |                    |      |      |      |      |      |      |        |          |       |       |       |       |       |  |  |
| Current balance (as % of GDP)         | -2.1                   | -0.2    | -2.3    | -0.6    | -0.2       | 0.7     | 2.7     |                    |      |      |      |      |      |      |        |          |       |       |       |       |       |  |  |
| Primary Overall Balance (as % of GDP) | -9.1                   | -5.8    | -6.0    | -5.5    | -3.6       | -1.5    | 0.5     |                    |      |      |      |      |      |      |        |          |       |       |       |       |       |  |  |
| Current Primary Balance (as % of GDP) | -0.5                   | 1.3     | -0.8    | 1.5     | 1.8        | 2.7     | 4.6     |                    |      |      |      |      |      |      |        |          |       |       |       |       |       |  |  |
| Net Domestic (as % of GDP)            | 0.7                    | 1.4     | 3.1     | 1.5     | 0.6        | -0.5    | -2.3    |                    |      |      |      |      |      |      |        |          |       |       |       |       |       |  |  |
| Net Foreign (as % of GDP)             | 10.7                   | 9.4     | 8.4     | 13.8    | 10.9       | 9.4     | 6.8     |                    |      |      |      |      |      |      |        |          |       |       |       |       |       |  |  |
| Nominal GDP_Alternative Scenario      | 136,173                | 150,471 | 162,509 | 177,135 | 197,452    | 219,386 | 244,589 |                    |      |      |      |      |      |      |        |          |       |       |       |       |       |  |  |

In the base scenario, public expenditure amounts to 274,252 million escudos, 66,300 million escudos of which are non-financial assets and 207,952 million escudos in current expenditure. Investment by State-owned enterprises set in motion by the Government totals 46,810 million escudos during that period.

Table 6.3.2 – Table of State Financial Operations of the GPRSP III (base scenario)

|  | in millions of escudos |                |                |                |                |                |               | Growth rate as % |               |               |              |               |               |               |  | % of GDP Projected by MFP |              |              |              |              |              |              |  |
|--|------------------------|----------------|----------------|----------------|----------------|----------------|---------------|------------------|---------------|---------------|--------------|---------------|---------------|---------------|--|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--|
|  | Execution              |                | Est            | Reprog         | Projection     |                |               |                  |               |               |              |               |               |               |  |                           |              |              |              |              |              |              |  |
|  | 2010                   | 2011           | 2012           | 2013           | 2014           | 2015           | 2016          | 2010             | 2011          | 2012          | 2013         | 2014          | 2015          | 2016          |  | 2010                      | 2011         | 2012         | 2013         | 2014         | 2015         | 2016         |  |
| <b>Total Revenue</b>                         | <b>39,725</b>          | <b>37,746</b>  | <b>35,431</b>  | <b>43,707</b>  | <b>49,344</b>  | <b>51,824</b>  | <b>53,673</b> | <b>5.9%</b>      | <b>-5.0%</b>  | <b>-6.1%</b>  | <b>23.4%</b> | <b>12.9%</b>  | <b>5.0%</b>   | <b>3.6%</b>   |  | <b>29.2%</b>              | <b>25.1%</b> | <b>21.8%</b> | <b>24.7%</b> | <b>25.3%</b> | <b>24.2%</b> | <b>22.8%</b> |  |
| Current Revenue                              | 30,239                 | 33,547         | 31,553         | 38,738         | 42,454         | 45,525         | 49,507        | 0.8%             | 10.9%         | -5.9%         | 22.8%        | 9.6%          | 7.2%          | 8.7%          |  | 22.2%                     | 22.3%        | 19.4%        | 21.9%        | 21.8%        | 21.2%        | 21.0%        |  |
| Tax Revenue - Taxes                          | 26,241                 | 29,563         | 27,513         | 32,513         | 36,804         | 39,405         | 42,828        | 2.8%             | 12.7%         | -6.9%         | 18.2%        | 13.2%         | 7.1%          | 8.7%          |  | 19.3%                     | 19.6%        | 16.9%        | 18.4%        | 18.9%        | 18.4%        | 18.2%        |  |
| Other Revenue                                | 3,998                  | 3,984          | 4,040          | 6,224          | 5,650          | 6,120          | 6,679         | -10.3%           | -0.3%         | 1.4%          | 54.1%        | -9.2%         | 8.3%          | 9.1%          |  | 2.9%                      | 2.6%         | 2.5%         | 3.5%         | 2.9%         | 2.9%         | 2.8%         |  |
| Capital Revenue                              | 9,486                  | 4,199          | 3,879          | 4,970          | 6,890          | 6,299          | 4,166         | 25.9%            | -55.7%        | -7.6%         | 28.1%        | 38.6%         | -8.6%         | -33.9%        |  | 7.0%                      | 2.8%         | 2.4%         | 2.8%         | 3.5%         | 2.9%         | 1.8%         |  |
| Grants                                       | 9,486                  | 4,199          | 3,879          | 4,966          | 6,890          | 6,299          | 4,166         | 25.9%            | -55.7%        | -7.6%         | 28.0%        | 38.7%         | -8.6%         | -33.9%        |  | 7.0%                      | 2.8%         | 2.4%         | 2.8%         | 3.5%         | 2.9%         | 1.8%         |  |
| OFN  | 0                      | 0              | 0              | 4              | 0              | 0              | 0             |                  |               |               |              |               |               |               |  |                           |              |              |              |              |              |              |  |
| <b>Total Expenses</b>                        | <b>33,099</b>          | <b>33,901</b>  | <b>35,361</b>  | <b>39,740</b>  | <b>43,491</b>  | <b>44,631</b>  | <b>44,728</b> | <b>2.9%</b>      | <b>2.4%</b>   | <b>4.3%</b>   | <b>12.4%</b> | <b>9.4%</b>   | <b>2.6%</b>   | <b>0.2%</b>   |  | <b>24.3%</b>              | <b>22.5%</b> | <b>21.8%</b> | <b>22.4%</b> | <b>22.3%</b> | <b>20.8%</b> | <b>19.0%</b> |  |
| <b>Current Expenses</b>                      | <b>33,099</b>          | <b>33,901</b>  | <b>35,361</b>  | <b>39,740</b>  | <b>43,491</b>  | <b>44,631</b>  | <b>44,728</b> | <b>2.9%</b>      | <b>2.4%</b>   | <b>4.3%</b>   | <b>12.4%</b> | <b>9.4%</b>   | <b>2.6%</b>   | <b>0.2%</b>   |  | <b>24.3%</b>              | <b>22.5%</b> | <b>21.8%</b> | <b>22.4%</b> | <b>22.3%</b> | <b>20.8%</b> | <b>19.0%</b> |  |
| Staff Expenditure                            | 14,810                 | 15,616         | 16,755         | 17,768         | 18,988         | 19,856         | 20,271        | 4.2%             | 5.4%          | 7.3%          | 6.0%         | 6.9%          | 4.6%          | 2.1%          |  | 10.9%                     | 10.4%        | 10.3%        | 10.0%        | 9.7%         | 9.3%         | 8.6%         |  |
| Procurement of Goods & Serv.                 | 5,171                  | 4,697          | 5,587          | 6,828          | 7,032          | 6,279          | 5,917         | -2.3%            | -9.2%         | 18.9%         | 22.2%        | 3.0%          | -10.7%        | -5.8%         |  | 3.8%                      | 3.1%         | 3.4%         | 3.9%         | 3.6%         | 2.9%         | 2.5%         |  |
| Debt Interest                                | 2,173                  | 2,256          | 2,470          | 3,681          | 3,890          | 4,110          | 4,222         | 16.7%            | 3.8%          | 9.5%          | 49.0%        | 5.7%          | 2.7%          | 1.6%          |  | 1.5%                      | 1.5%         | 1.5%         | 2.1%         | 2.0%         | 1.9%         | 1.8%         |  |
| Domestic                                     | 1,460                  | 1,404          | 1,410          | 1,850          | 1,806          | 1,772          | 1,676         | 14.8%            | -3.8%         | 0.4%          | 31.2%        | -2.3%         | -1.9%         | -5.4%         |  | 1.1%                      | 0.9%         | 0.9%         | 1.0%         | 0.9%         | 0.8%         | 0.7%         |  |
| External                                     | 699                    | 852            | 1,000          | 1,753          | 2,059          | 2,310          | 2,518         | 27.8%            | 21.8%         | 17.5%         | 75.3%        | 17.5%         | 12.2%         | 9.0%          |  | 0.5%                      | 0.6%         | 0.6%         | 1.0%         | 1.1%         | 1.1%         | 1.1%         |  |
| Other Costs                                  | 14                     | 0              | 60             | 78             | 24             | 28             | 29            | -68.3%           | -100.0%       | +100%         | 30.0%        | -69.1%        | 14.2%         | 3.6%          |  | 0.0%                      | 0.0%         | 0.0%         | 0.0%         | 0.0%         | 0.0%         | 0.0%         |  |
| Subsidies                                    | 752                    | 1,020          | 439            | 450            | 619            | 632            | 648           | -14.0%           | 35.7%         | -57.0%        | 2.7%         | 37.5%         | 2.0%          | 2.6%          |  | 0.6%                      | 0.7%         | 0.3%         | 0.3%         | 0.3%         | 0.3%         | 0.3%         |  |
| Current Transfers                            | 4,939                  | 4,710          | 4,022          | 4,637          | 5,076          | 5,235          | 5,311         | 30.6%            | -4.6%         | -14.6%        | 15.3%        | 9.5%          | 3.1%          | 1.4%          |  | 3.6%                      | 3.1%         | 2.5%         | 2.6%         | 2.6%         | 2.4%         | 2.3%         |  |
| Social Benefits                              | 2,893                  | 3,551          | 3,620          | 3,852          | 4,600          | 4,924          | 5,012         | 0.1%             | 22.8%         | 2.0%          | 6.4%         | 19.4%         | 7.0%          | 1.8%          |  | 2.1%                      | 2.4%         | 2.2%         | 2.2%         | 2.4%         | 2.3%         | 2.1%         |  |
| Other Current Expenses                       | 2,362                  | 2,052          | 2,468          | 2,524          | 3,285          | 3,595          | 3,348         | -27.4%           | -13.1%        | 20.3%         | 2.3%         | 30.1%         | 9.4%          | -6.9%         |  | 1.7%                      | 1.4%         | 1.5%         | 1.4%         | 1.7%         | 1.7%         | 1.4%         |  |
| <b>Gross Operating Result</b>                | <b>6,626</b>           | <b>3,845</b>   | <b>71</b>      | <b>3,967</b>   | <b>5,853</b>   | <b>7,193</b>   | <b>8,945</b>  | <b>-</b>         | <b>-</b>      | <b>-</b>      | <b>-</b>     | <b>-</b>      | <b>-</b>      | <b>-</b>      |  | <b>4.9%</b>               | <b>2.6%</b>  | <b>0.0%</b>  | <b>2.2%</b>  | <b>3.0%</b>  | <b>3.4%</b>  | <b>3.8%</b>  |  |
| <b>Non-Financial Assets</b>                  | <b>21,209</b>          | <b>14,881</b>  | <b>12,348</b>  | <b>17,313</b>  | <b>15,188</b>  | <b>10,657</b>  | <b>8,505</b>  | <b>60.1%</b>     | <b>-29.8%</b> | <b>-17.0%</b> | <b>40.2%</b> | <b>-12.3%</b> | <b>-29.8%</b> | <b>-20.2%</b> |  | <b>15.6%</b>              | <b>9.9%</b>  | <b>7.6%</b>  | <b>9.8%</b>  | <b>7.8%</b>  | <b>5.0%</b>  | <b>3.6%</b>  |  |
| Purchase of Non-financial Assets             | 21,214                 | 14,923         | 12,632         | 17,663         | 15,657         | 11,244         | 9,105         | 59.9%            | -29.7%        | -15.4%        | 39.8%        | -11.4%        | -28.2%        | -19.0%        |  | 15.6%                     | 9.9%         | 7.8%         | 10.0%        | 8.0%         | 5.2%         | 3.9%         |  |
| Sale of Non-financial Assets                 | 4                      | 42             | 284            | 350            | 469            | 587            | 600           | -76.9%           | 885.9%        | 576.6%        | 23.1%        | 34.0%         | 25.2%         | 2.2%          |  | 0.0%                      | 0.0%         | 0.2%         | 0.2%         | 0.2%         | 0.3%         | 0.3%         |  |
| <b>Global Balance</b>                        | <b>-14,584</b>         | <b>-11,036</b> | <b>-12,277</b> | <b>-13,346</b> | <b>-9,335</b>  | <b>-3,464</b>  | <b>440</b>    | <b>-</b>         | <b>-</b>      | <b>-</b>      | <b>-</b>     | <b>-</b>      | <b>-</b>      | <b>-</b>      |  | <b>-10.7%</b>             | <b>-7.3%</b> | <b>-7.6%</b> | <b>-7.5%</b> | <b>-4.8%</b> | <b>-1.6%</b> | <b>0.2%</b>  |  |
| Current Balance                              | -2,860                 | -354           | -3,808         | -1,003         | -1,037         | 894            | 4,779         |                  |               |               |              |               |               |               |  | -2.1%                     | -0.2%        | -2.3%        | -0.6%        | -0.5%        | 0.4%         | 2.0%         |  |
| Primary Overall Balance                      | -12,411                | -8,780         | -9,807         | -9,665         | -5,445         | 646            | 4,662         |                  |               |               |              |               |               |               |  | -9.1%                     | -5.8%        | -6.0%        | -5.5%        | -2.8%        | 0.3%         | 2.0%         |  |
| Current Primary Balance                      | -687                   | 1,902          | -1,338         | 2,678          | 2,852          | 5,004          | 9,001         |                  |               |               |              |               |               |               |  | -0.5%                     | 1.3%         | -0.8%        | 1.5%         | 1.5%         | 2.3%         | 3.8%         |  |
| <b>Financing</b>                             | <b>14,066</b>          | <b>10,913</b>  | <b>12,277</b>  | <b>13,346</b>  | <b>9,335</b>   | <b>3,464</b>   | <b>-440</b>   | <b>-</b>         | <b>-</b>      | <b>-</b>      | <b>-</b>     | <b>-</b>      | <b>-</b>      | <b>-</b>      |  | <b>10.3%</b>              | <b>7.3%</b>  | <b>7.6%</b>  | <b>7.5%</b>  | <b>4.8%</b>  | <b>1.6%</b>  | <b>-0.2%</b> |  |
| <b>Financial Assets</b>                      | <b>-1,445</b>          | <b>-5,378</b>  | <b>-6,426</b>  | <b>-13,841</b> | <b>-11,002</b> | <b>-11,680</b> | <b>-7,400</b> |                  |               |               |              |               |               |               |  | <b>-1.1%</b>              | <b>-3.6%</b> | <b>-4.0%</b> | <b>-7.8%</b> | <b>-5.6%</b> | <b>-5.4%</b> | <b>-3.1%</b> |  |
| Loans Granted                                | -1,430                 | -5,331         | -5,426         | -11,279        | -11,002        | -11,680        | -7,400        |                  |               |               |              |               |               |               |  | -1.1%                     | -3.5%        | -3.3%        | -6.4%        | -5.6%        | -5.4%        | -3.1%        |  |
| Equity and other Holdings                    | -15                    | -46            | -1,000         | -1,500         | 0              | 0              | 0             |                  |               |               |              |               |               |               |  | 0.0%                      | 0.0%         | -0.6%        | -0.8%        | 0.0%         | 0.0%         | 0.0%         |  |
| Other Assets                                 | 0                      | 0              | 0              | -1,062         | 0              | 0              | 0             |                  |               |               |              |               |               |               |  |                           |              |              |              |              |              |              |  |
| <b>Financial Liabilities</b>                 | <b>15,512</b>          | <b>16,291</b>  | <b>18,703</b>  | <b>27,187</b>  | <b>20,337</b>  | <b>15,144</b>  | <b>6,959</b>  |                  |               |               |              |               |               |               |  | <b>11.4%</b>              | <b>10.8%</b> | <b>11.5%</b> | <b>15.3%</b> | <b>10.4%</b> | <b>7.1%</b>  | <b>3.0%</b>  |  |
| Net Domestic                                 | 988                    | 2,119          | 5,008          | 2,699          | 1,933          | 876            | -2,085        |                  |               |               |              |               |               |               |  | 0.7%                      | 1.4%         | 3.1%         | 1.5%         | 1.0%         | 0.4%         | -0.9%        |  |
| Net External                                 | 14,524                 | 14,172         | 13,695         | 24,488         | 18,404         | 14,267         | 9,045         |                  |               |               |              |               |               |               |  | 10.7%                     | 9.4%         | 8.4%         | 13.8%        | 9.4%         | 6.7%         | 3.8%         |  |
| Errors and Omissions                         | -517                   | -123           | 0              | 0              | 0              | 0              | 0             |                  |               |               |              |               |               |               |  | -0.4%                     | -0.1%        | 0.0%         | 0.0%         | 0.0%         | 0.0%         | 0.0%         |  |
| <b>Overall Balance (as % of GDP)</b>         | <b>-10.7</b>           | <b>-7.3</b>    | <b>-7.6</b>    | <b>-7.5</b>    | <b>-4.8</b>    | <b>-1.6</b>    | <b>0.2</b>    |                  |               |               |              |               |               |               |  |                           |              |              |              |              |              |              |  |
| <b>Net Domestic Credit</b>                   | <b>0.7</b>             | <b>1.4</b>     | <b>3.1</b>     | <b>1.5</b>     | <b>1.0</b>     | <b>0.4</b>     | <b>-1</b>     |                  |               |               |              |               |               |               |  |                           |              |              |              |              |              |              |  |
| <b>Current Balance (as % of GDP)</b>         | <b>-2.1</b>            | <b>-0.2</b>    | <b>-2.3</b>    | <b>-0.6</b>    | <b>-0.5</b>    | <b>0.4</b>     | <b>2.0</b>    |                  |               |               |              |               |               |               |  |                           |              |              |              |              |              |              |  |
| <b>Primary Overall Balance (as % of GDP)</b> | <b>-9.1</b>            | <b>-5.8</b>    | <b>-6.0</b>    | <b>-5.5</b>    | <b>-2.8</b>    | <b>0.3</b>     | <b>2.0</b>    |                  |               |               |              |               |               |               |  |                           |              |              |              |              |              |              |  |
| <b>Current Primary Balance (as % of GDP)</b> | <b>-0.5</b>            | <b>1.3</b>     | <b>-0.8</b>    | <b>1.5</b>     | <b>1.5</b>     | <b>2.3</b>     | <b>3.8</b>    |                  |               |               |              |               |               |               |  |                           |              |              |              |              |              |              |  |
| <b>Net Domestic (as % of GDP)</b>            | <b>0.7</b>             | <b>1.4</b>     | <b>3.1</b>     | <b>1.5</b>     | <b>1.0</b>     | <b>0.4</b>     | <b>-0.9</b>   |                  |               |               |              |               |               |               |  |                           |              |              |              |              |              |              |  |
| <b>Net External (as % of GDP)</b>            | <b>10.7</b>            | <b>9.4</b>     | <b>8.4</b>     | <b>13.8</b>    | <b>9.4</b>     | <b>6.7</b>     | <b>3.8</b>    |                  |               |               |              |               |               |               |  |                           |              |              |              |              |              |              |  |
| Nominal GDP_base Scenario                    | 136,173                | 150,471        | 162,509        | 177,135        | 194,848        | 214,333        | 235,767       |                  |               |               |              |               |               |               |  |                           |              |              |              |              |              |              |  |

## 6.4. GPRSP III Financing

The GPRSP III will be financed with domestic and external resources, the latter originating from bilateral and multilateral development aid. Each financing source depends on various factors, the most important of which is the ability to mobilize the community of donor countries and organizations, in light of the growth objectives, development and poverty reduction in Cape Verde.

It is projected that the financing of the strategy will be primarily through recourse to external concessional loans. The mobilization of domestic and external resources should result in a debt stock accumulation of 88.4% of GDP in average terms, between 2012 and 2016, 18.6% of which related to domestic debt and 69.8% to external debt and registering a downward trend.

**Table 6.4.1 – Development of Financing Operations in the Medium-Term Budget Scenario (alternative scenario)**

| Heading                      | 2009         | 2010          | 2011          | 2012          | 2013          | 2014          | 2015         | 2016         |
|------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|
| <b>Financing</b>             | <b>7,782</b> | <b>14,066</b> | <b>10,913</b> | <b>12,277</b> | <b>13,346</b> | <b>11,109</b> | <b>7,536</b> | <b>3,412</b> |
| <b>Financial Assets</b>      | -836         | -1,445        | -5,378        | -6,426        | -13,841       | -11,788       | -11,951      | -7,521       |
| Onlending Repayment          | 24           | 29            | 31            | 23            | 238           | 216           | 217          | 218          |
| SOE Investment               | -860         | -1,459        | -5,362        | -5,449        | -11,516       | -11,218       | -11,897      | -7,617       |
| Shares and Other Holdings    | 0            | -15           | -46           | -1,000        | -1,500        | 0             | 0            | 0            |
| Other Assets                 |              |               |               |               | -1,062        | -786          | -271         | -121         |
| <b>Financial Liabilities</b> | 8,618        | 15,512        | 16,291        | 18,703        | 27,187        | 22,897        | 19,487       | 10,932       |
| Net Domestic                 | 2,317        | 988           | 2,119         | 5,008         | 2,699         | 1,283         | -1,124       | -5,660       |
| Amortizations                | 0            | 0             | 0             | -3,435        | -5,718        | -3,430        | -3,677       | -5,660       |
| Loans Obtained               | 0            | 0             | 0             | 6,417         | 8,417         | 4,713         | 2,553        | 0            |
| Net External                 | 6,301        | 14,524        | 14,172        | 13,695        | 24,488        | 21,614        | 20,611       | 16,592       |
| Disbursements                | 8,248        | 16,498        | 15,987        | 15,278        | 26,488        | 23,745        | 22,883       | 18,983       |
| Programmed Amortizations     | -1,947       | -1,975        | -1,815        | -1,582        | -2,001        | -2,131        | -2,272       | -2,391       |

The predominance of the primarily concessional external financing remains the same in the base scenario, associated with an external debt stock of 68.3% of GDP, in average terms. The total debt should reach 88% of GDP, in average terms, with domestic debt at 19.7%.

**Table 6.4.2 – Development of Financing Operations in the Medium-Term Budget Scenario (base scenario)**

| Heading                      | 2009         | 2010          | 2011          | 2012          | 2013          | 2014         | 2015         | 2016        |
|------------------------------|--------------|---------------|---------------|---------------|---------------|--------------|--------------|-------------|
| <b>Financing</b>             | <b>7,782</b> | <b>14,066</b> | <b>10,913</b> | <b>12,277</b> | <b>13,346</b> | <b>9,335</b> | <b>3,464</b> | <b>-440</b> |
| <b>Financial Assets</b>      | -836         | -1,445        | -5,378        | -6,426        | -13,841       | -11,002      | -11,680      | -7,400      |
| Onlending Repayment          | 24           | 29            | 31            | 23            | 238           | 216          | 217          | 218         |
| SOE Investment               | -860         | -1,459        | -5,362        | -5,449        | -11,516       | -11,218      | -11,897      | -7,617      |
| Shares and Other Holdings    | 0            | -15           | -46           | -1,000        | -1,500        | 0            | 0            | 0           |
| Other Assets                 |              |               |               |               | -1,062        | 0            | 0            | 0           |
| <b>Financial Liabilities</b> | 8,618        | 15,512        | 16,291        | 18,703        | 27,187        | 20,337       | 15,144       | 6,959       |
| Net Domestic                 | 2,317        | 988           | 2,119         | 5,008         | 2,699         | 1,933        | 876          | -2,085      |
| Amortizations                | 0            | 0             | 0             | -3,435        | -5,718        | -3,430       | -3,677       | -3,085      |
| Loans Obtained               | 0            | 0             | 0             | 6,417         | 8,417         | 5,363        | 4,553        | 1,000       |
| Net External                 | 6,301        | 14,524        | 14,172        | 13,695        | 24,488        | 18,404       | 14,267       | 9,045       |
| Disbursements                | 8,248        | 16,498        | 15,987        | 15,278        | 26,488        | 20,535       | 16,540       | 11,435      |
| Programmed Amortizations     | -1,947       | -1,975        | -1,815        | -1,582        | -2,001        | -2,131       | -2,272       | -2,391      |

The possibility of fully meeting the goals laid out in the program logic tables (Appendix I) and the overall goals of effect and impact presented in Chapter 5 are intrinsically connected to the implementation of the alternative scenario. In addition to a better performance of domestic revenues that allows for larger domestic financing, the implementation of the alternative scenario will be conditioned by the additional mobilization of grants and loans in the form of budget support and aid to projects. In this table, the financing gap is present in the difference between the alternative scenario and the base scenario. The gap is also significantly influenced by the impact of the external framework on the national economy.

## 7. GPRSP III: Implementation Risks

The implementation, follow-up and assessment of the GPRSP III is a complex exercise and carries several risks. The risks can be divided into three categories: External, Domestic and Operational. The External Risks are associated with the developing circumstances of the global economic crisis, the availability of financial aid, the mobilization of foreign direct investment and the volume of remittances from Cape Verdeans residing abroad. The Domestic Risks are associated with private sector behavior and weather uncertainties. The Operating Risks concern the availability of the technical elements and the institutional framework necessary for the implementation of the GPRSP III and the creation of an appropriate system for follow-up and assessment.

### External Risks

It is estimated that Cape Verdean economy will continue to grow at a relatively moderate rate, in spite of the adverse overall external framework. The performance of the Cape Verdean economy during the GPRSP III period will be strongly conditioned by the uncertainties stemming from the developing global economic and financial situations. The macroeconomic management will be influenced by this context, endangering the fulfillment of the goals set for this period.

International developments will determine the course of budget support, of the Foreign Direct Investment (FDI) and service exports, driven by the changes in the revenues from tourism. In the same way, developments in the international crisis will affect the levels of the emigrants' remittances.

To guard against and lessen the risk on this front, the GPRSP III considers two scenarios, as described, which define the Government's actions in light of the direction taken by the global economy. The base scenario assumes that the global economy will meet the economic projections of the International Monetary Fund (IMF) of April, 2012. In this scenario, the

economies of the Euro zone will record zero growth rates with special emphasis on the countries affected by the sovereign debt crisis. The Portuguese economy should contract 3.3% in 2012, after which it should show slight growth throughout the GPRSP III period. The IMF outlook points to a drop in FDI figures in Cape Verde and a deceleration in remittances from Cape Verdeans abroad. In regard to international prices, the IMF called attention to the risk of geopolitical tensions in the Middle East that could have a disastrous impact on the rise of oil prices.

The alternative or optimistic scenario considered by the GPRSP III is from the outset a scenario that assumes an overcoming of the global financial-economic crisis. In this scenario, starting in 2014, the economies of the Euro Zone would record growth rates higher by 2 percentage points than the rates defined in the base scenario. FDI in Cape Verde would register a significant recovery, in parallel with the remittances from Cape Verdeans abroad. As a consequence of the resumption of global economic growth, that scenario would assume an acceleration of inflation in the Euro Zone countries.

Considering the two scenarios will allow the GPRSP III to define a spectrum of strategic options that will contribute towards lessening the risk of uncertainties associated with the development of the global economy over the implementation period.

### Domestic Risks

On the domestic plane, the largest risk in implementing the GPRSP III corresponds to the appropriate engagement of the private sector with the objectives of the plan, keeping in mind that the success of the strategy implementation rests on the involvement of these economic agents and also on public businesses and organizations of civil society.

In this framework, a pivotal assumption of the GPRSP III is the participation of the private sector in the mobilization of resources in each of the identified clusters. In particular, the mobilization of private investment in the Agribusiness, Maritime Economy and Tourism clusters will be essential to meeting the objectives of the Government Program and consequently those of the GPRSP III. The significant levels of public investment in the infrastructure considered for these clusters in the GPRSP III need to be replicated with an equal increase in the dynamics of private investment in order to meet the objectives of the GPRSP III.

A second challenge of the GPRSP III is the involvement of State-owned enterprises, whose actions reflected on the corresponding business plans must converge and be coherent with the goals and initiatives of the strategy implementation. The public companies (ENAPOR, ASA, IFH and ELECTRA, among others) will assume part of the public investments to be financed with Government-guaranteed loans, to be paid with revenue generated by the public companies themselves. In this framework, the administrative restructuring and financial health of the public companies will be a guarantee of the fulfillment of the investments projected in the GPRSP III in the operating areas of each public company.

The performance area of the GPRSP III focuses on the activities of the Central Administration and does not include the activities of the public companies. In the future, and with the intent of guaranteeing the scope of the planning system, it will be necessary to incorporate the activities of the public companies and the National Institute of Social Welfare (INPS) into the scope of analysis.

### Operating Risks

The implementation of the GPRSP III is based on thorough reforms in the planning, budgeting, execution and control systems of public programs. Although the reforms have already been identified and initiated, risks still remain that are associated with the institutional capacity to implement the programs, projects and objective-based programs. The Public Administration needs support and reinforcement in the consolidation of instruments such as the Medium-Term Expenditure Framework, the Sectorial Medium-Term Expenditure Framework, the Follow-up and Assessment System, as well as the creation and implementation of the National Public Investment System.

To lessen the operating risk, the Government will adopt a gradual approach to the establishment of the indicators and result-based programmatic methodology in order to allow for a good appropriation of these new instruments by the national frameworks, giving the ministries involved the necessary time to adapt to the institutional changes required.

The Government acknowledges that the follow-up and assessment process in the GPRSP III is a complex and difficult exercise that carries a few risks and assumptions, not only the follow-up of the indicators, but also the establishment of functional mechanisms for assessment. This means making available an information system capable of providing quality information in a timely manner.

The structure of the indicators adopted is crucial for the success of the GPRSP III implementation. A very detailed and rigid structure could cause implementation problems, taking into consideration the lack of experience with the methodology of result-based budgeting. A simpler framework, not structured to align the GPRSP indicators with the Medium-Term Expenditure Framework and the State Budget, could create gaps in the follow-up and assessment of the planning process.

The credibility of the GPRSP, MTEF and SB depends on the existence of a system of global planning that offers an efficient information system. The availability of the computable general macroeconomic equilibrium (CGE) model that allows for the production of projections of various macroeconomic indicators – i.e. GDP, population, employment, income distribution profile, poverty and extreme poverty, tax execution – is pivotal.

Additionally, to reduce the risk of the follow-up and assessment being inefficient, the Government will guarantee the necessary institutional reinforcement of the National Statistics System and the National Statistics Institute (INE) with a view to mobilizing resources to guarantee an effective completion of the Statistics Agenda.