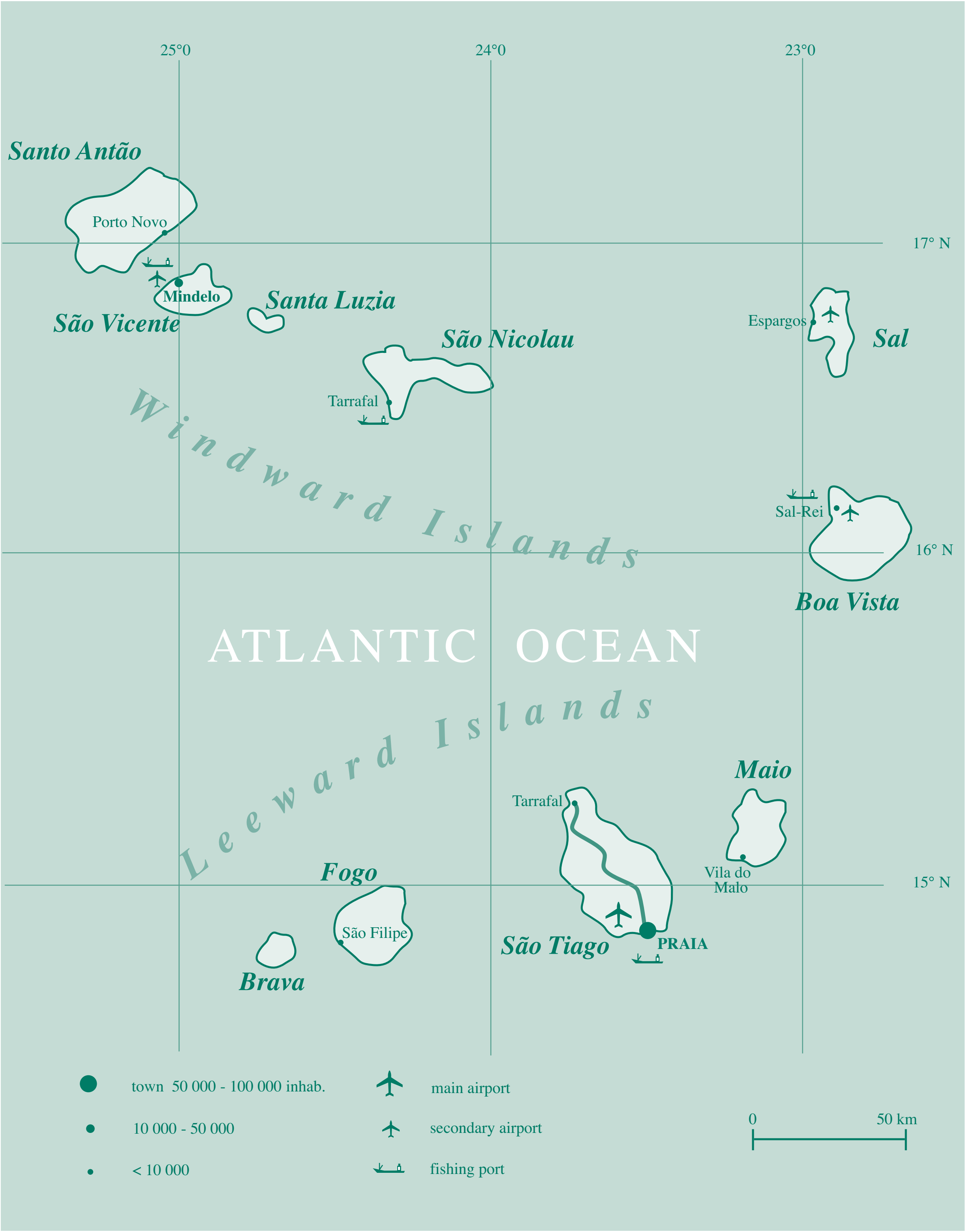
Cape Verde

key figures

• Land area, thousands of km²	4
• Population, thousands (2007)	530
• GDP per capita, USD at constant 2000 prices (2007)	1 602
• Life expectancy (2007)	60.8
• Illiteracy rate (2007)	20.6

Cape Verde


25°0
24°0
23°0
17° N
16° N
15° N
Santo Antão
Porto Novo
Mindelo
São Vicente
Santa Luzia
São Nicolau
Tarrafal
Sal
Espargos
Boa Vista
Sal-Rei
Windward Islands
ATLANTIC OCEAN
Leeward Islands
Maio
Vila do Malo
Tarrafal
São Tiago
PRAIA
Fogo
São Filipe
Brava
town 50 000 - 100 000 inhab.
10 000 - 50 000
< 10 000
main airport
secondary airport
fishing port
0
50 km

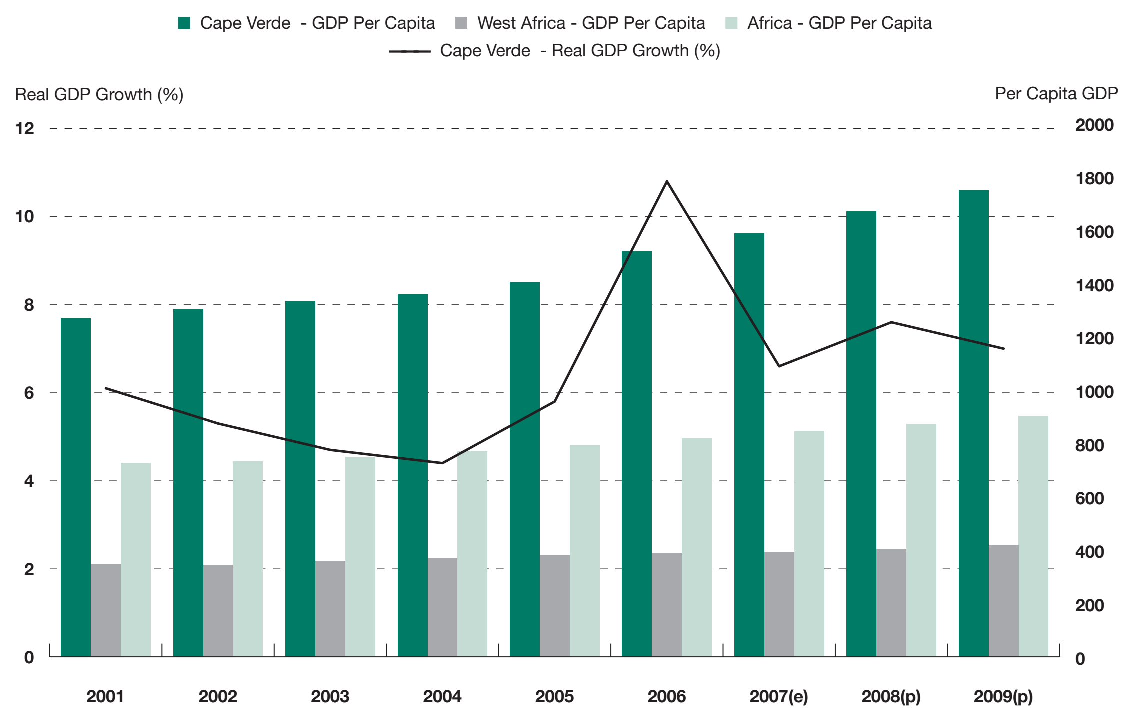
Cape Verde's economy is estimated to have grown by 6.6 per cent in 2007, down from 10.8 per cent in 2006. This strong growth reflects a relatively high rate of execution of the public investment programme (PIP) and a dynamic private sector, supported by a substantial increase in domestic credit and private investment, including large inflows of foreign direct investment (FDI). In 2008 and 2009, real GDP is expected to grow by 7.6 per cent and 7.0 per cent respectively. The annual average inflation rate fell to 4.5 per cent in 2007, from 6 per cent in 2006, and it is projected to drop further to under 3 per cent in 2008.

Cape Verde's small, open "archipelago" economy continues to outperform the average sub-Saharan real GDP growth rate. Since 2004, when the economy experienced difficulties in the agricultural sector, the growth rate has been ratcheted upward by a sound policy environment. This solid pace of GDP growth and earlier improvements in human resources development have gradually raised the country's Human Development Index and reduced absolute poverty. As a consequence of its sustained progress, Cape Verde graduated from least developed country (LDC) status in December 2007.

Growth was underpinned by FDI and sustained public investment in infrastructure.

The overall fiscal balance deteriorated slightly as a percentage of GDP in 2006 but improved markedly in 2007, leaving only a small deficit. In 2008 and 2009, the deficit is expected to remain at about the same low level. A large portion of the government's budget

Figure 1 - Real GDP Growth and Per Capita GDP
(USD at constant 2000 prices)



Source: IMF and local authorities' data; estimates (e) and projections (p) based on authors' calculations.

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continues to be covered by official development assistance (ODA), as Cape Verde enjoys one of the most generous levels of ODA per capita in Africa.

Despite this impressive progress, the country still faces enormous structural challenges: the high, largely structural unemployment rate (18.3 per cent in 2006); the persistence of a relatively high poverty rate; the need to improve delivery of services, both public and private; skill shortages; and inadequate infrastructure. Moreover, the scattering of Cape Verde's territory over ten islands and eight islets and its arid Sahelian climate pose a constant development challenge.

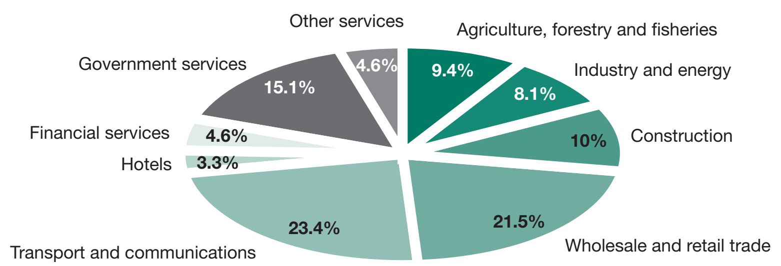
Recent Economic Developments

In 2007, real GDP exhibited growth of 6.6 per cent, as against 10.8 per cent in 2006. The decline was due in part to lower-than-expected public investment execution. The strong growth of the past several years has been mainly driven by the huge inflow of FDI, especially in hotels and other tourism-related construction. Other drivers were the continued inflow of remittances (12 per cent of GDP in 2007), which increased household incomes and private consumption; domestic investment in construction; and public investment in infrastructure, including transport and telecommunications. Support for sustained growth will be provided by the macroeconomic and structural policy measures identified in the 2006-10 Government Programme, the International Monetary Fund's Policy Support Instrument covering the 2006-09 period and the Medium-Term Expenditure Framework (MTEF) for 2008-10. The MTEF allocates public financial resources according to priorities set forth in the two Growth and Poverty Reduction Strategy Papers (GPRSPs) covering the 2005-07 and 2008-10 periods.

Owing to a third successive year of sparse and irregular rainfall, production of rainfed maize, the main staple food, is estimated to have fallen by one-third in 2007 compared to 2006, which was in turn 46 per cent below the average of the previous five years. The poor crop had little impact on overall economic growth, however, since the agricultural sector accounts for less than 10 per cent of GDP. This is largely due to the fact that less than 10 per cent of the country's land area (around 42 000 hectares) is suitable for crop production. In recent years, hydroponics and "drip and trickle" irrigation techniques have raised crop yields significantly on the 7.9 per cent of holdings where they have been applied, for example in Cape Verde's horticultural sector, which yields two harvests per year. However, the small size of farm holdings (the large majority cover less than 0.5 hectare) and the weak legal framework for protecting land property rights, including an insufficient cadastre, continue to discourage private investment.

In contrast to agriculture, the potential for expanding commercial fishing is very high, especially since the European Union lifted its ban on imports of fish from Cape Verde in 2005. Two major international fishing grounds surround the islands, which are scattered across

Figure 2 - **GDP by Sector in 2006** (percentage)



Source: Authors' estimates based on IMF and Central Statistical Office data.

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almost 630 000 square kilometres of ocean containing a wealth of seafood, mostly lobster and tuna. Fishing contributes a large portion of the country's exports, but owing to the continued use of traditional methods it accounts for only about 1 per cent of GDP.

The Cape Verdean economy is service-oriented, with commerce, transport, tourism and public services accounting for more than 74 per cent of GDP in 2006. The services sector, particularly tourism, is by far the leading growth sector and has considerable potential for further diversification. Cape Verde is improving its position as a tourist destination. Its tourist industry is expanding rapidly – by 12.7 per cent between 2000 and 2003 and by 15.6 per cent between 2004 and 2007, according to the Millennium Institute – and this growth looks set to continue. Cape Verde officials expect to reach the benchmark of 1 million tourists annually by 2015. This would mean that the sector could account for as much as 30 per cent of GDP, compared to 18.3 per cent in 2006, and employ 53 000 people.

The sector faces considerable challenges as well. The largest one is the scarcity of drinking water on this volcanic archipelago, which means that relatively expensive desalinated water will have to play an increasingly important role. The second challenge is the relatively weak linkages with local communities due to the concentration of tourism activity in large resorts. This limits spillover to local markets, since the goods consumed by tourists are largely provided by imports.

The construction sector comprises a large number of small companies involved in residential and commercial construction and several larger ones that mainly handle infrastructure projects. The sector's share of GDP increased from 7.7 per cent in 2004 to 9.3 per cent in 2006 as growth in construction led growth in the economy as a whole. Much of this growth was due to development of tourism, but a substantial share was linked to the execution of the PIP.

In 2007, economic growth was broadly based among the components of final demand. Public and private capital formation as well as imports and exports all grew faster than overall GDP, whereas total consumption grew at a much lower rate than GDP. The strong growth of the export sector mainly reflects growth in tourism receipts, whereas private consumption was bolstered by spillover effects on household income of the buoyant growth in construction and tourism. Public sector wage growth of 13 per cent per year from 2001 to 2005 has also been important in underpinning household income. Migrants' remittances have helped to sustain growth both in private consumption and in residential construction and consumer durables. Despite a nominal

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**35.5**	**40.1**	**11.9**	**12.2**	**8.1**	**4.2**	**4.5**	**3.1**
Public	12.0	9.0	8.0	20.0	5.0	0.6	1.6	0.4
Private	23.5	31.1	13.0	10.0	9.0	3.6	2.9	2.7
Consumption	**103.7**	**95.1**	**4.2**	**5.4**	**4.6**	**3.9**	**5.0**	**4.1**
Public	19.9	19.7	5.6	3.7	5.7	1.0	0.7	1.0
Private	83.9	75.4	3.8	5.8	4.4	3.0	4.3	3.2
External demand	**-39.2**	**-35.2**				**-1.3**	**-1.7**	**-0.1**
Exports	20.4	19.8	19.2	16.2	14.1	3.9	3.7	3.5
Imports	-59.6	-54.9	10.4	10.4	6.7	-5.2	-5.4	-3.5
Real GDP growth						**6.8**	**7.8**	**7.2**

Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

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peg to the euro, the real effective exchange rate of the escudo has depreciated, helped by low domestic inflation, which has contributed to the attractiveness of Cape Verde as a tourist destination.

Growth in government consumption is expected to fall significantly in the medium term due to wage restraint after several years of large increases. Public investment, however, is expected to increase substantially from 2007 to 2008 in order to support the rapidly developing tourism sector, although there is some risk that the PIP execution rate will again be insufficient in 2009. Growth in domestic investment has been underpinned by a drop in the cost of capital and an increase in the supply of credit to the private sector. Overall, real growth of private investment (including FDI) is expected to moderate over the next two years along with growth in tourism.

Macroeconomic Policies

Fiscal Policy

The medium-term fiscal strategy is geared towards preserving macroeconomic stability, strengthening the tax effort and prioritising public sector investment. The MTEF for 2008-10 has been approved. An integrated budgetary and financial management system (*Sistema Integrado de Gestão Orçamental e Financeira* – SIGOF) was introduced in 2004. To date, this new system has brought only a partial improvement in budget execution. From 2008, the government will be using the analytical framework of the IMF *Government Finance Statistics Manual 2001* (GFSM 2001) to present public finance statistics. The change reflects the progress made by Cape Verde in compiling both annual and sub-annual government finance statistics using the GFSM 2001 methodology.

Following the adoption of a GPRSP for 2004-07, a new budget model was adopted in 2005. The model includes an overall MTEF and a number of sectoral MTEFs for the period 2005-07 within key line ministries (education and higher education, agriculture and environment, labour, family and solidarity, and health), in order to allocate public expenditures in accordance with GPRSP priorities. A recent public expenditure review, conducted under the Country Financial Accountability Assessment and the Country Procurement Assessment Review projects, will lead to the adoption of additional measures to improve public expenditure management.

Cape Verde has improved its tax effort through tax reform and improved tax collection. Tax revenue increased from about 17 per cent of GDP in 1999 to about 23 per cent in 2006 and 2007. Total revenues were also boosted by the one-time revenues from the privatisation of nearly 30 state-owned enterprises. Cape Verde has a relatively high income tax rate (the top rate for the highest bracket is 45 per cent) and a moderate corporate tax rate (a top rate of 30 per cent). Other important sources of revenue are import duties and value added tax (VAT). In 2007, tax legislation was reformed to rationalise and streamline the use of tax incentives, exemptions, and import and consumption taxes, thereby broadening the tax base.

Grants continue to be an important source of revenue, amounting to about 6 per cent of GDP in 2006 and 2007. Grants and external loans together finance about 80 per cent of the PIP. Improved public expenditure management has increased donor confidence, leading to an increase in general budget support from 4 per cent of the total budget in 2006 to 7 per cent in 2007. A new financing mechanism has also been put in place to smooth expenditures financed from donor resources over the 2008-15 period, since there has been considerable front-loading of commitments.

Estimated total expenditure and net lending amounted to 34 per cent of GDP in 2007, down slightly from the 35.5 per cent registered in 2006. This exercise of expenditure restraint reduced the overall fiscal deficit (including grants) to an estimated 2.3 per cent of GDP in 2007, compared to 4.6 per cent in 2006.

The 2008 budget reinforces the government's commitment to fiscal discipline. It calls for a 13 per cent increase in domestic financing in comparison to

Table 2 - **Public Finances** (percentage of GDP)

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**28.6**	**33.5**	**30.0**	**30.9**	**31.6**	**31.6**	**31.4**
Tax revenue	17.3	20.3	21.0	23.0	22.8	23.9	23.2
Grants	7.2	10.8	6.4	5.8	6.8	5.6	6.1
Total expenditure and net lending[a]	**42.1**	**38.2**	**34.0**	**35.5**	**34.0**	**34.1**	**33.7**
Current expenditure	28.6	24.4	21.4	22.7	21.4	20.3	20.2
Excluding interest	*26.3*	*21.9*	*19.2*	*20.8*	*19.8*	*18.7*	*18.6*
Wages and salaries	10.7	11.9	12.1	11.6	10.9	10.2	9.7
Interest	2.3	2.5	2.2	1.9	1.6	1.6	1.6
Capital expenditure	13.5	13.6	12.5	12.5	12.3	13.7	13.5
Primary balance	**-11.2**	**-2.2**	**-1.8**	**-2.6**	**-0.7**	**-0.9**	**-0.7**
Overall balance	**-13.6**	**-4.7**	**-4.0**	**-4.6**	**-2.3**	**-2.5**	**-2.3**

a. Only major items are reported
Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

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2007. Revenue is expected to increase further to 31.6 per cent of GDP, thanks to improved efficiency in tax collection, notably the tripling of the amount of local tax collected in the period 2004-07. While recurrent expenditure is expected to decline in real terms, falling back to 20.3 per cent of GDP, public investment is projected to rise slightly to 13.7 per cent of GDP due to the low PIP execution rate. Some important expenditure items include the repayment of arrears as agreed with IMF, increases in transfers towards municipalities for the organisation of municipal elections in 2009 and wage adjustments to compensate for inflation.

Given Cape Verde's heavy dependence on imported oil and the public regulation of utility prices through consumption subsidies for electricity, the international oil price increase might affect the 2008 budget. Nevertheless, for the very first time, the 2008 budget aims to achieve a primary surplus of CVE 6.4 billion (Cape Verdean escudos) while increasing the share of public capital expenditures in GDP.

According to a recent IMF-World Bank debt sustainability analysis, the risk of debt distress in Cape Verde remains low. The government has undertaken to reach and then maintain a central government public debt ratio of no more than 70 per cent of GDP (72.4 per cent in 2006), while the domestic debt/GDP ratio should be stabilised at around 20 per cent of GDP by end-2008 (from over 33 per cent at end-2005). As a result, domestic debt, net of deposits but including arrears, is projected to decline from 32.7 per cent of GDP at end-2005 to 25 per cent at end-2007. As part of the government's effort to clear the payment arrears of central and local government entities, it has also arranged to pay part of its old arrears to the oil companies (Shell Oil) for past subsidies on fuel supplied to Electra, the country's monopoly electricity and water provider. The arrears will be paid in three tranches by 2009.

Monetary Policy

In 2006 and 2007, the aim of the independent Banco Central de Cabo Verde (BCV) was to enhance the credibility of the exchange rate regime, in which the escudo is pegged to the euro as an anchor for low inflation. Owing to the importance of remittances and their sensitivity to interest rate differentials, the BCV is expected to raise its main interest rate by about 0.5 per cent, in line with movements in the European Central Bank's key refinancing rate.

A law enacted in May 2002 prohibited budget deficit financing by the central bank. Moreover, for the last three years the government of Cape Verde has not had to monetise the general state budget through the BCV, mainly thanks to general budget support from donors and financing through the sale of treasury bonds with maturities extending up to 2014.

In 2006, inflation as measured by the consumer price index accelerated to 6 per cent due to rises in food and fuel prices, after having averaged only 1 per cent from 2001 to 2005. The rise in food prices in 2006 was due to poor rainfall and higher international food prices. There were also large upward adjustments in the regulated prices of petroleum products following increases in international oil prices. In 2007, consumer price inflation fell back to 4.5 per cent – despite a slight easing of monetary policy, with the BCV lowering the reserve requirement from 15 to 14 per cent – as prices of fresh food declined and the VAT rate on some categories of consumer goods was temporarily reduced. Over the medium term, the inflation rate is expected to return to levels equal to or below those in the euro area.

External Position

After more than seven years of negotiations, Cape Verde became the 152nd member of the World Trade Organisation in December 2007. For industrial products, Cape Verde has agreed to bind tariffs at rates ranging from zero to 55 per cent. Some bindings involve reductions phased in over the period to 2018. This would result in an average upper limit of 15 per cent. For agricultural products, Cape Verde has agreed to bind tariffs at an average of about 19 per cent. Cape Verde has also made specific commitments to ease market access in ten services sectors and a wide range of sub-sectors.

Cape Verde is a member of the Economic Community of West African States (ECOWAS), which is financed by a levy of 0.5 per cent on all goods and vehicles originating from non-ECOWAS countries. Cape Verde is the ECOWAS country most affected by this levy due to its high proportion of non-ECOWAS imports, and hence is not a party to the Economic Partnership Agreement between the European Union (EU) and ECOWAS. Instead, Cape Verde opted for a "solo" solution with the aim of transforming the country into "a model of the circulation economy". In October 2007, the EU granted Cape Verde "Special Partnership Status", which will lead to growing co-operation on trade, investment, illegal immigration, the fight against organised crime and upgrading of institutions and norms.

Cape Verde's main trading partners in 2007 were Portugal, the Netherlands, France, Brazil, Spain, Italy and Sweden. Portugal is the biggest exporter to Cape Verde, accounting for almost 45 per cent of the latter's total imports in 2007, ahead of the Netherlands' 16 per cent share. In 2007, Portugal was likewise Cape Verde's main export partner, ahead of Spain, absorbing over 50 per cent of exports. Although the euro area countries will continue to be its main economic partners, Cape Verde is seeking to strengthen South-South co-operation, especially with Brazil and China, and in the medium term with South Africa, India and Nigeria.

In 2006, net ODA flows amounted to USD 138 million (12.6 per cent of gross national income), up from an average of USD 124 million over the 2001-05 period. External aid (grants and loans) is expected to increase to just above 10 per cent of GDP in 2007, after which it will fluctuate between 8 and 9 per

Table 3 - **Current Account** (percentage of GDP)

	1998	2003	2004	2005	2006(e)	2007(p)	2008(p)
Trade balance	-36.9	-41.0	-34.9	-40.9	-40.8	-41.3	-41.5
Exports of goods (f.o.b.)	4.5	6.2	8.9	8.5	6.3	5.6	5.2
Imports of goods (f.o.b.)	41.4	47.2	43.8	49.4	47.1	46.8	46.7
Services	-3.0	3.4	6.9	13.9	10.5	12.7	14.6
Factor income	-1.5	-2.0	-3.4	-4.0	-2.7	-2.8	-2.9
Current transfers	27.3	25.2	27.9	25.7	22.4	20.7	21.7
Current account balance	**-14.2**	**-14.3**	**-3.4**	**-5.3**	**-10.7**	**-10.6**	**-8.2**

Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

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cent of GDP. Among the bilateral donors, the United States has provided support through the African Growth and Opportunity Act (AGOA), with little success so far. In 2007, Cape Verde was a beneficiary of funding from the Millennium Challenge Account (MCA) for the third time in four years.

The current account deficit is estimated to have widened in 2007, returning to near its historical level. The increase was due mainly to a slowdown in the growth of merchandise exports and remittances. In 2008 and 2009, the deficit is projected to fall gradually as a percentage of GDP. The structural current account deficit is associated with Cape Verde's heavy reliance on merchandise imports, which are extremely high compared to merchandise exports. Fish exports, which accounted for about 14 per cent of merchandise exports in 2006, have been expanding rapidly. Re-exports of fuel will continue to be depressed, however, owing partly to management and technical issues pertaining to two firms, Enacol and Shell, which are not stocking adequate fuel. The stable merchandise trade deficit will be partly offset by a substantial increase in the services trade surplus driven by buoyant tourism receipts. The deficit on goods and services trade is financed by FDI, foreign aid and migrant remittances from a large diaspora of around 700 000 Cape Verdeans.

Gross international reserves have grown steadily, reaching more than CVE 2.9 million at end-2007, up from CVE 2.1 million in 2006. This amounts to 3.2 months of import cover.

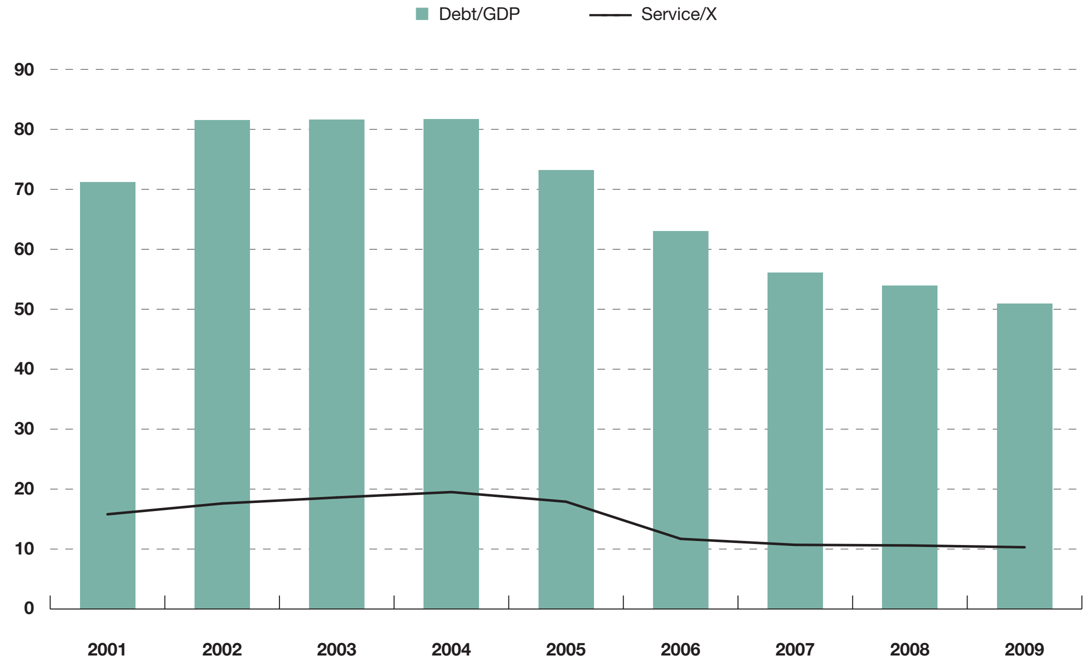
Although it has not liberalised the capital account, the government has encouraged FDI by simplifying the registration process (investors still have to make a declaration to the BCV on how FDI will be invested), providing a 100 per cent tax exemption on all dividends during the first five years of operation (after which the tax rate is 10 per cent), providing a tax exemption on dividends and income when reinvested, providing a tax exemption on amortisation and interest, and allowing foreign investors to purchase shares in privatised companies. This strategy has attracted nearly 109 investment projects with total capital of USD 416 million since economic reforms began in 1993. All sectors of the economy are now open to foreign investment, but 90 per cent of FDI has flowed into tourism and only a small amount into manufacturing. By June 2007, FDI (on an approvals basis) was estimated to have reached a total of some EUR 555 million. Most FDI has originated in Portugal, the United Kingdom, Italy and Spain (Canary Islands). More recently, investors from China and the United Arab Emirates have become involved in Cape Verde.

The reduction in grants and the availability of loans, albeit on concessional terms, led to a large increase in Cape Verde's total external public debt from 1997 to 2001. Following this period, the external public debt/GDP ratio decreased from 56.5 per cent of GDP in 2001 to 48 per cent in 2006. The external public debt service/exports of goods and services ratio decreased from 14.2 per cent in 2001 to 5.7 per cent in 2006. The World Bank (via the International Development Association) was the largest multilateral creditor, followed by the African Development Fund. Portugal is the main bilateral lender. Total external debt, which includes the debt of the private sector, followed a similar pattern. The external debt/GDP ratio fell from 71.2 per cent in 2001 to 63 per cent in 2006, while the debt service/export ratio fell from 15.8 per cent in 2001 to 11.7 per cent in 2006.

The country's improved creditworthiness due to the low risk of debt distress has been reflected in bond ratings. In December 2006, Fitch affirmed Cape Verde's long-term foreign currency rating of B+, first assigned on 15 August 2003, and a long-term local currency rating of BB-. The short-term foreign currency rating of B, assigned in 2003, was also affirmed.

To support Cape Verde's transition from LDC status, the United Nations has called on donors to continue assistance to the country at least until it has achieved its Millennium Development Goals (MDGs) in 2015. Cape Verde's development partners have responded favourably, although USAID and the World Food Programme have cut food aid. The Chinese government has written off 30 million yuans (CHN) (USD 3.9 million) of the country's debt. Hence, Cape Verde is expected to continue to receive one of the

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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highest levels of net ODA per capita in the world (USD 317 per capita in 2005).

Structural Issues

Recent Developments

The privatisation programme slowed in 2006, when the government was forced to re-purchase the majority of the shares of Electra, which was facing serious financial difficulties. It is expected that Electra will be privatised again through the intermediation of a new management team. Moreover, the government has initiated the bidding process for the pharmaceuticals distributor Emprofac and the fish freezing company Interbase. In April 2007 the government completed the privatisation of the national oil distributor Enacol. Bidding for shares in the port authority (Enaport) took place in 2007. The privatisation of TACV Cabo Verde Airlines was still in progress at the end of 2007, and negotiations are under way for the privatisation of the shipbuilding firm Cabenave.

According to *Doing Business 2008*, starting a business in Cape Verde requires 12 procedures, costs 40 per cent of gross national income per capita and takes an average of 52 days. Despite efforts to streamline the cumbersome bureaucracy and increase transparency in recent years, obtaining a business licence took an additional average of 120 days in 2007, and closing a business is also difficult. Cape Verde was ranked 132nd overall out of 178 countries covered. However, the government has taken steps to establish an online portal (*porton di nos ilhas*) and one-stop shop (*casa do cidadão*) in order to reduce the time required for company registration.

One of the main priorities in the transport sector area is to transform Cape Verde into a shipping support platform and a regional air transportation hub. MCA-funded improvements in the Port of Praia on Santiago, combined with the concurrent privatisation of port services, are expected to raise the efficiency of shipping services considerably. There are seven operational airports, three of which are international and four national. One of the latter is being converted to accept long-haul aircraft at São Pedro on São Vicente, with completion scheduled for 2008.

The government recognises that cost recovery is important for the financial viability of energy and water utilities. A comprehensive overhaul of energy and water pricing is under way, including the implementation of an automatic mechanism to adjust electricity and water tariffs in response to changes in the cost of imported petroleum products. This is expected to depoliticise price setting and reduce pressure on the budget.

The government's energy policy is directed in part at promoting conservation and alternative energy sources to reduce the country's dependence on oil imports. In August 2007, the government signed an agreement with the British multinational InfraCo and Electra to construct four wind farms in 2008 on the islands of Santiago, São Vicente, Sal and Boa Vista. The project, whose estimated cost is USD 25-30 million, is expected to provide one-quarter of the archipelago's energy needs by 2011. The Cape Verdean Ministry of Energy is also considering a proposal from Russia's state-owned nuclear power monopoly, Rosenergoatom, to construct an offshore nuclear power plant which would be operated by Russian technicians and would sell electricity to Cape Verde. The International Atomic Energy Agency has been asked to come and undertake a technical review first.

Cape Verde has not yet managed to provide safe drinking water and sanitation to the entire population. At present, 86 per cent of the urban and 73 per cent of the rural population have access to drinkable water, while only 61 per cent of the urban and 19 per cent of the rural population have access to sanitation.

In 2005, 54.9 per cent of the population had access to a land phone line, 36.2 per cent had access to a cellular phone and 3.6 per cent had computers with an internet connection. The 2005 National Initiative for Internet, Accessibility and Broadband set a new course for the country's information and communication technology (ICT) policy. The telecom sector was completely liberalised by the end of 2007, and a strong regulator for telecommunications, broadcasting and internet has been created.

The banking system is generally sound and well regulated, but it is highly concentrated, with the two largest banks controlling 89 per cent of banking assets. Banking reform initiated in the 1990s led to privatisation of the two largest commercial banks: Banco Comercial do Atlântico, majority-owned by a Portuguese bank, and Caixa Económica de Cabo Verde, owned by another Portuguese bank (both privatised in 1999-2000). The government remains active in the banking sector through a savings institution, Fundo de Solidariedade Nacional, which channels public investment, while the Instituto Caboverdiano de Solidariedade is responsible for international aid.

The rapidly developing offshore banking sector in Cape Verde now has five operational banks; four other banks and two non-bank financial institutions have been licensed but are not yet operational. Although the offshore banks are subject to a lower reserve requirement, they are also in direct competition with onshore banks. Reforms to the regulatory and legislative framework are under way with a view to protecting lenders and strengthening banks' capacity to provide project-based lending. Other reforms in the financial sector aim to improve credit risk management, increase competition in the financial market and expand access to credit for small and medium-sized enterprises (SMEs). Since commercial banks do not provide finance to SMEs, owing among other things to the high collateral demanded and high transaction costs, the government is currently exploring a new concept that would allow SMEs to be listed on the stock exchange to raise funds.

The tiny Cape Verde stock exchange, Bolsa de Valores de Cabo Verde (BVC), which started operating in December 2005, uses the electronic trading platform Euronext, allows trading in 44 treasury bonds and four corporate equities, and plans to allow corporate bond issuance by the end of 2007. Demand has exceeded the supply of shares and bonds several times over. The shares of Enacol, which were listed only in May 2007, were the most sought-after on Cape Verde's stock exchange in 2007, driving the exchange's market capitalisation to rise three-fold with respect to 2006. At the end of 2007, Enacol had the highest share price on the stock exchange and the highest market capitalisation (CVE 7 billion).

Supervision and regulation are managed by the BCV. In 2006 and 2007, through adherence to the Basel II framework, the institutional capacity of the BCV to supervise individual banks and their compliance with prudential regulations was strengthened; formal information-sharing agreements were signed with home country supervisors of subsidiaries and branches established in Cape Verde; the legislative and regulatory frameworks pertaining to international financial institutions were reviewed and modified; and legislation to combat money laundering and financing of terrorism was strengthened.

Technical and Vocational Skills Development

Technical and vocational education and training (TVET) is not well developed in Cape Verde. In 8^{th} and 9^{th} grade, pupils receive some orientation towards technical subjects at schools as well as at urban youth centres. At the lower secondary school level (International Standard Classification of Education [ISCED] level 2), however, there are no technical or vocational programmes. At the upper secondary level (ISCED 3), only 7 per cent of the 24 930 students enrolled in all programmes were enrolled in TVET programmes (9 per cent of male students and 6 per cent of females). The TVET entrance age in Cape Verde is 14 years and programmes last for four years.

Amongst the 2 215 students enrolled at the tertiary (ISCED 5 and 6) level in Cape Verde, there are no TVET programmes (ISCED 5B). The private sector in Cape Verde sees this as a failure of the TVET policy to take into account the skills demand of the labour market. In the hotel industry, for example, there is a great demand for qualified ISCED 5-6 hotel staff, especially at the managerial level.

In July 2001, Cape Verde signed a memorandum of understanding with the sponsors of Education for All in Cape Verde – including the Food and Agriculture Organisation, United Nations Educational, Cultural and Scientific Organisation (UNESCO), United Nations Development Programme, United Nations Children's Fund (UNICEF), United Nations Population Fund, World Bank and World Health Organisation – to prepare the National Plan of Action on Education for All. In 2002, a UNESCO mission assisted the Cape Verde government in drafting a project to develop secondary education. In 2003, a funding framework for TVET was put in place, but implementing legislation was enacted only in 2007.

Of the three institutions in Cape Verde specialising in TVET, two are located in Santiago and one in São Vicente. A Brazilian provider started operations at the end of 2007. These TVET institutions are specialised in mechanics, ICT, commerce, etc. As part of Cape Verde's TVET strategy, an observatory for employment and training will be introduced as a planning tool, and five employment service centres have been created to collect job offers. The new centres will also train master trainers and provide self-employment and entrepreneurship classes. In December 2005 an institutional framework for TVET was promulgated, which covers the following: certification, teacher qualification, TVET centre status, financing of TVET and accreditation of TVET.

The government expects FDI-funded projects to create at least 15 000 new jobs in the construction, transport, hotel and tourism sectors. Moreover, rapid private sector growth has generated a need for skilled professionals, including those with the skills needed to manage SMEs. The government has acknowledged that the current effort at private sector development is insufficient in terms of providing services such as business development services, financing and vocational training targeted to SMEs as well as micro and small informal enterprises. The government is working on creating a new agency in 2008, based on existing agencies, that will focus exclusively on private sector development and entrepreneurial development. In addition, the Ministry of Economy, Growth and

Competitiveness is considering plans to initiate a National Council for Private Sector Development as a focal point for public-private dialogue.

Nevertheless, there is still a major mismatch between the skills needs of the labour market and the qualifications of those completing their education. In the 2006 report on GPRSP implementation at the secondary level, emphasis was given to, among other things, strengthening teacher qualifications, infrastructure development, curriculum review, equipping of schools, revitalisation of vocational schooling and its integration into the vocational training system, educational and vocational guidance in co-operation with employment centres, support for the private sector in developing secondary-level programmes, and a more participatory approach to the management of secondary schools.

The lack of adequate finance is a serious impediment to further improvements in TVET. Efforts are under way to regulate the vocational training system, in particular with regard to financing (public, private, and trainees), and to address regional asymmetries by building new infrastructure and taking advantage of local synergies. These efforts are hampered by financial constraints. In order to expand TVET programmes, the 2008 budget provides for CVE 500 million in the forms of grants and loans for vocational training. In addition, some 160 ongoing educational activities in Cape Verde are receiving funding from external sources, according to the Aid Development Gateway. The principal donors in the education sector are Portugal, Luxembourg, Spain, Germany and UNICEF.

In 1995, École Secondaire Polyvalente "Cesaltina Ramos", a UNESCO-UNEVOC (International Project on Technical and Vocational Education) centre, was founded with financial support from the European Commission. This secondary technical school offers programmes with a heavy emphasis on technology in the service and commerce branches, construction, electrotechnics and electronics. Its two-year programmes enable graduates to enrol in higher education or to enter the labour market directly after completing the programme. In 2004, Luxembourg's development agency provided the Ministry of Education with EUR 3 460 000 to strengthen national vocational training. More recently, in May 2006, the same agency provided EUR 5 485 000 to initiate a project to establish a hotel and tourism school.

In February 2007, Cape Verde opened its first specialised vocational training centre for the construction sector, a project supported by Brazilian aid. The project involves a total investment of USD 1 million, 90 per cent financed by the Brazilian Co-operation Agency and the remainder by the Cape Verdean government. The training centre aims to train instructors who will then pass on their knowledge to others all over the archipelago. Initially, the centre will offer training in mechanics, metalworking, soldering, plumbing and electricity.

Political Context

Cape Verde continues to enjoy one of Africa's most stable democratic systems. The Movimento para a Democracia (MPD) governed the country from the end of the single-party system in 1991 until the elections of January 2001, when disenchantment with the government's privatisation programme, continued high unemployment and widespread poverty contributed to its defeat at the hands of the former single party, Partido Africano da Independência de Cabo Verde (PAICV). In January 2006, Cape Verde held another successful round of parliamentary elections with the PAICV regaining power. In the same year, incumbent President Pedro Verona Pires was re-elected. However, the leading parliamentary opposition party filed suit in an attempt to overrule the National Electoral Commission (NEC) on the grounds of alleged fraud. Although the NEC and the Supreme Court of Justice declared the legislative and presidential elections generally free and fair, they also recognised that there were some irregularities in both elections. The NEC noted that the electoral code needed to be amended to provide greater security and transparency. It also cited a need for stricter, more consistent voter identification and registration processes and the adoption of indelible ink on ballots.

Cape Verde has made substantial progress in preventing the re-emergence of corruption. For example, the 2007 Corruption Perception Index of Transparency International ranks Cape Verde as the third least corrupt African country, after Botswana and South Africa. Nevertheless, corruption and lack of transparency are still perceived as serious challenges. One response has been to strengthen SIGOF and the Court of Auditors through the new Law on the Organisation and Operation of the Court of Auditors.

Social Context and Human Resources Development

According to the first 2006 MDG progress report, the country is on track to achieve the MDGs. Nevertheless, the Household Income and Expenditure Survey conducted in 2001-02 by the National Institute of Statistics (INE) estimated the proportion of the population living below the national poverty threshold at 37 per cent, with most of the poor living in rural areas (62 per cent), and the proportion in absolute poverty at 20 per cent (extreme poverty in Cape Verde is defined by the INE in terms of households with annual income of less than 40 per cent of median annual household income). The incidence of absolute poverty among women heads of household, estimated at 53 per cent, was considerably higher than the average. In 2006, the relative poverty (perception of one's own poverty) perception rate was estimated at 78 per cent. Furthermore, the economic growth in the last decade has resulted in increased inequality in income distribution, as indicated by the rise of the Gini coefficient from 0.51 at the end of the 1980s to 0.57 in 2002.

With a view to promoting balanced and equitable economic growth and halving the number of people living in extreme poverty by 2015 (MDG 1), the government prepared the GPRSP for the period 2005-07 together with a set of attached strategic documents. Since independence in 1975, food aid (i.e. food-for-work) has been sold at local market prices. The revenues generated are deposited in a fund used to finance labour-based public works programmes for road building and soil conservation.

The labour market operates under restrictive employment regulations, which together with relatively high salaries has led to a structurally high unemployment rate (24.4 per cent in 2005). According to the INE, the unemployment rate fell to 18.3 per cent in 2006, due to an increase in labour demand associated with the rapid economic growth in labour-intensive sectors. The national unemployment rate masks wide geographical variations across the islands. To overcome the lack of opportunity in Cape Verde, the poor still turn to migration and the informal sector. It is estimated that informal employment accounts for about 40 per cent of total employment.

The extremely high literacy rate of 79 per cent in 2007 is the direct result of 32 years of sustained investment in education, amounting to 20.4 per cent of the budget between 2004 and 2006. Although the situation varies considerably from one municipality to another, the outcome of this human capital investment strategy is a net enrolment rate of about 96 per cent at the national level. Primary education is free, universal (98 per cent net enrolment) and compulsory until age 11 (MDG 2); 83 per cent of primary school pupils finish without repeating and only 2.7 per cent drop out.

Since 1980, however, the quality of education has gradually decreased, mainly as a result of an insufficient number of qualified teachers. The decline is also partly due to a lack of educational planning and professional management and to a failure to evaluate student performance at the end of basic education. The enrolment rate in secondary school for all children aged 12-17 years is a commendable 70 per cent (77 per cent for girls and 75 per cent for boys). An ICT education policy is focusing on the use of radio to provide support for teachers and to enrich content for students.

UNICEF reports that many girls drop out of secondary school due to sexual abuse and teenage pregnancy. Nevertheless, substantial progress is being made in reducing gender inequality, with women becoming increasingly empowered and their rights formally established. The country is expected to achieve MDG 3 (promote gender equality and empower women) before 2015.

In the health sector, efforts are being made to step up the campaign against non-contagious diseases; to control tuberculosis, HIV/AIDS and malaria; and to improve reproductive and child health. Cape Verde is expected to achieve the health-related MDGs in all municipalities before 2015, and these goals have already been achieved at the national level. As regards access to health services, Cape Verde has reached a national rate of 74 per cent, while in urban areas the rate is 85 per cent. There has been an evident improvement in public health, reflected in lower rates of maternal and under-five mortality (MDG 4) and a marked increase in life expectancy at birth. In contrast, performance on other health-related indicators has deteriorated in recent years. For example, the incidence of some highly contagious diseases such as HIV/AIDS and tuberculosis (MDG 5) has increased. According to UNAIDS' *2006 Report on the Global AIDS Epidemic*, the HIV prevalence rate in Cape Verde is around 0.8 per cent.