

## **II. STRUCTURAL ASSESSMENT CRITERIA<sup>2</sup>**

### **A. Finalize and publish the mechanism for setting base utility tariffs**

17. The condition for finalizing and publishing the mechanism for setting base electricity and water tariffs will be deemed complete when (i) the technical specifications have been agreed upon between Electra and the autonomous Economic Regulatory Authority (ARE); (ii) the details of the base tariff setting mechanism have been published; and (iii) base tariff levels are brought in line with the agreed mechanism.

### **B. Continuous application of the mechanisms for setting and adjusting electricity, water, and fuel prices**

18. The condition will be deemed met when (i) base utility tariffs are set, and reset with the periodicity, as specified in the agreed base tariff setting mechanism; (ii) between resetting of base tariffs, utility tariffs are adjusted whenever input costs since the last adjustment have changed cumulatively by more than three percent as specified in the published utility tariff adjustment mechanism; and (iii) within one month of each import shipment of petroleum products, retail petroleum product prices are adjusted and brought in line with the specifications in the retail petroleum price adjustment mechanism.

## **III. OTHER DATA REQUIREMENTS FOR PROGRAM-MONITORING PURPOSES**

19. Data on exports and imports, including volume and prices and compiled by the Director of Customs and the BCV, will be transmitted on a quarterly basis within five weeks after the end of each quarter. A preliminary quarterly balance of payments, compiled by the BCV, will be forwarded within five weeks after the end of each quarter.

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<sup>2</sup> See Table A2 of the Letter of Intent of November 29, 2007.

INTERNATIONAL MONETARY FUND

CAPE VERDE

**Third Review Under the Policy Support Instrument—Informational Annex**

Prepared by the African Department

(In consultation with other departments)

Approved by David Andrews and Mark Plant

November 29, 2007

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange rate system. At end-September 2007, outstanding PRGF loans amounted to SDR 8.6 million.
- **Relations with the World Bank.** Describes the World Bank Group program and portfolio; and provides a statement of IFC investments.
- **Statistics Issues.** Describes the availability and quality of macroeconomic statistics; and its usefulness for surveillance purpose.

## CAPE VERDE—FUND RELATIONS

(As of September 30, 2007)

**I. Membership Status:** Joined: November 20, 1978;[Article VIII](#)

<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>%Quota</b>
<a href="#">Quota</a>	9.60	100.00
<a href="#">Fund holdings of currency</a>	9.59	99.93
<a href="#">Reserve Position</a>	0.02	0.17
<a href="#">Holdings Exchange Rate</a>		

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
Net cumulative allocation	0.62	100.00
<a href="#">Holdings</a>	0.02	3.95

<b>IV. <a href="#">Outstanding Purchases and Loans:</a></b>	<b>SDR Million</b>	<b>%Quota</b>
PRGF Arrangements	8.64	90.00

**V. [Latest Financial Arrangements:](#)**

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
PRGF	Apr 10, 2002	Jul 31, 2005	8.64	8.64
Stand-By	Feb 20, 1998	Mar 15, 2000	2.50	0.00

**VI. Projected Payments to Fund <sup>1/</sup>****(SDR Million; based on existing use of resources and present holdings of SDRs):**

	<u>Forthcoming</u>				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Principal	0.12	0.49	0.98	1.48	1.73
Charges/Interest	0.03	0.06	0.06	0.05	0.05
<b>Total</b>	<b><u>0.15</u></b>	<b><u>0.56</u></b>	<b><u>1.04</u></b>	<b><u>1.53</u></b>	<b><u>1.77</u></b>

<sup>1/</sup>When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

**VII. Implementation of HIPC Initiative:** Not Applicable**VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):** Not Applicable

## **IX. Safeguards Assessments**

Under the Fund's safeguards assessment policy, the Bank of Cape Verde (BCV) is subject to a voluntary assessment with respect to the Policy Support Instrument (PSI) approved on July 31, 2006. The necessary documentation has been received from the authorities and the assessment is underway.

Previous safeguards assessment of the BCV was completed in December 2002 with respect to the PRGF arrangement approved on April 10, 2002. The assessment concluded that substantial risks may have existed at the time in the bank's financial reporting framework, its internal audit mechanism, and system of internal controls. While all recommendations but one have been confirmed as implemented by the BCV authorities, the audit opinion of external auditors on the 2005 and 2006 financial statements, and the 2004 management letter indicates that further steps need to be taken.

## **X. Exchange Arrangements**

The de facto and de jure exchange rate arrangement of Cape Verde is a conventional fixed peg. The Cape Verde escudo has been pegged to the euro at a rate of CVEsc 110.3 per EUR 1 since January 4, 1999. Cape Verde accepted the obligations under Article VIII of the Articles of Agreement effective July 1, 2004. Cape Verde maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

## **XI. Article IV Consultation**

Discussions for the 2006 Article IV consultation and on a medium-term economic program that could be supported by a three-year PSI were held in Praia on April 28–May 16, 2006. The Executive Board concluded the discussions of the 2006 Article IV consultation and approved the request for a PSI on July 31, 2006 (Country Report No. 06/334); the first PSI review on January 19, 2007 (Country Report No. 07/44); the second PSI review on May 7, 2007 (Country Report No. 07/223). [www.imf.org](http://www.imf.org).

## **XII. Technical Assistance**

Since 1985, the Fund has provided technical assistance to the Bank of Cape Verde, the Ministry of Finance, and, more recently, the National Institute of Statistics in several areas:

- (i) The Bank of Cape Verde has received technical assistance from MCM in organization and methods, management of external debt, monetary and banking statistics, accounting, credit, and foreign exchange operations, management of public debt, and the separation of the functions of the Bank of Cape Verde, as well as on the choice of exchange rate regime. It has also received technical assistance from STA in monetary and balance of payments statistics.
- (ii) The Ministry of Finance has received technical assistance from FAD in organization and budgetary procedures, budgeting, tax policy, and tax administration; from STA on fiscal accounting; and from LEG on tax legislation.
- (iii) The National Institute of Statistics has

received technical assistance in national accounts and price statistics. Cape Verde is a participant in STA's GDDS Regional Project for Lusophone Africa, and its metadata were posted on the DSBB in February 2004. It is receiving technical assistance to implement the GDDS plan for improvement in the context of this project.

Most recently, technical assistance has been provided in the following areas:

#### FAD

- June 2004 visit to help the authorities move to a VAT, including the rationalization of the import tariff and the overhaul of the domestic indirect tax system. Many visits and a two-year resident advisor have gone into this effort.
- October 2004, mission to review tax administration, including VAT implementation, and one mission to assist the assessment of tax exemptions and incentives.
- September 2005, mission to assess tax exemptions and incentives.

#### STA

- National accounts (November 2003 and January–February 2006), balance of payments statistics (February 2004), government finance statistics (March 2004, April 2006, February–March 2007), price statistics (June 2004, May–June 2006, October 2007), and monetary statistics and reporting (March 2007).

#### MCM

- Accounting, financial sector regulation, monetary operations and liquidity management (April and May 2004); banking supervision, liquidity management, exchange regime and reserves management (November 2005, March–April 2006, June 2006, November 2006, July 2007).

#### LEG

- Tax legislation (several missions from October 2006–November 2007).
- AML/CFT initial assessment (March 2007).

**XIII. Resident Representative:** None.

## **CAPE VERDE—RELATIONS WITH THE WORLD BANK GROUP**

(November 6, 2007)

### **Partnership in Cape Verde's development strategy**

1. Cape Verde's first Growth and Poverty Reduction Strategy was prepared in September 2004 and centered on four key pillars for public intervention: (i) promoting good governance; (ii) improving competitiveness and private-sector-led growth; (iii) fostering human capital development; (iv) strengthening social security and solidarity; and (v) improving infrastructure and land use management. The main development challenges for the country revolve around: (i) maintaining macroeconomic stability given external vulnerabilities and uncertainties surrounding resources flows; (ii) achieving further improvements in governance, especially in a decentralized context; (iii) reforming social expenditure programs to reflect the changing nature of demand; and (iv) promoting stronger growth and poverty reduction through improvements in the business climate. The Government's first Annual Progress Report for the PRSP and the Joint IDA-IMF Staff Advisory note (JSAN) were circulated to the Bank's Board on August 10, 2006. The Government is now carrying out an implementation evaluation of the PRSP and launching the preparation of the 2<sup>nd</sup> GPRSP which is expected to be presented in early 2008.

### **World Bank-Fund collaboration in specific areas**

2. The Fund and the Bank continue to collaborate in many areas, including fiscal operations and tax reform; public enterprise reform and privatization; public expenditure management; civil service and pension system reform; utility regulation and private sector development; debt sustainability analyses; and the strengthening of human resource development and the poverty reduction strategy. The Fund and Bank also expect to collaborate on a Financial Sector Assessment Program (FSAP) in 2008 at the Government's request.

### **World Bank Group strategy**

3. The Bank's FY05-08 Country Assistance Strategy (CAS) was discussed by the Board in February 2005. It is fully aligned with Cape Verde's Growth and Poverty Reduction Strategy (GPRS), as the PRSP is called, and supports efforts in the areas of (i) macroeconomic stability and sound finance and budget systems; (ii) private-sector led growth through an enhanced investment climate and increased competitiveness through public-private partnerships in infrastructure; and (iii) social programs aimed at alleviating poverty and inequity. The Bank is preparing a new CAS which would be based on the 2<sup>nd</sup> GPRSP and is expected to be presented at the Bank's Board in May 2008.

## **World Bank Group activities and assessment of country policies**

### ***IDA portfolio***

4. Under the CAS, the Bank is supporting the implementation of the GPRSP and has made a significant shift toward programmatic lending, (60% of CAS commitments) to support policy reforms that complement investment operations. Programmatic lending has been an important instrument to promote the harmonization agenda, and through budget support MOUs with Government and donors the Bank Group has helped catalyzed additional donor participation and build partnerships. The Cape Verde portfolio is one of the best performing in the Africa region. All projects in the IDA portfolio are rated satisfactory or higher in terms of achieving project development objectives.

5. With regard to programmatic lending, the Bank has prepared three Poverty Reduction Support Credits under the current CAS. The first PRSC for US\$15 million equivalent was approved in 2005, a second PRSC for US\$10 million equivalent was approved by the Board in June 2006, and a third PRSC for \$10 million was approved in March 2007. All three PRSCs focused on: (i) promoting good governance, reinforce effectiveness and guarantee equity; (ii) developing and upgrading human capital; and (iii) improving the effectiveness and sustainability of the social protection system. The Bank is preparing a fourth PRSC in the amount of US\$6 million equivalent to be presented to the Board in 2008.

6. With regard to investment lending, there are three IDA operations supporting: 1) growth and competitiveness; 2) the implementation of the national HIV/AIDS strategy; and 3) a road sector support program. A GEF grant is supporting investments in wind mill power.

7. In terms of strengthening the country's physical infrastructure and competitiveness, IDA's assistance is as follows:

The Road Sector Support Project aims to support critical road transport infrastructure needs through a combination of the following approaches: (i) improving access roads linking villages and rural areas to main roads; (ii) filling critical gaps to establish a minimum continuous network within an island with the construction of a short section of new road (8–10 km. on St. Nicolau Island); and (iii) filling a major gap in an island network, through the construction of bridges or providing access to a chronically poor access zone.

An IDA financed Energy and Water Project closed in June 2007 and had supported efforts to improve the supply of power, water and sanitation systems, and to increase the efficiency of the power and water sectors, to lower the barriers to development of renewable energy sources and to foster sound management of water resources. A GEF Energy and Water Project, which was linked to the IDA operation, continues to support the development of renewable energy sources and is supporting investments in wind mill parks.

The Growth and Competitiveness Project aims to broaden the base of private participation in Cape Verde's economic growth, enhance private sector competitiveness and further develop its financial sector. This would be achieved through a series of actions supported by the project, notably: (a) financial sector reform, including pension reform; (b) investment climate reform, which includes, but is not limited to: (i) tax reform, (ii) alleviation of administrative barriers, (iii) improvement of supply chains, and (iv) legal reform; (c) post privatization and divestiture reforms; and (d) private sector and institutional capacity building. The project thus helps to sustain the Government's poverty alleviation efforts by generating increased employment opportunities through improved international competitiveness.

8. In the social sectors, the HIV/AIDS Project supports (i) mitigation of the health and socioeconomic impact of HIV/AIDS at the individual, household, and community levels, thus sustaining an economically productive population, and (ii) establishment of a strong and sustainable national capacity to respond to the epidemic.

### *Assessment of country policies*

9. The authorities of Cape Verde and development partners, including the Bank, have undertaken a substantial body of analytic work to assess key social, structural, and sectoral development policies and identify policy and institutional reform priorities to support growth and poverty reduction. These efforts resulted, *inter alia*, in the adoption in April 2003 of a Statement of development policies for private sector development, which provided the basic framework for the preparation of the Growth and Competitiveness project.

10. In FY07, advisory services funded by the World Bank have in large part been related to infrastructure, fisheries and economic management (public service reform). Proposed economic and sector work (ESW) includes core diagnostics, annual public expenditures reviews (PER), and general economic work to sustain macroeconomic and sectoral dialogue. The following studies have also been part of the current CAS: Investment Climate Assessment (FY06), Integrated CFAA/CPAR (FY06); Rural Development Assessment (FY07), Long term Growth and Competitiveness Study (FY08), and a Poverty Assessment Update (FY08).

11. As of November 2007, the IDA portfolio represents commitments of US\$44 million equivalent and an undisbursed balance of about US\$14 million equivalent. The involvement of the International Finance Corporation (IFC) in Cape Verde remains limited (see tables below).

## Statement of IDA Operations

(As of November 6, 2007; in millions of U.S. dollars)

Credit No.	Projects	Principal Amount	Undisbursed	Approved Date	Closing Date
32170	Roads Sector Support	15.00	4.3	19-May-05	31-Aug-10
37550	Growth & Competitiveness	14.50	5.1	13-May-03	28-Feb-08
36290	HIV/AIDS	14.00	3.7	28-Mar-02	31-Dec-08
	Total active projects	43.50	13.1		

Note: Disbursed amount may be higher than commitment (approved amount) due to exchange rate vis-à-vis SDR.

## Statement of IFC Investments

(In millions of U.S. dollars)

FY Approv.	Company	Type of Business	Original Gross Commitments				Disbursed			
			Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1992	Growela 1/	Shoe manu- facturing	0.15	0.00	0.00	0.00	0.15	0.00	0.00	0.00
2004	CECV 2/	Finance and insurances	4.70	0.00	0.00	0.00	4.70	0.00	0.00	0.00
Total portfolio			4.85	0.00	0.00	0.00	4.85	0.00	0.00	0.00

1/ Growela = shoe manufacturing.

2/ CECV = Caixa Econômica de Cabo Verde.

## CAPE VERDE—STATISTICS ISSUES

20. **The quality of economic and financial data is generally adequate for surveillance and program monitoring, although there is a need for substantial improvements in some areas.** Weaknesses in the fiscal data hamper the monitoring of some aspects of fiscal performance. Weaknesses include large statistical discrepancies, non-compliance with best accounting practices, and shortcomings in the institutional coverage and sectorization. Other shortcomings of particular concern are weaknesses in the national accounts, a lack of short-term activity indicators besides the confidence barometer, and gaps in the tracking of large external flows—notably FDI, emigrant deposits, and remittances.

21. **The authorities are taking steps to strengthen statistics, but the statistical system still suffers from a shortage of financial and human resources.** A comprehensive master plan has been developed under the direction of the National Statistical Institute (INE), which assesses the need for upgrading the various agencies that constitute the statistical system and outlines the steps needed for broadening and improving all areas of statistics. The plan envisages data improvements in national accounts (annual and quarterly), business statistics (including a new business census), demographic and social statistics (including a household survey to update the poverty profile), trade statistics (retail and international trade) macroeconomic indicators; labor market statistics and sectoral statistics, and the regular update of the CPI basket (every half a decade). Cape Verde's development partners have already committed a substantial part of the estimated US\$15 million required to implement the plan over 2006–10.

22. **The country is a participant in the Fund's General Data Dissemination System (GDDS) since February 2004 and has benefited from STA technical assistance (STA TA) under the GDDS project for Lusophone Africa.** The main purpose of this project was to assist the government in implementing the GDDS plans for improvement, in particular regarding the adoption of the *Government Finance Statistics Manual 2001 (GFSM 2001)*. In this context, a GFS mission visited the country in March 2004, and there was a follow-up mission in April 2006 and March 2007. STA TA has also been provided in other areas, such as national accounts, consumer prices (with a recent STA TA mission in May–June 2006, and October 2007 in preparation for the launching of the new CPI in November 2007), monetary and financial statistics, and balance of payments statistics.

### Real sector

23. **Although some improvements have been made to the national accounts, significant weaknesses remain.** The timeliness of the data has improved, with the National Statistical Institute (INE) releasing production and expenditure based GDP data for 2002–03 in 2005 and providing production based GDP estimates for 2004–06 to the mission in October 2007. However, the lag is still large when compared to international standards. The base year for the constant price estimates, moreover, is outdated.

24. **INE is currently working on a complete overhaul of the national accounts.** The overhaul includes updating the national accounts benchmark and base years from 1980 to 2002, and adopting the *1993 SNA*. The ultimate objective is the timely compilation of GDP by industry and expenditure categories at current and constant prices as well as the institutional sector accounts.
25. **A full implementation of the 1993 SNA would require a substantial improvement in the source data collection programs for which sufficient capacity is currently lacking.** The 2006 STA mission found that there is a critical need for improving the timeliness and accuracy of the national accounts source data, in particular the business survey. The capacity of INE staff working on national accounts was found to be overstretched, assessing in detail and correcting individual source data entries—a task which in most countries is not undertaken by the national accounts compilers. The statistical masterplan will address many of these challenges.
26. **A new CPI is expected to be released in November 2007.** The current official CPI is based on weights dating back to 1989, four years before the liberalization of imports, which changed considerably the consumption pattern. INE has worked with the assistance of the National Statistics Institute of Portugal, and benefited from a STA CPI mission in May–June, 2006, October 2006, and October 2007 aimed at supporting the introduction and dissemination of the revised CPI. The new index will benefit from new weights, an updated commodity basket, and the use of new compilation software.

### **Government finance**

27. **Progress has been made to improve fiscal data.** Benefiting from TA support under the GDDS project for Lusophone Africa, the Government Finance Statistics (GFS) compilation system is being upgraded. Most deposits previously held with commercial banks have been consolidated at the central bank. SIGOF, the Integrated Online Budget Management System, will be expanded to include all semi-autonomous institutes and most municipalities by the end of 2007. In addition, a new chart of government accounts (PNCP) will be implemented in 2008 adopting accrual accounting and double-entry principle.
28. **Serious quality concerns remain.** The fiscal accounts are subject to large statistical discrepancies, flows and stocks are not consistent, and recording of arrear accumulation and clearance operations is not in line with best practices. Significant delay in donor reporting of project-financing also affects the accuracy of fiscal data. Despite the recent revision of external debt data, significant weaknesses affect the preparation of debt sustainability analyses. Multilateral debt statistics regularly differ from data received by creditors, and debt service projections cannot be reconciled with the debt stock.

## Money and banking

29. **The quality of the monetary and financial statistics is adequate**, both in terms of accuracy and timeliness. A statistics mission undertaken in March 2007 assisted BCV in finalizing the standardized report forms (SRFs) for reporting monetary statistics to STA. SRF-based monetary data have been published in the *IFS Supplement* since June 2007. These data are fully aligned with the recommendations of the *Monetary and Financial Statistics Manual*. The mission also started developing an integrated monetary database to meet STA, AFR, and BCV statistical needs. Currently, there are gaps in tracking the source and direction of changes in emigrant deposits, which cause difficulties for gauging the appropriateness of the monetary policy stance.

## Balance of payments

30. **With technical assistance from STA, accuracy, periodicity, and timeliness of balance of payments statistics compiled by BCV have continued to improve.** A greater use of surveys, combined with the International Transactions Reporting System implemented by the BCV, has permitted a significant expansion of data sources and statistical coverage, which, to a large extent, follow the recommendations of the 5<sup>th</sup> edition of the *Balance of Payments Manual*. Dissemination of quarterly BOP data on the BCV website has been regular.